Annual Report

2017

Investec Limited group
and company
financial statements

Out of the Ordinary®

Investec

Corporate information

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Registration number

Registration number 1925/002833/06

Auditors

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Refer to pages 100 to 104.

For contact details for Investec offices refer to page 229.

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Cross reference tools

1

Audited information

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

2

Page references

Refers readers to information elsewhere in this report

3

Website

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

4

Sustainability

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

5

Reporting standard

Denotes our consideration of a reporting standard

Contents

01

Investec Limited in perspective

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

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

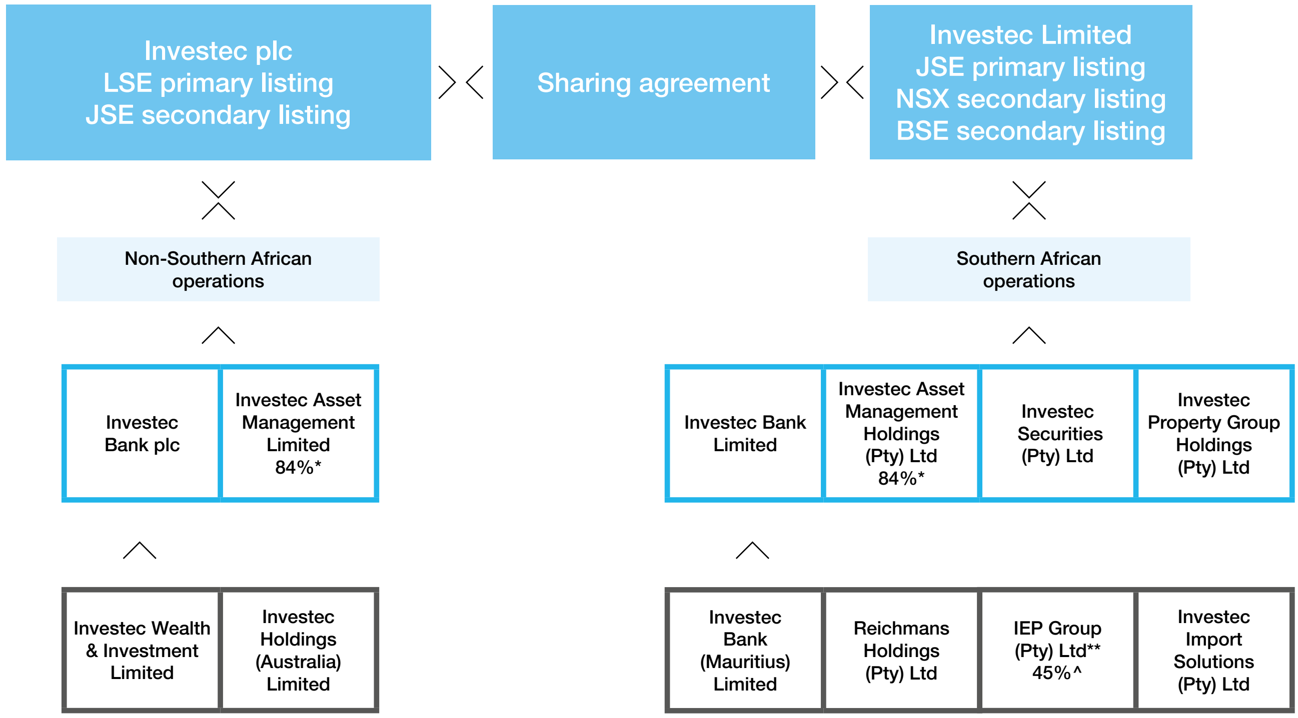
Operating structure

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

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

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

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



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

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

Salient features of the DLC structure

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

Overview of the activities of Investec Limited

Asset Management

At Investec Asset Management, we believe in investing in a better tomorrow. We want to assist people around the globe to retire with dignity or meet their financial objectives by offering specialist, active investment expertise. We are a patient, long-term business offering organically-developed investment capabilities through active segregated mandates or mutual funds to sophisticated clients. Our clients include some of the world's largest private and public sector pension funds, financial institutions, corporates, foundations, central banks and intermediaries serving individual investors. Our business is to manage our clients' investments to the highest standard possible by exceeding their investment and client service expectations

It all began in South Africa in 1991. After more than twenty-five years, we have grown to become a successful global investment management firm from the emerging markets. We continue to develop an owner culture and are committed to building a long-term intergenerational business.

Our investment team of over 195 investment professionals applies clear investment philosophies and processes across multiple asset classes. Our client group is organised across five geographically defined units. These teams are supported by our global operations platform.

We manage approximately R1.6 trillion assets globally.

Wealth & Investment

Investec Wealth & Investment offers its clients comfort in its scale, international reach and depth of investment processes

Investec Wealth & Investment is one of the largest private client investment managers in South Africa.

The business specialises in wealth management, portfolio management, private office and stockbroking services for individuals, families, trusts and charities.

We manage approximately R919 billion assets globally, with R322 billion managed by our South African business.

Specialist Banking

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

Each business provides specialised products and services to defined target markets.

A highly valued partner and adviser to our clients	**Focus on helping our clients create and preserve wealth**
Corporates/government/institutional clients	**High-income and high net worth private clients**

Investment activities

Principal Investments
Property investment fund management

Our Principal Investments division seeks to invest largely in unlisted companies. Investments are selected based on the track record of management, the attractiveness of the industry and the ability to build value for the existing business by implementing an agreed strategy.

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

Our property business focuses on property fund management and property investments.

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

Corporate and Institutional Banking activities

Treasury and trading services

Specialised lending, funds and debt capital markets

Institutional research, sales and trading

Advisory and equity capital markets

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

Private Banking activities

Transactional banking and foreign exchange

Lending

Deposits

Investments

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

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

Natural linkages between the private client and corporate business

Our operational footprint

Asset Management

Value proposition

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

Specialist Banking

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.

Wealth & Investment

Value proposition

- Investec Wealth & Investment has been built via the acquisition and integration of businesses and organic growth over a long period of time
- Well established in South Africa – one of the largest players
- Focus is on internationalising the business; enhancing our range of services for the benefit of our clients; and on organic growth in our key markets.

Where we operate

South Africa

Strong brand and positioning

One of the largest asset managers with track record of growth and innovation

Top wealth manager and part of global platform- starting to leverage the franchise

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

We have a strong franchise and a diversified business model that supports a solid revenue base.

Asset Management reported a 13.2% increase in operating profit, benefiting from higher levels of average funds under management and solid net inflows.*

Wealth & Investment's operating profit increased by 10.5%, benefiting from higher discretionary and annuity asset funds under management.*

The Specialist Banking business reported a 2.2% decrease in operating profit, as a result of the accounting treatment related to the IEP Group transaction.*

Total operating profit^ increased 0.8% to R6 567 million (2016: R6 514 million)

Our financial performance

Headline earnings attributable to ordinary shareholders decreased 3.6%

2017	2016
R4 350mn	R4 515mn

Cost to income ratio

2017	2016
52.3%	52.4%

Credit loss ratio

2017	2016
0.29%	0.26%

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

2017	2016
R117.6bn	R124.9bn

Contribution to operating profit*

31 March 2017

Specialist Banking	73.2%
Asset Management and Wealth Management businesses	26.8%

31 March 2016

Specialist Banking	75.8%
Asset Management and Wealth Management businesses	24.2%

* *Before taxation, headline adjustments and group costs and after other non-controlling interests.*

^ *Before taxation and headline adjustments, and after non-controlling interests.*

Our financial performance

Core loans and advances increased 8.4%

2017	2016
R236.2bn	**R218.0bn**

Customer deposits increased 8.5%

2017	2016
R303.5bn	**R279.8bn**

Third party assets under management increased 4.8%

2017	2016
R908.2bn	**R866.9bn**

Ratio of loans and advances to deposits remains strong

2017	2016
75.0%	**74.6%**

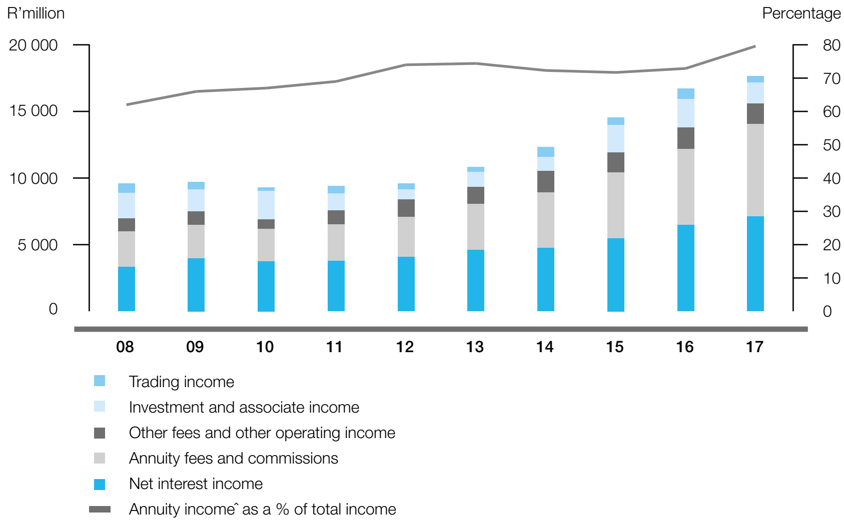
Low gearing ratios

2017	2016
9.8 times	**10.6 times**

Other financial features

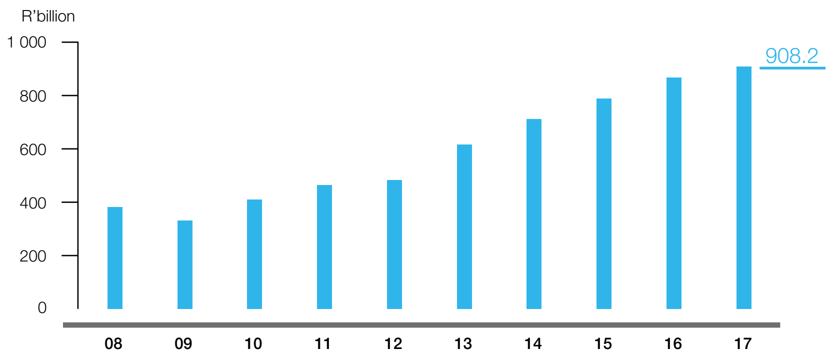
R'million	31 March 2017	31 March 2016	% change
Total capital resources (including subordinated liabilities)	60 376	53 208	13.5%
Total shareholders' equity	46 571	41 851	11.3%
Total assets	586 432	568 779	3.1%

Total operating and annuity income^



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

Momentum in building our third party assets under management continues



We have realigned our business model over the past few years by building capital light revenues

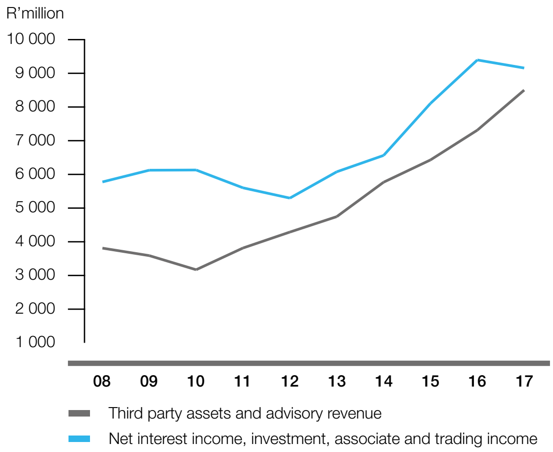
Sustainable business model

Capital light businesses

R8 502 million
48% of total revenue

Net fees and commissions of
R8 497 million
48% of total revenue

Other of
R5 million
0% of total revenue



Capital intensive businesses

R9 157 million
52% of total revenue

Net interest income of
R7 107 million
40% of total revenue

Investment and associate income of
R1 554 million
9% of total revenue

Trading income of
R496 million
3% of total revenue

Third party asset management and advisory revenue

- Asset management
- Wealth management
- Advisory services
- Transactional banking services
- Property and other funds.

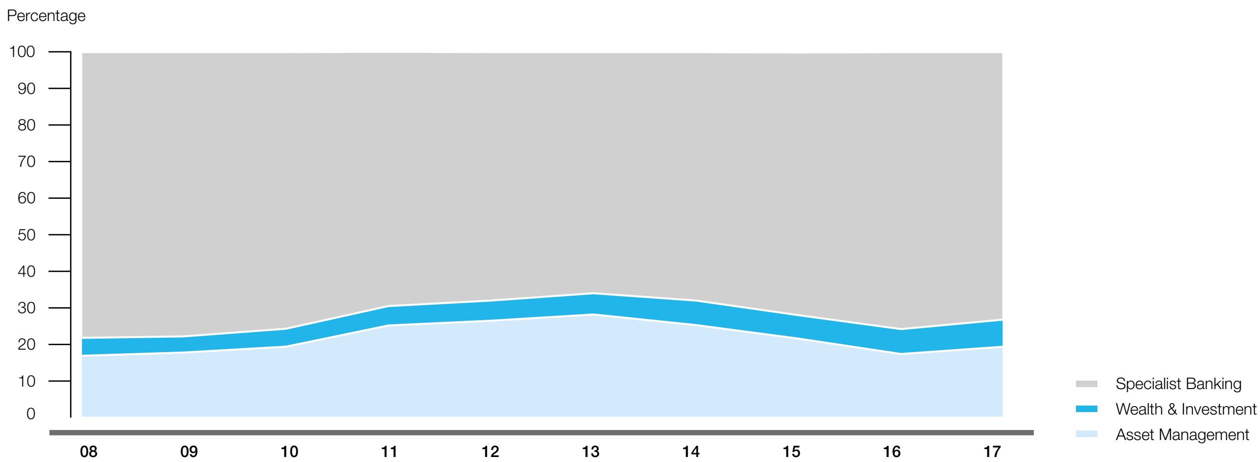
- Containing costs
- Maintaining credit quality
- Strictly managing risk and liquidity.

Net interest income, investment, associate and trading income

- Lending portfolios
- Investment portfolios
- Trading income arising from client flow
- Trading income arising from balance sheet management and other trading activities.

Three distinct business areas with diverse revenue streams supporting a large recurring revenue base amounting to 79.6% of operating income

Contribution to operating profit*

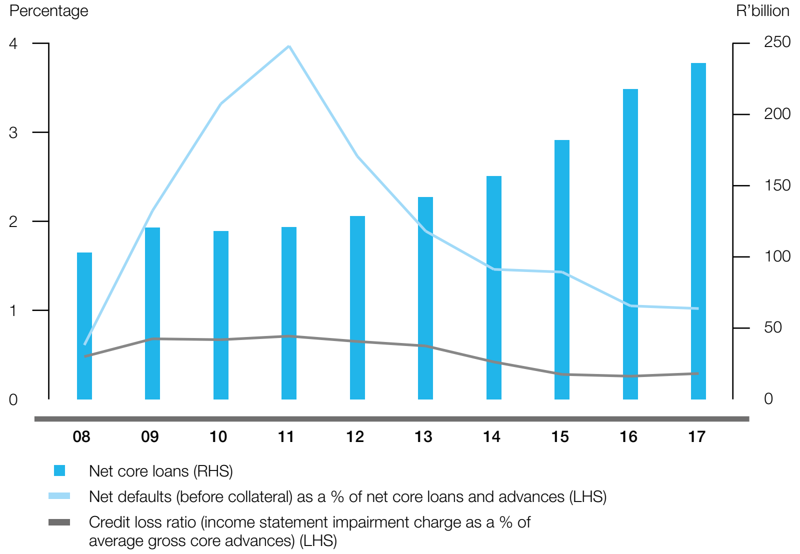


* *Before taxation, headline adjustments and group costs and after other non-controlling interests.*

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

- Core loans and advances increased 8.4% to R236.2 billion
- Default loans (net of impairments) as a percentage of core loans and advances decreased from 1.05% to 1.02%
- The credit loss ratio amounted to 0.29% (2016: 0.26%)
- Net defaults (after impairments) remain adequately collateralised.

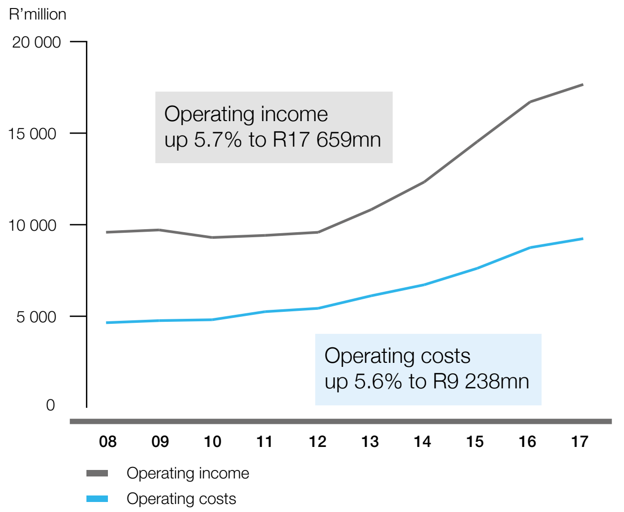
Default and core loans



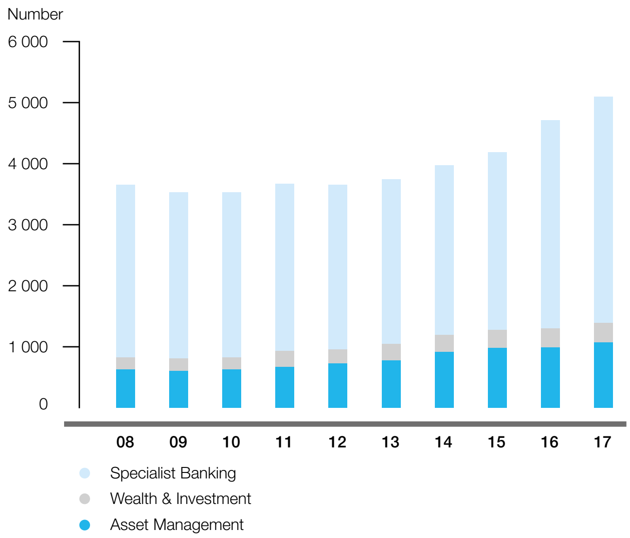
Costs increased largely due to planned investment across the business

Operating costs increased primarily as a result of planned spend on IT infrastructure and headcount across divisions to support increased activity levels and growth initiatives.

Jaws ratio



Headcount*



* *Permanent headcount and includes acquisitions.*

Sound capital and liquidity principles maintained

Continue to focus on:

- Maintaining a high level of readily available, high-quality liquid assets targeting a minimum cash to customer deposit ratio of 25.0%, with the year-end ratio at 38.7%
- Diversifying funding sources
- Maintaining an appropriate mix of term funding
- Limiting concentration risk
- Reduced reliance on wholesale funding.

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

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

Investec has maintained a stable capital base

A well-established liquidity management philosophy remains in place

Benefited from a growing retail deposit franchise and recorded an increase in customer deposits

Advances as a percentage of customer deposits is at 75.0% (2016: 74.6%)

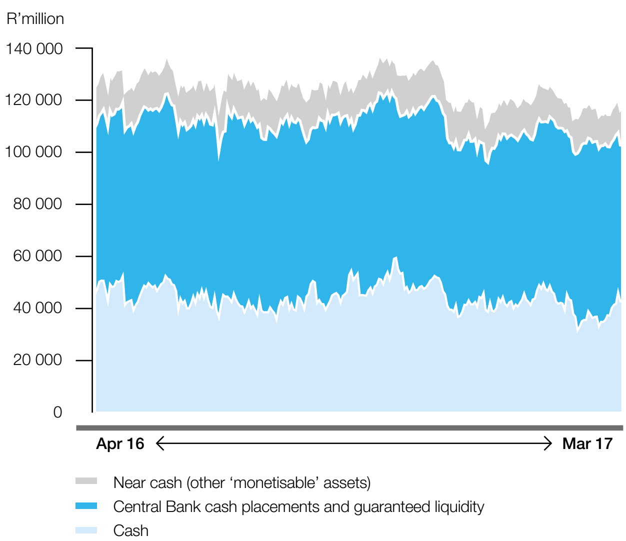
The three-month average of Investec Bank Limited's (solo basis) liquidity coverage ratio is at 130.0% (2016: 117.3%) which is well ahead of the minimum regulatory requirements.

Capital adequacy and tier 1 ratios

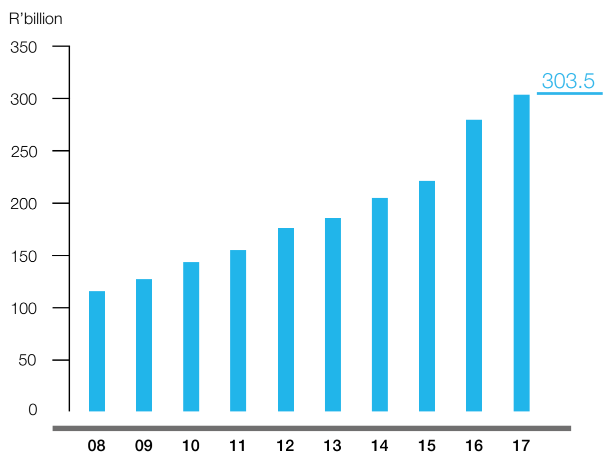
	31 March 2017 (Basel III)			31 March 2016 (Basel III)		
	Capital adequacy ratio	Tier 1 ratio	Common equity tier 1 ratio	Capital adequacy ratio	Tier 1 ratio	Common equity tier 1 ratio
Investec Limited	14.1%	10.7%	9.9%	14.0%	10.7%	9.6%
Investec Bank Limited	15.4%	11.1%	10.8%	14.6%	11.0%	10.6%

Continued to grow our retail deposit franchise

Cash and near cash trend



Customer accounts (deposits)



02

Financial review

An overview of the operating environment impacting our business

South Africa

Our views

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

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

2017	2016
R55 827	R56 449

GDP per capita has fallen

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

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

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

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

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

Global stock markets

Our views

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

Amongst the highlights, the S&P 500 gained 14.7% over the fiscal year reaching an all-time record of 2396 in February, meanwhile the MSCI world index added 12.5% and the Euro Stoxx 50 rose by 16.5%.

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

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

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

Operating environment

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

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

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

We provide a wide range of financial products and services to a select client base in South Africa and Mauritius. We are organised as a network comprising three principal business divisions: Asset Management, Wealth & Investment & Specialist Banking

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

Asset Management

Key income drivers

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

Income statement – primarily reflected as

- Fees and commissions.

Income impacted primarily by

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

Wealth & Investment

Key income drivers

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

Income statement – primarily reflected as

- Fees and commissions.

Income impacted primarily by

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

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.

Specialist Banking

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

Risks relating to our operations

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

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

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

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

15 – 17

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

15 – 17

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

34 – 35

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

34 – 57

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

35 and 137 – 139

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

58 – 60

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

62 – 65

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

66 – 73

Liquidity risk may impair our ability to fund our operations.

73 – 75

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

76 – 80

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

76 – 80

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

76 – 80

Employee misconduct could cause harm that is difficult to detect.

80

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

80 – 81

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

81

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.

81 – 91

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

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

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

Overview

Investec Limited posted a decrease in headline earnings attributable to ordinary shareholders of 3.6% to R4 350 million (2016: R4 515 million). Operating fundamentals were supported by sound levels of corporate and private client activity. Results were impacted by the change in accounting treatment from fair value to equity accounting for the assets transferred to the IEP Group (previously Investec Equity Partners) in the prior year (refer to page 200). Excluding the impact of this transaction, operating profit was considerably ahead of the prior period. The balance sheet remains sound with a capital adequacy ratio of 14.1% (2016: 14.0%).

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

Income statement analysis

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

Total operating income

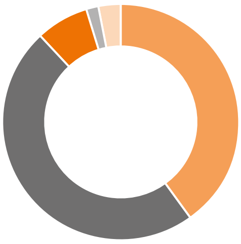
Total operating income before impairment losses on loans and advances of R17 659 million is 5.7% higher than the prior year. The various components of total operating income are analysed below.

R'million	31 March 2017	% of total income	31 March 2016	% of total income	% change
Net interest income	7 107	40.2%	6 486	38.8%	9.6%
Net fee and commission income	8 497	48.1%	7 286	43.6%	16.6%
Investment income	1 248	7.1%	2 119	12.7%	(41.1%)
Share of post taxation operating profit/(loss) of associates	306	1.7%	(11)	–	>100.0%
Trading income arising from					
– customer flow	492	2.9%	353	2.1%	39.4%
– balance sheet management and other trading activities	4	–	438	2.6%	(99.1%)
Other operating income	5	–	38	0.2%	(86.8%)
Total operating income before impairment losses on loans and advances	**17 659**	**100.0%**	**16 709**	**100.0%**	**5.7%**

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

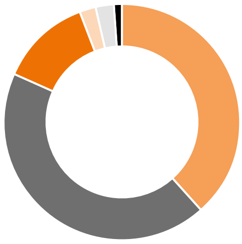
R'million	31 March 2017	% of total income	31 March 2016	% of total income	% change
Asset Management	3 314	18.8%	3 005	18.0%	10.3%
Wealth & Investment	1 523	8.6%	1 407	8.4%	8.2%
Specialist Banking	12 822	72.6%	12 297	73.6%	4.3%
Total operating income before impairment losses on loans and advances	**17 659**	**100.0%**	**16 709**	**100.0%**	**5.7%**

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



31 March 2017
R17 659 million total operating income before impairment losses on loans and advances

Net interest income	40.2%
Net fee and commission income	48.1%
Investment income	7.1%
Share of post taxation operating profit/(loss) of associates	1.7%
Trading income arising from customer flow	2.9%
Trading income arising from balance sheet management and other trading activities	0.0%
Other operating income	0.0%



31 March 2016
R16 709 million total operating income before impairment losses on loans and advances

Net interest income	38.8%
Net fee and commission income	43.6%
Investment income	12.7%
Share of post taxation operating profit/(loss) of associates	0.0%
Trading income arising from customer flow	2.1%
Trading income arising from balance sheet management and other trading activities	2.6%
Other operating income	0.2%

Net interest income

Net interest income increased by 9.6% to R7 107 million (2016: R6 486 million) driven by sound levels of lending activity.

For a further analysis of interest received and interest paid refer to page 169.

Net fee and commission income

Net fee and commission income increased by 16.6% to R8 497 million (2016: R7 286 million) supported by continued growth in the Private Banking client base, sound corporate activity and an increase in the scale of the property fund business; as well as higher average funds under management in the asset and wealth management businesses.

For a further analysis of net fee and commission income refer to page 170.

Investment income

Investment income decreased by 41.1% to R1 248 million (2016: R2 119 million) impacted by the change in accounting treatment from fair value to equity accounting for the assets transferred to the IEP Group.

For a further analysis of investment income refer to pages 170 to 171.

Share of post taxation operating profit of associates

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

Trading income

Total trading income decreased 37.3% to R496 million (2016: R791 million) largely due to foreign currency translation impacts, however corporate customer flow trading income increased supported by client activity levels and market volatility.

Impairment losses on loans and advances

Impairments on loans and advances increased from R520 million to R659 million, with the credit loss ratio on average core loans and advances amounting to 0.29% (2016: 0.26%), remaining at the lower end of its long-term average trend. The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounts to 1.02% (2016: 1.05%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.81 times (2016: 1.61 times).

For further information on asset quality refer to pages 49 to 57.

Total operating costs

The ratio of total operating costs to total operating income amounts to 52.3% (2016: 52.4%). Total operating costs at R9 238 million were 5.6% higher than the prior year (2016: R8 751 million) reflecting higher headcount and IT infrastructure costs across the business to support increased activity and growth initiatives; partially offset by costs incurred with respect to the IEP Group transaction not repeated in the current year.

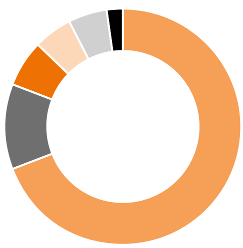
The various components of total operating costs are analysed below.

R'million	31 March 2017	% of total operating costs	31 March 2016	% of total operating costs	% change
Staff costs (including directors' remuneration)	(6 412)	69.4%	(6 074)	69.4%	5.6%
Business expenses	(996)	10.8%	(1 014)	11.6%	(1.8%)
Equipment (excluding depreciation)	(627)	6.8%	(548)	6.3%	14.4%
Premises (excluding depreciation)	(495)	5.3%	(471)	5.4%	5.1%
Marketing expenses	(505)	5.5%	(448)	5.1%	12.7%
Depreciation	(203)	2.2%	(196)	2.2%	3.6%
Total operating costs	**(9 238)**	**100.0%**	**(8 751)**	**100.0%**	**5.6%**

The following table sets out information on total operating costs by division for the year under review.

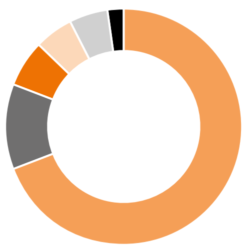
R'million	31 March 2017	% of total operating costs	31 March 2016	% of total operating costs	% change
Asset Management	(1 963)	21.3%	(1 812)	20.7%	8.3%
Wealth & Investment	(1 009)	10.9%	(942)	10.8%	7.1%
Specialist Banking	(6 033)	65.3%	(5 776)	66.0%	4.4%
Group costs	(233)	2.5%	(221)	2.5%	5.4%
Total operating costs	**(9 238)**	**100.0%**	**(8 751)**	**100.0%**	**5.6%**

% of total operating costs



31 March 2017
R9 238 million total operating costs

Staff costs	69.4%
Business expenses	10.8%
Equipment	6.8%
Premises	5.3%
Marketing	5.5%
Depreciation	2.2%



31 March 2016
R8 751 million total operating costs

Staff costs	69.4%
Business expenses	11.6%
Equipment	6.3%
Premises	5.4%
Marketing	5.1%
Depreciation	2.2%

Balance sheet analysis

Since 31 March 2016:

- Total shareholders' equity (including non-controlling interests) increased by 11.3% to R46.6 billion (2016: R41.9 billion), largely as a result of retained earnings.
- Total assets increased by 3.1% to R586.4 billion (2016: R568.8 billion), largely as a result of an increase in core loans and advances.

Questions and answers

Hendrik du Toit Asset Management

Chief executive officer

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

During the past year, political and currency volatility featured regularly. In spite of the strong rally in equities, there was a marked slowdown in decision-making by institutional investors. In addition, the decision not to choose cheap beta has increasingly become an active decision for institutional asset owners. These circumstances have put pressure on the flows to active asset managers, including Investec Asset Management.

At this stage we are midway into the 'great re-regulation' of our industry. The consequence is the ever increasing resources devoted to meeting new regulatory standards.

On the positive side, Investec Asset Management benefited significantly from the resurgence of emerging markets towards the end of the reporting period.

Given this environment and the fact that we entered the financial year with weaker than desired performance in some of our larger offerings, we closed the year with marginal net outflows.

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

After a good start and a positive net flow number at half-year stage, the flow picture deteriorated in the second half of the year. We closed the financial year with marginal net outflows, where the majority of outflows took place in the last six months of the financial year. The net outflows were largely driven by the Asia Pacific and Americas regions, as a result of client restructurings and rebalancing, rather than performance complaints. We are pleased to report that our African business has continued its resurgence as evidenced by strong net inflows for the year.

Our short-term investment performance in some of our larger capabilities was challenged over the period under review. However, we are beginning to see a turnaround here.

We have also broadened our offering over the past year following substantial investments into our credit and multi-asset teams. As we go into the 2018 financial year, we offer a strong and well-tested global equities platform, a rapidly developing multi-asset capability, a resurgent emerging markets debt capability and a growing credit skill set. This allows us to offer a competitive set of growth, income and multi-asset offerings to the market. We have also continued to grow and strengthen our private markets capabilities.

The challenges of an increasingly demanding client base, to which alpha over the cycle is a non-negotiable, product relevance and regulatory costs provided us with ample cause for thought about our long-term direction. After due consideration, we have concluded that our business remains well positioned for the future and that we need to focus on execution. We will be even more relentless in our focus on quality and excellence over the coming years as we pursue the same strategic objectives as we had before.

We will continue to invest in our people and nurture the owner culture that binds us together. Strategic clarity, quality execution and an ongoing commitment to our people underwrite the growth potential of our business over the long term.

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

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

We remain a patient, organic and long-term business offering organically-developed investment capabilities through active segregated mandates or mutual funds to sophisticated clients. We operate globally in both the Institutional and Advisor space through five geographically defined client groups. We have an approach to growth that is driven by sensible medium to long-term client demand and competitive investment performance.

In the next twelve months, we are intent on continuing to grow our Advisor business globally, strengthening our position in North America and continuing to scale our multi-asset and global equity offerings. Furthermore, we will continue to invest in a limited number of long-term initiatives, including within our private markets offering.

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

Although there are many prevailing challenges for the industry including the global macroeconomic environment, increased regulation, disruption from technology and evolving buying behaviour, the asset management industry is forecast to grow. It remains a fiercely competitive market which will become tougher to navigate and maintain margins. As we are seeing already, we expect to see some consolidation in the market in response to these challenges. We are unlikely to participate in this consolidation as we continue to see potential for ongoing organic growth.

We believe that we have created a sustainable, competitive, long-term business, over the past 26 years. We are organically building a long-term inter-generational business and as such concentrate less on short-term outcomes. We remain committed to being an active investment manager and believe that the opportunity for growth in our industry over the next five years is substantial.

The coming year will have its challenges. Markets may not be as supportive, currencies may not move as much in our favour as during this last year. We are nevertheless confident about our long-term future.

Questions and answers

Steve Elliott — Wealth & Investment

Global head

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

Our dedication to the individual needs of each of our clients remains as important as ever as we seek to ensure that we continue to provide the assurance and service our clients need to navigate through these periods of heightened uncertainty.

In South Africa, our clients have continued to trade and invest both locally and offshore, however, they are taking a far more cautious approach to investment, given the volatility in the market. We continued to see good discretionary net inflows, supported by our strong brand and positioning in the local market and an increase in our client base. Our investment approach tends to be more defensive, favouring some of the larger companies listed on the JSE, these companies experiencing a fall in values over the period.

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

We've continued to focus and place an emphasis on enhancing our digital capabilities for our private clients. This includes expanding our self-directed investment capabilities as well as increasing access to our global investment view through our managed investment services, both on our mobile and digital platforms.

Investec Wealth & Investment and Private Bank have been awarded, for the fifth year in a row by Euromoney and the fourth year in a row by the FT in London, the accolade of Best Private Bank and Wealth Manager in South Africa. These accolades show the traction our One Place strategy has had with our private clients and the importance of delivering banking and investments, locally and internationally, to our private clients in One Place.

We continue to enhance our One Place strategy, which focuses on servicing clients' local and international banking and investment needs, a particularly important role through the recent turbulent period. We have done so by leveraging off our international capabilities in Ireland, Switzerland, Hong Kong, Guernsey and the UK.

Regulation is always an area of focus which requires substantial resources to ensure the business remains fully compliant with all of its obligations.

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

We've continued to advance with ongoing projects and introduced new initiatives. This involves keeping the client at the centre of all that we do. The strategy of working together with Private Bank to offer an integrated banking and investment solution to our private clients, both locally and internationally, has been a great success and will remain a key focus in the years ahead.

Our focus on servicing the ever expanding global investment needs of our private clients and in navigating the complex landscape of asset allocation, goal-based investing, fiduciary and tax information, alternative investments and the financial plans to help our clients achieve their financial plans, remains a key strategy for us.

Having a global view is integral to the continued evolution of our business as an international operation. This requires not just broadening our presence but also integrating our various businesses to ensure the best service for clients. Our Asian and Swiss operations continue to allow us to service the expatriate market across various jurisdictions.

The development of our digital capability will continue to be a principal strategic theme. We are committed to developing digital enhancements to our core investment management offering and make these available to those clients of the core business for whom they are suited.

We see our robust and well-resourced global investment process and research capability essential to our success. The continuous development of these areas, backed by appropriate investment, remains a principal component of our strategy.

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

We have seen some significant events over the last financial year and others remain on the horizon which have the potential to unsettle the markets. These continuing uncertainties present a challenge to investors, particularly in an environment where returns from traditionally lower-risk asset classes remain low. We are focused on maintaining the quality of our client service and possess the expertise and resources to navigate through the uncertainties that may lie ahead, whilst continuing to invest in our capabilities, digital and otherwise, to build for the future.

Questions and answers

Richard Wainwright — Specialist Banking

Geographical business leader

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

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

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

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

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

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

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

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

Our strategic focus in South Africa remains the following:

- Grow market share in our niche businesses
- Identify new sources of revenue across our existing client base:
  - Launch of Investec Life in second half of 2017
  - Creation of Investec Specialist Investments
- Management of our liquidity ratios with an emphasis on retail funding initiatives
- Management of our capital to optimise returns
- Investment in our technology platforms, including digitalization of products and services.

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

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

03

Risk management and corporate governance

Group Risk Management objectives are to:

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

Overview of disclosure requirements

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

On pages 28 to 92 with further disclosures provided within the financial statements section on pages 152 to 228.

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

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

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

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

Philosophy and approach to risk management

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

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

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

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

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

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

Overall summary of the year in review from a risk perspective

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

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

Our risk appetite framework as set out on page 32 continues to be assessed in light of prevailing market conditions and group strategy.

Credit risk

Our credit exposures are to a select target market comprising high-income and high net worth individuals, established corporates, and medium-sized enterprises. Our risk appetite continues to favour lower risk, income-based lending, with exposures well collateralised and credit risk taken over a short-to medium-term.

These target clients have remained active during the financial year, and have displayed a level of resilience, seeking out opportunities despite the volatility in the markets.

Our core loan book remains well diversified with commercial rent producing property loans comprising approximately 14% of the book, other lending collateralised by property 3%, high net worth and private client lending 50% 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 8.4% to R236 billion at 31 March 2017 with residential owner-occupied, private client lending and corporate portfolios representing the majority of the growth for the financial year in review.

We reported an increase in the level of impairments taken, but remain comfortable with the overall performance of the book, as the credit loss ratio amounts to 0.29%. We reported a moderate increase in defaults which was attributable to a few clients who experienced financial difficulty. We did not however, experience 'stress' across the portfolio as these defaults were in unrelated sectors. Increases in interest rates over the past two years have had little impact on the performance of our book, as our target market is less sensitive to the moderate interest rate moves incurred to date. The group has minimal exposure to the agriculture sector in South Africa, and our overall on- and off-balance sheet exposure to mining and resources amounts to 2% of our credit and counterparty exposures. Given the weaker growth outlook in South Africa, it is likely that defaults could increase further, although we would still expect our credit loss ratio to remain within our long-term average trend of 30bps to 40bps.

Investment risk

With the backing of external strategic investors, we believe that the IEP Group is better positioned to deliver value and grow. Overall, we remain comfortable with the performance of the major portion of our equity investment portfolio which comprise 4.8% of total assets.

Traded market risk

Proprietary market risk within our trading portfolio remains modest with value at risk and stress testing scenarios remaining at prudent levels. Potential losses that could arise in our trading book portfolio when stress tested under extreme market conditions (i.e. per extreme value theory) amount to less than 0.1% of total operating income.

We continue to manage a very low level of market risk with 95% one-day VaR at R4.5 million at 31 March 2017. Investec remains focused on facilitating the near-term demand of our clients and the trading desks benefited from the volatility in the markets during the year. All trading areas have kept market risk exposures at low levels throughout the year.

Balance sheet and liquidity risk

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

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

Capital management

Investec has continued to maintain a sound balance sheet with a low gearing ratio of 9.8 times and a core loans to equity ratio of 5.1 times. Our current leverage ratio is 7.3%.

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, although our common equity tier 1 ratio was just shy of our 10% target. Capital continued to grow and we are comfortable that credit growth is in line with our risk appetite framework and supported by sound risk metrics.

We have applied to the SARB for approval of our advanced internal ratings approach (AIRB). Subject to the SARB approval we expect to implement AIRB in 2018 for the purpose of calculating credit risk regulatory capital. Through the preparation process for the application Investec has enhanced a number of rating systems and risk quantification models. Since AIRB was operationalised we have seen significant benefits from using these rating systems in the management of credit risk and the quantification of internal capital. In addition we are expecting a positive impact on capital ratios in applying this approach.

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

Conduct, operational and reputational risk

We continue to spend much time and effort focusing on operational, reputational, conduct, recovery and resolution risks. Our customer and market conduct committee continues to ensure that Investec maintains a client-focused and fair outcomes-based culture.

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

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

Risk management

(continued)

process. The stress testing process also informs the risk appetite review process and the management of risk appetite limits and is a key risk management tool of the group. This process allows the group to identify underlying risks and manage them accordingly.

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

Following the recent South African government cabinet reshuffle and change of Finance Minister, S&P downgraded South Africa's sovereign foreign currency credit rating by two notches to BB+ with a negative outlook and the local currency rating was lowered by one notch to BBB- with a negative outlook. Fitch downgraded South Africa's foreign currency and local currency ratings to BB+ with a stable outlook. Moody's also downgraded South Africa's long term and short term foreign currency ratings to Baa3 and P-3 respectively, with a negative outlook. Following the sovereign downgrade, the larger local banks together with Investec Bank Limited's long term foreign currency ratings were also downgraded and are now Baa3 from Moody's and BB+ from Fitch and S&P.

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

Salient features

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

Year to 31 March	2017	2016
Total assets (excluding assurance assets) (R'million)	456 836	445 239
Total risk-weighted assets (R'million)	329 808	309 052
Total equity (R'million)	46 571	41 851
Net core loans and advances (R'million)	236 225	217 958
Cash and near cash (R'million)	117 586	124 907
Customer accounts (deposits) (R'million)	303 470	279 820
Gross defaults as a % of gross core loans and advances	1.52%	1.47%
Defaults (net of impairments) as a % of net core loans and advances	1.02%	1.05%
Net defaults (after collateral and impairments) as a % of net core loans and advances	–	–
Credit loss ratio*	0.29%	0.26%
Structured credit investments as a % of total assets^	0.40%	0.17%
Banking book investment and equity risk exposures as a % of total assets^	4.75%	4.16%
Level 3 (fair value assets) as a % of total assets^	0.83%	0.63%
Traded market risk: one-day value at risk (R'million)	4.5	4.8
Core loans to equity ratio	5.1x	5.2x
Total gearing ratio**	9.8x	10.6x
Loans and advances to customers to customer deposits	75.0%	74.6%
Capital adequacy ratio	14.1%	14.0%
Tier 1 ratio	10.7%	10.7%
Common equity tier 1 ratio	9.9%	9.6%
Leverage ratio	7.3%	6.9%
Return on average assets#	1.04%	1.15%
Return on average risk-weighted assets#	1.46%	1.61%

* *Income statement impairment charge on core loans as a percentage of average gross core loans and advances.*
^ *Total assets excluding assurance assets.*
** *Total assets excluding assurance assets to total equity.*
# *Where return represents earnings attributable to shareholders after deduction of preference dividends but before goodwill and amortisation of acquired intangibles. Average balances are calculated on a straight-line average.*

Overall group risk appetite

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

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

Risk appetite and tolerance metrics	Positioning at 31 March 2017
• We seek to maintain an appropriate balance between revenue earned from capital light and capital intensive activities. Ideally the split in revenue should be 50:50, dependent on prevailing market conditions	Capital light activities for Investec Limited contributed 48% to total operating income and capital intensive activities contributed 52%
• We have a solid recurring income base supported by diversified revenue streams, and target a recurring income ratio in excess of 65%	Recurring income amounted to 79.6% of total operating income. Refer to page 10 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 52.3%. Refer to page 9 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 90 for further information
• We intend to maintain a sufficient level of capital to satisfy regulatory requirements and our internal target ratios. We target a capital adequacy ratio range of between 14% and 17% and we target a minimum tier 1 ratio of 11.0% and a common equity tier 1 ratio above 10.0%	We meet the target for total capital adequacy but the common equity tier 1 ratio was 9.9%, refer to page 90 for further information
• We target a diversified loan portfolio, lending to clients we know and understand. We limit our exposure to a single/connected individual or company to 5% of tier 1 capital (up to 10% if approved by the relevant board committee). We also have a number of risk tolerance limits and targets for specific asset classes	We maintained this risk tolerance level in place throughout the year
• There is a preference for primary exposure in the bank's main operating geographies (i.e. South Africa and Mauritius). The bank will accept exposures where we have a branch or local banking subsidiary and tolerate exposures to other countries where we have developed a local understanding and capability or we are facilitating a transaction for a client who requires facilities in a foreign geography	Refer to pages 34 and 35 for further information
• We target a credit loss charge on core loans of less than 0.5% of average core advances (less than 1.25% under a weak economic environment/ stressed scenario), and we target defaults net of impairments less than 1.5% of total core loans (less than 4% under a weak economic environment/ stressed scenario)	The credit loss charge on core loans amounted to 0.29% and defaults net of impairments amounted to 1.02% of total core loans. Refer to page 49 for further information
• We carry a high level of liquidity in all our banking subsidiaries in order to be able to cope with shocks to the system, targeting a minimum cash to customer deposit ratio of 25%	Total cash and near cash balances amounted to R118 billion representing 38.7% of customer deposits. Refer to page 69 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 63 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 R4 066 million (excluding the IEP group), representing 11.5% of total tier 1 capital. Refer to page 59 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 76 to 80 for further information
• We have a number of policies and practices in place to mitigate reputational, legal and conduct risks	Refer to pages 80 and 81 for further information

An overview of our principal risks

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

These principal risks have been highlighted on page 20.

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

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

Risk management framework, committees and forums

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

Investec plc and Investec Limited board of directors

DLC audit committees	DLC nominations and directors' affairs committee	DLC board risk and capital committee	DLC social and ethics committee	DLC remuneration committee
Oversight of the group's financial reporting, risk management, compliance, external and internal audit	Ensures that the board and the governance structure of the group enhances good corporate governance	Determines categories of risk, specific risk and the extent of such risks which the group on a consolidated basis, and its banks on a solo basis, should undertake	Monitors the group's activities with regard to social and economic development, good corporate citizenship, talent retention and attraction	Sets the remuneration philosophy of the group and ensures that remuneration is awarded in accordance thereof

Chief executive officer and managing director
Mandated to manage the group, except over those matters reserved by the board in the Board Charter or delegated to the DLC Committees

Management Committees
Including DLC Capital Committee, Review Executive Risk Review Forum and Policy Executive Risk Review Forum

Internal Audit

Compliance

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	SARB	South African Reserve Bank

Credit and counterparty risk management

Credit and counterparty risk description

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

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

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

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

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

Credit and counterparty risk governance structure

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

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

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

Credit and counterparty risk appetite

There is a preference for primary exposure in the Investec group's main operating geography (i.e. South Africa). The Investec group will accept exposures where we have a branch or local banking subsidiary and tolerate exposures to other countries where we have a developed and local understanding and capability or we are facilitating a transaction for a client who requires facilities in a foreign geography.

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

We have little appetite for unsecured debt and require good quality collateral in support of obligations (refer to page 57 for further information).

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

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

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

Country risk

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

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

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

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

While we do not have a separate country risk committee, the relevant credit committees as well as investment committees and Policy ERRF will consider, analyse and assess the appropriate limits to be recorded when required, to assume exposure to foreign jurisdictions.

Concentration risk

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

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

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

Risk appetite

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

Corporate responsibility considerations

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

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

Refer to our corporate responsibility report on our website.

Management and measurement of credit and counterparty risk

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

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

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

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

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

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

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

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

The following elections have been made:

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

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

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

Stress testing and portfolio management

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

Investec-specific stress scenarios are designed to specifically test the unique attributes of the bank's portfolio.

These Investec-specific stress scenarios form an integral part of our capital planning process. This process allows the bank to identify underlying risks and manage them accordingly.

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

Credit and counterparty risk – nature of activities

Credit and counterparty risk is assumed through a range of client-driven lending activities to private and corporate clients and other counterparties, such as financial institutions and sovereigns. These activities are diversified across a number of business activities.

Lending collateralised by property

Client quality and expertise are at the core of our credit philosophy. Our exposure to the property market is well diversified with strong bias towards prime locations for residential exposure and focus on tenant quality for commercial assets. Debt service cover ratios are a key consideration in the lending process supported by reasonable loan to security value ratios.

We provide senior debt and other funding for property transactions, with a strong preference for income producing assets supported by an experienced sponsor providing a material level of cash equity investment into the asset.

An analysis of the lending collateralised by property portfolio and asset quality information is provided on pages 55 to 56.

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 55 to 56.

Corporate client activities

We focus on traditional client-driven corporate lending activities, in addition to customer flow related treasury and trading execution services.

Within the corporate lending businesses, credit risk can arise from corporate loans, acquisition finance, asset finance, power and infrastructure finance, asset-based lending, fund finance and resource finance. We also undertake debt origination activities for corporate clients.

The Credit Risk Management functions approve specific credit and counterparty limits that govern the maximum credit exposure to each individual counterparty. In addition, further risk management limits exist through industry and country limits to manage concentration risk. The credit appetite for each counterparty is based on the financial strength of the principal borrower, its business model and market positioning, the underlying cash flow to the transaction, the substance and track record of management, and the security package. Political risk insurance, and other insurance is taken where they are deemed appropriate.

Investec has limited appetite for unsecured credit risk and facilities are typically secured on the assets of the underlying borrower as well as shares in the borrower.

A summary of the nature of the lending and/or credit risk assumed within some of the key areas within our corporate lending business is provided below:

- **Corporate loans:** provides senior secured loans to mid-to-large cap companies. Credit risk is assessed against debt serviceability based upon robust cash generation of the business based on both historical and forecast information. We typically act as transaction lead or arranger, and have a close relationship with management and sponsors

- **Corporate debt securities:** these are tradable corporate debt instruments, based on acceptable credit fundamentals typically with a medium-term hold strategy where the underlying risk is to South African corporates. This is a highly diversified, granular portfolio that is robust, and spread across a variety of geographies and industries
- **Acquisition finance:** provides debt funding to proven management teams and sponsors, running small to mid-cap sized companies. Credit risk is assessed against debt serviceability based upon robust cash generation of the business based on both historical and forecast information. This will be based on historic and forecast information. We typically lend on a bilateral basis and benefit from a close relationship with management and sponsors
- **Asset-based lending:** provides working capital and secured corporate loans to mid-caps. These loans are secured by the assets of the business, for example, the accounts receivable, inventory and, plant and machinery. In common with our corporate lending activities, strong emphasis is placed on supporting companies with scale and relevance in their industry, stability of cash flow, and experienced management
- **Fund finance:** provides debt facilities to asset managers and fund vehicles, principally in private equity. The geographical focus is in South Africa where the bank can support experienced asset managers and their funds which show strong, long-term value creation and good custodianship of investors' money. Debt facilities to fund vehicles are secured against undrawn limited partner commitments and/or the funds underlying assets. Fund manager loans are structured against committed fund management cash flows, the managers' investment stake in their own funds and when required managers' personal guarantees
- **Small ticket asset finance:** provides funding to small and medium-sized corporates to support asset purchases and other business requirements. The portfolio is highly diversified by industry and number of clients and is secured against the asset being financed and is a direct obligation of the company
- **Large ticket asset finance:** provides the finance and structuring expertise for aircraft and larger lease assets, the majority of which are senior secured loans with a combination of corporate, cash flow and asset-backed collateral against the exposure
- **Power and infrastructure finance:** arranges and provides typically long-term financing for infrastructure assets, in particular renewable and traditional power projects as well as transportation assets, against contracted future cash flows of the project(s) from well established and financially sound off-take counterparties. There is a requirement for a strong upfront equity contribution from an experienced sponsor
- **Resource finance:** provides structured hedging solutions mainly within the mining sectors. The underlying commodities are mainly precious and base metals and coal. Our clients in this sector are established mining companies which are typically domiciled and publicly listed in South Africa as well as other countries where we are facilitating a transaction for a client who requires facilities in a foreign geography. All facilities are secured by the borrower's assets and repaid from mining cash flows. We have reduced our appetite in this sector, particularly for small to mid-cap mining companies
- **Structured credit:** these are bonds secured against a pool of assets, mainly UK and European residential mortgages. The bonds are typically investment grade rated, which benefit from a high-level of credit subordination and can withstand a significant level of portfolio defaults
- **Treasury placements:** the treasury function, as part of the daily management of the bank's liquidity, places funds with central banks and other commercial banks and financial institutions. These transactions are typically short term (less than one month) money market placements or secured repurchase agreements. These market counterparties are mainly investment grade rated entities that occupy dominant and systemic positions in their domestic banking markets and internationally
- **Corporate advisory and investment banking activities:** counterparty risk in this area is modest. The business also trades approved shares on an approved basis. Settlement trades are largely on a delivery versus payment basis, through major stock exchanges. Credit risk only occurs in the event of counterparty failure and would be linked to any fair value losses on the underlying security
- **Customer trading activities to facilitate client lending 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 55 to 56.

Wealth & Investment

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

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

Asset Management

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

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 financial statements, credit losses and impairments are reported in accordance with International Financial Reporting Standards (IFRS).

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

Asset quality analysis – credit risk classification and provisioning policy *(continued)*

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

Credit risk mitigation

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

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

An analysis of collateral is provided on page 57.

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 relet 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 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 financial statements but reported on a gross basis to regulators.

Further information on credit derivatives is provided on page 65.

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

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

Refer to the credit quality step table disclosed on page 92 for a breakdown of regulatory exposure values before and after credit risk mitigation has been applied.

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 15 to 26.

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

Core loans and advances grew by 8.4% to R236 billion with residential owner-occupied, private client lending and corporate portfolios representing the majority of the growth for the financial year in review.

Default loans (net of impairments) as a percentage of core loans and advances amounted to 1.02% with absolute levels of defaults increasing moderately over the year in relation to a few clients who experienced financial difficulty.

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

Lending collateralised by property

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

Private client activities

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

Our high net worth client portfolio and residential mortgage book growth in particular has been encouraging with a total increase of 13.0% over the year. Growth in both of these areas has been achieved with strong adherence to our conservative lending appetite.

Corporate client activities

We grew our corporate book by 7.5% as a result of increased lending activity by our mid-to-large corporate clients across a number of sectors. Our book remains well diversified across sectors.

Credit and counterparty risk information

Pages 28 to 41 describe where and how credit risk is assumed in our operations.

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

An analysis of gross credit and counterparty exposures

Gross credit and counterparty exposures increased by 2.7% to R466 billion largely due to growth in loans and advances to customers, partially offset by a managed reduction in cash and near cash balances. Cash and near cash balances amount to R118 billion and are largely reflected in the following line items in the table below: cash and balances at central banks, loans and advances to banks, non-sovereign and non-bank cash placements and sovereign debt securities.

R'million At 31 March	2017	2016	% change	Average*
Cash and balances at central banks	8 353	7 801	7.1%	8 076
Loans and advances to banks	35 026	29 483	18.8%	32 254
Non-sovereign and non-bank cash placements	8 993	9 858	(8.8%)	9 425
Reverse repurchase agreements and cash collateral on securities borrowed	30 567	43 317	(29.4%)	36 942
Sovereign debt securities	47 822	41 325	15.7%	44 574
Bank debt securities	7 758	15 117	(48.7%)	11 437
Other debt securities	12 028	11 753	2.3%	11 891
Derivative financial instruments	6 358	10 756	(40.9%)	8 557
Securities arising from trading activities	463	539	(14.1%)	501
Loans and advances to customers (gross)	228 756	209 630	9.1%	219 193
Own originated loans and advances to customers securitised (gross)	8 679	9 244	(6.1%)	8 962
Other loans and advances (gross)	336	398	(15.6%)	367
Other assets	2 757	2 169	27.1%	2 463
Total on-balance sheet exposures	**397 896**	**391 390**	**1.7%**	**394 643**
Guarantees^	15 753	15 936	(1.1%)	15 845
Contingent liabilities, committed facilities and other	52 444	46 612	12.5%	49 528
Total off-balance sheet exposures	**68 197**	**62 548**	**9.0%**	**65 373**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**466 093**	**453 938**	**2.7%**	**460 016**

* *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 counter-party 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	35 026	–		35 026
Non-sovereign and non-bank cash placements	8 993	–		8 993
Reverse repurchase agreements and cash collateral on securities borrowed	30 567	–		30 567
Sovereign debt securities	47 822	–		47 822
Bank debt securities	7 758	–		7 758
Other debt securities	12 028	–		12 028
Derivative financial instruments	6 358	3 484		9 842
Securities arising from trading activities	463	13 857		14 320
Investment portfolio	–	6 502	1	6 502
Loans and advances to customers	228 756	(1 204)	2	227 552
Own originated loans and advances to customers securitised	8 679	(6)	2	8 673
Other loans and advances	336	(26)	2	310
Other securitised assets	–	173	3	173
Interest in associated undertakings	–	5 514	1	5 514
Deferred taxation assets	–	738		738
Other assets	2 757	9 283	4	12 040
Property and equipment	–	762		762
Investment properties	–	18 688		18 688
Goodwill	–	211		211
Intangible assets	–	508		508
Non-current assets classified as held for sale	–	456	1	456
Other financial instruments at fair value through profit or loss in respect of liabilities to customers	–	129 596		129 596
Total on-balance sheet exposures	**397 896**	**188 536**		**586 432**

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 counter-party exposure	Assets that we deem to have no legal credit exposure	Note reference	Total balance sheet
At 31 March 2016				
Cash and balances at central banks	7 801	–		7 801
Loans and advances to banks	29 483	–		29 483
Non-sovereign and non-bank cash placements	9 858	–		9 858
Reverse repurchase agreements and cash collateral on securities borrowed	43 317	–		43 317
Sovereign debt securities	41 325	–		41 325
Bank debt securities	15 117	–		15 117
Other debt securities	11 753	–		11 753
Derivative financial instruments	10 756	5 083	1	15 839
Securities arising from trading activities	539	12 027		12 566
Investment portfolio	–	4 683	1	4 683
Loans and advances to customers	209 630	(910)	2	208 720
Own originated loans and advances to customers securitised	9 244	(6)	2	9 238
Other loans and advances	398	(31)	2	367
Other securitised assets	–	201	3	201
Interest in associated undertakings	–	5 145	1	5 145
Deferred taxation assets	–	572		572
Other assets	2 169	7 427	4	9 596
Property and equipment	–	729		729
Investment properties	–	18 167		18 167
Goodwill	–	238		238
Intangible assets	–	524		524
Other financial instruments at fair value through profit or loss in respect of liabilities to customers	–	123 540		123 540
Total on-balance sheet exposures	**391 390**	**177 389**		**568 779**

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.*

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

R'million	Up to three months	Three to six months	Six months to one year	One to five years	Five to 10 years	> 10 years	Total
Cash and balances at central banks	8 353	–	–	–	–	–	8 353
Loans and advances to banks	33 355	36	201	1 421	13	–	35 026
Non-sovereign and non-bank cash placements	8 993	–	–	–	–	–	8 993
Reverse repurchase agreements and cash collateral on securities borrowed	25 459	204	425	3 676	803	–	30 567
Sovereign debt securities	10 884	12 230	6 767	7 793	3 348	6 800	47 822
Bank debt securities	301	–	865	4 030	2 462	100	7 758
Other debt securities	407	825	200	4 641	4 143	1 812	12 028
Derivative financial instruments	1 986	507	419	3 209	218	19	6 358
Securities arising from trading activities	72	4	3	384	–	–	463
Loans and advances to customers (gross)	22 463	7 958	14 338	117 120	18 622	48 255	228 756
Own originated loans and advances to customers securitised (gross)	4	3	1	38	481	8 152	8 679
Other loans and advances (gross)	–	–	–	336	–	–	336
Other assets	2 757	–	–	–	–	–	2 757
Total on-balance sheet exposures	**115 034**	**21 767**	**23 219**	**142 648**	**30 090**	**65 138**	**397 896**
Guarantees^	3 513	909	783	9 055	493	1 000	15 753
Contingent liabilities, committed facilities and other	12 958	2 069	3 081	14 939	2 645	16 752	52 444
Total off-balance sheet exposures	**16 471**	**2 978**	**3 864**	**23 994**	**3 138**	**17 752**	**68 197**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**131 505**	**24 745**	**27 083**	**166 642**	**33 228**	**82 890**	**466 093**

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

Detailed analysis of gross credit and counterparty exposures by industry

R'million	High net worth and professional individuals	Lending collateralised by property – largely to private clients	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services
At 31 March 2017						
Cash and balances at central banks	–	–	–	–	8 353	–
Loans and advances to banks	–	–	–	–	–	–
Non-sovereign and non-bank cash placements	–	–	1	–	67	635
Reverse repurchase agreements and cash collateral on securities	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)	109 210	40 546	2 895	5 364	5 900	8 523
Own originated loans and advances to customers securitised (gross)	8 679	–	–	–	–	–
Other loans and advances (gross)	–	–	–	–	–	–
Other assets	–	–	–	–	–	62
Total on-balance sheet exposures	**118 475**	**40 546**	**2 901**	**5 787**	**64 162**	**9 455**
Guarantees^	3 481	1 104	179	648	1 744	689
Contingent liabilities, committed facilities and other	31 520	6 132	301	2 137	609	559
Total off-balance sheet exposures	**35 001**	**7 236**	**480**	**2 785**	**2 353**	**1 248**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**153 476**	**47 782**	**3 381**	**8 572**	**66 515**	**10 703**
At 31 March 2016						
Cash and balances at central banks	–	–	–	–	7 801	–
Loans and advances to banks	–	–	–	–	–	–
Non-sovereign and non-bank cash placements	–	–	–	–	102	562
Reverse repurchase agreements and cash collateral on securities	623	–	–	–	–	151
Sovereign debt securities	–	–	–	–	41 325	–
Bank debt securities	–	–	–	–	–	–
Other debt securities	–	–	–	98	2 686	–
Derivative financial instruments	–	–	36	205	–	156
Securities arising from trading activities	–	–	–	7	330	–
Loans and advances to customers (gross)	95 044	41 077	2 256	4 809	6 377	8 908
Own originated loans and advances to customers securitised (gross)	9 244	–	–	–	–	–
Other loans and advances (gross)	–	–	–	–	–	–
Other assets	–	–	1	–	–	2
Total on-balance sheet exposures	**104 911**	**41 077**	**2 293**	**5 119**	**58 621**	**9 779**
Guarantees^	3 545	842	–	990	1 917	30
Contingent liabilities, committed facilities and other	25 298	2 265	432	814	309	782
Total off-balance sheet exposures	**28 843**	**3 107**	**432**	**1 804**	**2 226**	**812**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**133 754**	**44 184**	**2 725**	**6 923**	**60 847**	**10 591**

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

	Finance and insurance	Retailers and whole-salers	Manufac-turing and commerce	Construc-tion	Corporate commercial real estate	Other residential mortgages	Mining and resources	Leisure, entertain-ment and tourism	Transport	Communi-cation	Total
	–	–	–	–	–	–	–	–	–	–	8 353
	35 026	–	–	–	–	–	–	–	–	–	35 026
	2 130	1 561	2 504	247	201	–	758	–	553	336	8 993
	28 991	–	785	–	–	–	–	–	–	41	30 567
	–	–	–	–	–	–	–	–	–	–	47 822
	7 758	–	–	–	–	–	–	–	–	–	7 758
	3 245	–	1 555	–	708	–	2 383	–	–	2 437	12 028
	5 059	128	123	3	323	–	138	37	14	35	6 358
	–	38	–	–	–	–	–	33	–	71	463
	17 640	2 814	11 577	3 953	5 760	–	3 249	1 512	4 010	5 803	228 756
	–	–	–	–	–	–	–	–	–	–	8 679
	–	–	–	–	–	336	–	–	–	–	336
	673	1 470	236	268	–	–	–	40	–	8	2 757
	100 522	**6 011**	**16 780**	**4 471**	**6 992**	**336**	**6 528**	**1 622**	**4 577**	**8 731**	**397 896**
	3 769	990	984	94	86	–	1 702	125	64	94	15 753
	2 984	1 810	858	538	303	–	3 088	68	1 117	420	52 444
	6 753	**2 800**	**1 842**	**632**	**389**	**–**	**4 790**	**193**	**1 181**	**514**	**68 197**
	107 275	**8 811**	**18 622**	**5 103**	**7 381**	**336**	**11 318**	**1 815**	**5 758**	**9 245**	**466 093**
	–	–	–	–	–	–	–	–	–	–	7 801
	29 483	–	–	–	–	–	–	–	–	–	29 483
	3 337	1 781	1 469	211	–	–	1 581	–	312	503	9 858
	41 794	–	675	–	–	–	–	–	74	–	43 317
	–	–	–	–	–	–	–	–	–	–	41 325
	15 117	–	–	–	–	–	–	–	–	–	15 117
	2 129	–	658	–	–	–	2 509	–	–	3 673	11 753
	8 876	252	203	–	676	–	159	21	83	89	10 756
	83	–	16	–	–	–	–	–	103	–	539
	11 977	2 378	10 128	3 424	6 251	–	4 682	1 819	4 071	6 429	209 630
	–	–	–	–	–	–	–	–	–	–	9 244
	–	–	–	–	–	398	–	–	–	–	398
	484	1 556	92	3	–	–	–	20	–	11	2 169
	113 280	**5 967**	**13 241**	**3 638**	**6 927**	**398**	**8 931**	**1 860**	**4 643**	**10 705**	**391 390**
	6 328	62	136	–	11	–	1 822	–	65	188	15 936
	5 924	1 664	1 142	222	100	–	4 514	3	2 208	935	46 612
	12 252	**1 726**	**1 278**	**222**	**111**	**–**	**6 336**	**3**	**2 273**	**1 123**	**62 548**
	125 532	**7 693**	**14 519**	**3 860**	**7 038**	**398**	**15 267**	**1 863**	**6 916**	**11 828**	**453 938**

Private client loans account for 66.7% 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 36, and a more detailed analysis of these loan portfolios are provided on pages 55 and 56.

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 36 and 37, and a more detailed analysis of the corporate client loan portfolio is provided on pages 55 and 56.

Analysis of gross credit and counterparty exposures by industry

R'million	Gross core loans and advances		Other credit and counterparty exposures		Total	
At 31 March	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
High net worth and professional individuals	117 889	104 288	35 587	29 466	153 476	133 754
Lending collateralised by property – largely to private clients	40 546	41 077	7 236	3 107	47 782	44 184
Agriculture	2 895	2 256	486	469	3 381	2 725
Electricity, gas and water (utility services)	5 364	4 809	3 208	2 114	8 572	6 923
Public and non-business services	5 900	6 377	60 615	54 470	66 515	60 847
Business services	8 523	8 908	2 180	1 683	10 703	10 591
Finance and insurance	17 640	11 977	89 635	113 555	107 275	125 532
Retailers and wholesalers	2 814	2 378	5 997	5 315	8 811	7 693
Manufacturing and commerce	11 577	10 128	7 045	4 391	18 622	14 519
Construction	3 953	3 424	1 150	436	5 103	3 860
Corporate commercial real estate	5 760	6 251	1 621	787	7 381	7 038
Other residential mortgages	–	–	336	398	336	398
Mining and resources	3 249	4 682	8 069	10 585	11 318	15 267
Leisure, entertainment and tourism	1 512	1 819	303	44	1 815	1 863
Transport	4 010	4 071	1 748	2 845	5 758	6 916
Communication	5 803	6 429	3 442	5 399	9 245	11 828
Total	**237 435**	**218 874**	**228 658**	**235 064**	**466 093**	**453 938**

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

Core loans and advances comprise:

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

R'million At 31 March	2017	2016
Loans and advances to customers as per the balance sheet	227 552	208 720
Add: own originated loans and advances securitised as per the balance sheet	8 673	9 238
Net core loans and advances to customers	**236 225**	**217 958**

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 41.

R'million At 31 March	2017	2016
Gross core loans and advances to customers	**237 435**	**218 874**
Total impairments	**(1 210)**	**(916)**
Specific impairments	(884)	(681)
Portfolio impairments	(326)	(235)
Net core loans and advances to customers	**236 225**	**217 958**
Average gross core loans and advances to customers	**228 155**	**201 038**
Current loans and advances to customers	232 902	214 511
Past due loans and advances to customers (1 – 60 days)	673	734
Special mention loans and advances to customers	244	415
Default loans and advances to customers	3 616	3 214
Gross core loans and advances to customers	**237 435**	**218 874**
Current loans and advances to customers	232 902	214 511
Default loans that are current and not impaired	132	867
Gross core loans and advances to customers that are past due but not impaired	1 936	1 664
Gross core loans and advances to customers that are impaired	2 465	1 832
Gross core loans and advances to customers	**237 435**	**218 874**
Total income statement charge for impairments on core loans and advances	**(661)**	**(526)**
Gross default loans and advances to customers	3 616	3 214
Specific impairments	(884)	(681)
Portfolio impairments	(326)	(235)
Defaults net of impairments	**2 406**	**2 298**
Aggregate collateral and other credit enhancements on defaults	4 343	3 700
Net default loans and advances to customers (limited to zero)	**–**	**–**
Ratios		
Total impairments as a % of gross core loans and advances to customers	0.51%	0.42%
Total impairments as a % of gross default loans	33.46%	28.50%
Gross defaults as a % of gross core loans and advances to customers	1.52%	1.47%
Defaults (net of impairments) as a % of net core loans and advances to customers	1.02%	1.05%
Net defaults as a % of net core loans and advances to customers	–	–
Credit loss ratio (i.e. income statement impairment charge on core loans as a % of average gross core loans and advances)	0.29%	0.26%

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

R'million At 31 March	2017	2016
Default loans that are current	1 254	1 922
1 – 60 days	1 477	1 281
61 – 90 days	184	94
91 – 180 days	473	304
181 – 365 days	717	110
> 365 days	428	652
Past due and default core loans and advances to customers (actual capital exposure)	**4 533**	**4 363**
1 – 60 days	256	258
61 – 90 days	23	12
91 – 180 days	66	125
181 – 365 days	476	30
> 365 days	177	337
Past due and default core loans and advances to customers (actual amount in arrears)	**998**	**762**

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

R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
At 31 March 2017							
Watchlist loans neither past due nor impaired							
Total capital exposure	132	–	–	–	–	–	132
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	1 120	152	121	460	83	1 936
Amount in arrears	–	205	18	27	439	53	742
Gross core loans and advances to customers that are impaired							
Total capital exposure	1 122	357	32	352	257	345	2 465
Amount in arrears	–	51	5	39	37	124	256
At 31 March 2016							
Watchlist loans neither past due nor impaired							
Total capital exposure	867	–	–	–	–	–	867
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	1 125	70	216	68	185	1 664
Amount in arrears	–	254	6	104	14	140	518
Gross core loans and advances to customers that are impaired							
Total capital exposure	1 055	156	24	88	42	467	1 832
Amount in arrears	–	4	6	21	16	197	244

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

R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	**–**	**673**	**–**	**–**	**–**	**–**	**673**
Special mention	**–**	**151**	**89**	**1**	**–**	**3**	**244**
Special mention (1 – 90 days)	–	151	1	1*	–	3*	156
Special mention (61 – 90 days and item well secured)	–	–	88	–	–	–	88
Default	**1 254**	**653**	**95**	**472**	**717**	**425**	**3 616**
Sub-standard	132	296	63	120	460	80	1 151
Doubtful	1 122	357	32	352	257	345	2 465
Total	**1 254**	**1 477**	**184**	**473**	**717**	**428**	**4 533**

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	–	476	–	13
Default	**–**	**108**	**10**	**66**	**476**	**177**	**837**
Sub-standard	–	57	5	27	439	53	581
Doubtful	–	51	5	39	37	124	256
Total	**–**	**256**	**23**	**66**	**476**	**177**	**998**

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

Risk management

(continued)

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

R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	**–**	**734**	**–**	**–**	**–**	**–**	**734**
Special mention	**–**	**323**	**64**	**14**	**10**	**4**	**415**
Special mention (1 – 90 days)	–	323	9	14*	10*	4*	360
Special mention (61 – 90 days and item well secured)	–	–	55	–	–	–	55
Default	**1 922**	**224**	**30**	**290**	**100**	**648**	**3 214**
Sub-standard	868	66	6	203	58	181	1 382
Doubtful	1 054	158	24	87	42	467	1 832
Total	**1 922**	**1 281**	**94**	**304**	**110**	**652**	**4 363**

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

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

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

An analysis of core loans and advances to customers

R'million	Gross core loans and advances that are neither past due nor impaired	Gross core loans and advances that are past due but not impaired	Gross core loans and advances that are impaired	Total gross core loans and advances (actual capital exposure)	Specific impair-ments	Portfolio impair-ments	Total net core loans and advances (actual capital exposure)	Actual amount in arrears
At 31 March 2017								
Current core loans and advances	**232 902**	**–**	**–**	**232 902**	**–**	**(319)**	**232 583**	**–**
Past due (1 – 60 days)	**–**	**673**	**–**	**673**	**–**	**(2)**	**671**	**140**
Special mention	**–**	**244**	**–**	**244**	**–**	**(1)**	**243**	**21**
Special mention (1 – 90 days)	–	156	–	156	–	(1)	155	8
Special mention (61 – 90 days and item well secured)	–	88	–	88	–	–	88	13
Default	**132**	**1 019**	**2 465**	**3 616**	**(884)**	**(4)**	**2 728**	**837**
Sub-standard	132	1 019	–	1 151	–	(4)	1 147	581
Doubtful	–	–	2 465	2 465	(884)	–	1 581	256
Total	**233 034**	**1 936**	**2 465**	**237 435**	**(884)**	**(326)**	**236 225**	**998**
At 31 March 2016								
Current core loans and advances	**214 511**	**–**	**–**	**214 511**	**–**	**(231)**	**214 280**	**–**
Past due (1 – 60 days)	**–**	**734**	**–**	**734**	**–**	**(3)**	**731**	**59**
Special mention	**–**	**415**	**–**	**415**	**–**	**(1)**	**414**	**165**
Special mention (1 – 90 days)	–	360	–	360	–	(1)	359	160
Special mention (61 – 90 days and item well secured)	–	55	–	55	–	–	55	5
Default	**867**	**515**	**1 832**	**3 214**	**(681)**	**–**	**2 533**	**538**
Sub-standard	867	515	–	1 382	–	–	1 382	293
Doubtful	–	–	1 832	1 832	(681)	–	1 151	245
Total	**215 378**	**1 664**	**1 832**	**218 874**	**(681)**	**(235)**	**217 958**	**762**

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

R'million	Private client, professional and high net worth individuals	Corporate sector	Insurance, financial services (excluding sovereign)	Public and government sector (including central banks)	Trade finance and other	Total core loans and advances to customers
At 31 March 2017						
Current core loans and advances	**155 158**	**48 701**	**17 604**	**5 765**	**5 674**	**232 902**
Past due (1 – 60 days)	**603**	**7**	**–**	**–**	**63**	**673**
Special mention	**160**	**79**	**–**	**–**	**5**	**244**
Special mention (1 – 90 days)	77	79	–	–	–	156
Special mention (61 – 90 days and item well secured)	83	–	–	–	5	88
Default	**2 514**	**755**	**36**	**135**	**176**	**3 616**
Sub-standard	999	114	36	–	2	1 151
Doubtful	1 515	641	–	135	174	2 465
Total gross core loans and advances to customers	**158 435**	**49 542**	**17 640**	**5 900**	**5 918**	**237 435**
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	**157 854**	**49 141**	**17 622**	**5 838**	**5 770**	**236 225**
At 31 March 2016						
Current core loans and advances	**141 931**	**49 350**	**11 925**	**6 363**	**4 942**	**214 511**
Past due (1 – 60 days)	**554**	**100**	**–**	**–**	**80**	**734**
Special mention	**402**	**–**	**–**	**–**	**13**	**415**
Special mention (1 – 90 days)	360	–	–	–	–	360
Special mention (61 – 90 days and item well secured)	42	–	–	–	13	55
Default	**2 478**	**505**	**52**	**14**	**165**	**3 214**
Sub-standard	1 313	–	52	14	3	1 382
Doubtful	1 165	505	–	–	162	1 832
Total gross core loans and advances to customers	**145 365**	**49 955**	**11 977**	**6 377**	**5 200**	**218 874**
Total impairments	**(495)**	**(270)**	**(4)**	**(4)**	**(143)**	**(916)**
Specific impairments	(306)	(232)	–	–	(143)	(681)
Portfolio impairments	(189)	(38)	(4)	(4)	–	(235)
Net core loans and advances to customers	**144 870**	**49 685**	**11 973**	**6 373**	**5 057**	**217 958**

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	**117 889**	**1 524**	**2 231**	**(146)**	**(284)**
Mortgages	61 390	725	998	(60)	(24)
High net worth and specialised lending	56 499	799	1 233	(86)	(260)
Corporate and other lending	**79 000**	**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	43 986	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	**237 435**	**3 616**	**4 343**	**(1 210)**	**(661)**

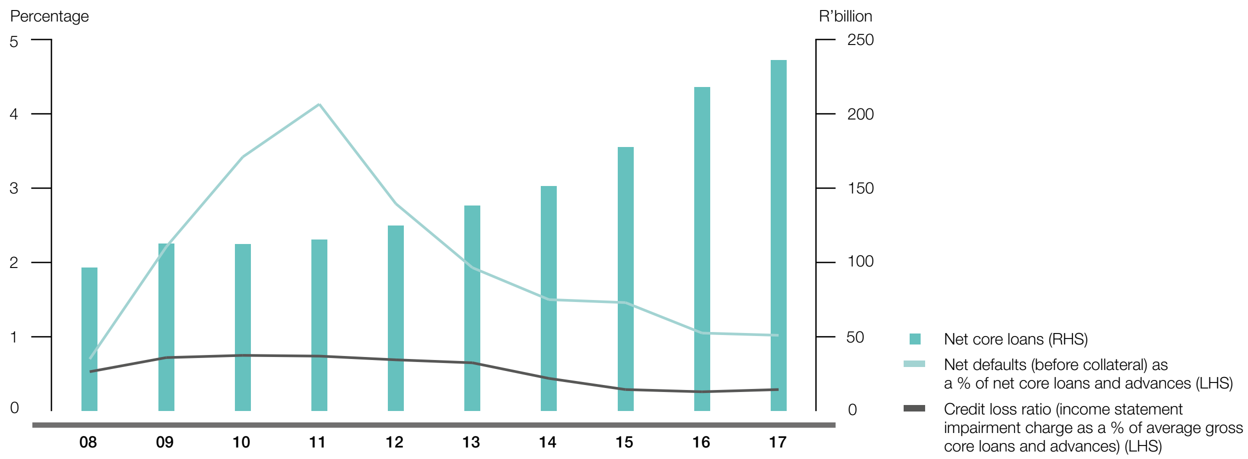
^ *Where a positive number represents a recovery.*

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

R'million	Gross core loans	Gross defaults	Aggregate collateral and other credit enhancements on defaults	Balance sheet impairments	Income statement impairments^
Lending collateralised by property	**41 077**	**971**	**1 156**	**(135)**	**(85)**
Commercial real estate	**37 677**	**501**	**666**	**(93)**	**(91)**
Commercial real estate – investment	34 179	366	482	(63)	(68)
Commercial real estate – development	2 385	31	24	(10)	–
Commercial vacant land and planning	1 113	104	160	(20)	(23)
Residential real estate	**3 400**	**470**	**490**	**(42)**	**6**
Residential real estate – development	1 668	194	217	(2)	(61)
Residential vacant land and planning	1 732	276	273	(40)	67
High net worth and other private client lending	**104 288**	**1 507**	**2 177**	**(171)**	**(225)**
Mortgages	55 763	502	849	(40)	(37)
High net worth and specialised lending	48 525	1 005	1 328	(131)	(188)
Corporate and other lending	**73 509**	**736**	**367**	**(375)**	**(146)**
Acquisition finance	14 664	329	286	(70)	(68)
Asset-based lending	5 211	165	56	(143)	(51)
Fund finance	3 668	–	–	–	–
Other corporate and financial institutions and governments	38 141	26	25	(13)	–
Asset finance	4 081	–	–	–	–
Small ticket asset finance	1 421	–	–	–	–
Large ticket asset finance	2 660	–	–	–	–
Project finance	6 424	–	–		123
Resource finance	1 320	216	–	(149)	(150)
Portfolio impairments	**–**	**–**	**–**	**(235)**	**(70)**
Total	**218 874**	**3 214**	**3 700**	**(916)**	**(526)**

^ *Where a positive number represents a recovery.*

Asset quality trends



Collateral

A summary of total collateral is provided in the table below

	Collateral held against		
R'million	**Core loans and advances**	**Other credit and counterparty exposures***	**Total**
At 31 March 2017			
Eligible financial collateral	**61 395**	**25 020**	**86 415**
Listed shares	59 843	15 674	75 517
Cash	1 552	14	1 566
Debt securities issued by sovereigns	–	9 332	9 332
Property charge	**329 107**	**586**	**329 693**
Residential property	172 166	436	172 602
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	**456 999**	**26 460**	**483 459**
At 31 March 2016			
Eligible financial collateral	**51 748**	**24 555**	**76 303**
Listed shares	50 769	7 905	58 674
Cash	979	22	1 001
Debt securities issued by sovereigns	–	16 628	16 628
Property charge	**283 954**	**587**	**284 541**
Residential property	143 882	482	144 364
Commercial property developments	12 078	105	12 183
Commercial property investments	127 994	–	127 994
Other collateral	**54 733**	**1 354**	**56 087**
Unlisted shares	8 093	–	8 093
Charges other than property	10 940	–	10 940
Debtors, stock and other corporate assets	5 703	–	5 703
Guarantees	20 737	35	20 772
Other	9 260	1 319	10 579
Total collateral	**390 435**	**26 496**	**416 931**

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

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

Investment risk in the banking book

Investment risk description

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

- **Principal Investments:** Investments are selected based on the track record of management, the attractiveness of the industry and the ability to build value for the existing business by implementing an agreed strategy. Investments in listed shares may arise on the IPO of one of our investments. Additionally, listed investments may be considered where we believe that the market is mispricing the value of the underlying security or where there is the opportunity to stimulate corporate activity. Investec Bank Limited holds a 45% stake alongside other strategic investors who hold the remaining 55% in the IEP Group. The investment in the IEP Group is reflected as an investment in an associate. We continue to pursue opportunities to help create and grow black-owned and controlled companies
- **Lending transactions:** The manner in which we structure certain transactions results in equity, warrant and profit shares being held, predominantly within unlisted companies
- **Property activities:** We source development, investment and trading opportunities to create value and trade for profit within agreed risk parameters
- **Central Funding:** Central Funding is the custodian of certain equity and property investments.

Management of investment risk

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

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

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

Valuation and accounting methodologies

For a description of our valuation principles and methodologies refer to pages 185 and 193 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 0.8% of total assets (excluding assurance assets).

Refer to page 185 for further information.

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

For the year to 31 March R'million	Income/(loss) (pre-funding costs) Unrealised°	Realised°	Dividends	Other	Total	Fair value through equity
2017						
Unlisted investments	(126)	100	243	–	217	(2)
Listed equities	(154)	(3)	94	–	(63)	(47)
Investment and trading properties^	(122)	367	–	–	245	–
Warrants, profit shares and other embedded derivatives	(18)	264	–	–	246	–
The IEP Group	–	–	–	303	303	–
Total	**(420)**	**728**	**337**	**303**	**948**	**(49)**
2016						
Unlisted investments	(3 839)	4 951	190	–	1 302	(2)
Listed equities	188	26	77	–	291	(12)
Investment and trading properties^	520	199	–	–	719	–
Warrants, profit shares and other embedded derivatives	(56)	274	–	–	218	–
Total	**(3 187)**	**5 450**	**267**	**–**	**2 530**	**(14)**

° *In a year of realisation, any prior period mark-to-market gains/losses recognised are reversed in the unrealised line item.*
^ *For the purposes of the above analysis, the exposures arising from the consolidation of the Investec Property Fund have been reflected at the level of our economic ownership, being 27.9% in 2017 and 28.6% in 2016.*

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

Summary of investments held and stress testing analyses

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

R'million	On-balance sheet value of investments 2017	Valuation change stress test 2017*	On-balance sheet value of investments 2016	Valuation change stress test 2016*
Unlisted investments**	4 066	610	2 890	433
Listed equities	2 892	723	1 793	448
Investment and trading properties^^	9 087	1 162	9 133	1 113
Warrants, profit shares and other embedded derivatives	221	77	237	83
The IEP Group∞	5 413	812	5 086	763
Total	**21 679**	**3 384**	**19 139**	**2 840**

** *Includes the investment portfolio and non-current assets classified as held-for-sale as per the balance sheet.*
^^ *For the purposes of the above analysis, the exposures arising from the consolidation of the Investec Property Fund have been reflected at the level of our economic ownership, being 27.9% in 2017 and 28.6% in 2016.*
∞ *As explained on page 58.*
* *In order to assess our earnings sensitivity to a movement in the valuation of these investments, the following stress-testing parameters are applied:*

Additional information

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%

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

31 March 2017
R7 179 million

Real estate	33.2%
Mining and resources	21.1%
Manufacturing and commerce	17.2%
Finance and insurance	10.0%
Communication	9.1%
Other	5.7%
Electricity, gas and water (utility service)	3.7%

Stress testing summary

Based on the information at 31 March 2017, as reflected above, we could have a R3.4 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 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 86 for further detail.

Securitisation/ structured credit activities exposures

Overview

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

Refer to page 43 for the balance sheet and credit risk classification.

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

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

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

Total assets that have been originated and securitised by the Private Client division amount to R8.7 billion at 31 March 2017 (31 March 2016: R9.2 billion) and consist of residential mortgages (R8.7 billion). Within these securitisation vehicles loans greater than 90 days in arrears amounted to R14 million.

Further details of the various securitisation vehicles are highlighted below:

- Fox street 1: R0.8 billion notes of the original R1.5 billion are still in issue. No notes are held internally
- Fox Street 2: R0.9 billion notes of the original R1.5 billion are still in issue. R247 million of the notes are held internally
- Fox Street 3: R1.4 billion notes of the original R2.0 billion are still in issue. All notes are held internally
- Fox Street 4: R2.6 billion notes of the original R3.7 billion are still in issue. All notes are held internally
- Fox Street 5: R2.6 billion notes of the original R2.9 billion are still in issue. All notes are held internally.

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

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

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

Accounting policies

Refer to page 162.

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 28.

Credit analysis

In terms of our analysis of our credit and counterparty risk, exposures arising from securitisation/structured credit activities reflect only those exposures to which we consider ourselves to be at risk.

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

Securitisation/structured credit activities exposures

At 31 March Nature of exposure/activity	Exposure 2017 R'million	Exposure 2016 R'million	Balance sheet and credit risk classification	Asset quality – relevant comments
Structured credit (gross exposure)*	1 812	772	Other debt securities and other loans and advances	
Rated	863	772		
Unrated	949	–		
Loans and advances to customers and third party intermediary originating platforms (mortgage loans) (with the potential to be securitised) (net exposure)	310	367	Other loans and advances	
Private Client division assets	8 673	9 238	Own originated loans and advances to customers securitised	Analysed as part of the group's overall asset quality on core loans and advances
Liquidity facilities provided to third party corporate securitisation vehicles	–	15	Off-balance sheet credit exposure as these facilities have remained undrawn and reflect a contingent liability of the bank	

* Analysis of rated and unrated structured credit

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

** A further analysis of rated structured credit investments

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

Market risk in the trading book

Traded market risk description

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

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

Traded market risk governance structure

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

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

Management and measurement of traded market risk

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

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

VaR numbers are monitored daily at the 95% and 99% confidence intervals, with limits set at the 95% confidence interval. ESs are also monitored daily at the 95% and 99% levels as is the worst case loss in the VaR distribution. Scenario analysis considers the impact of a significant market event on our current trading portfolios. Scenario analysis is done at least once a week and is included in the data presented to Review ERRF.

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

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

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

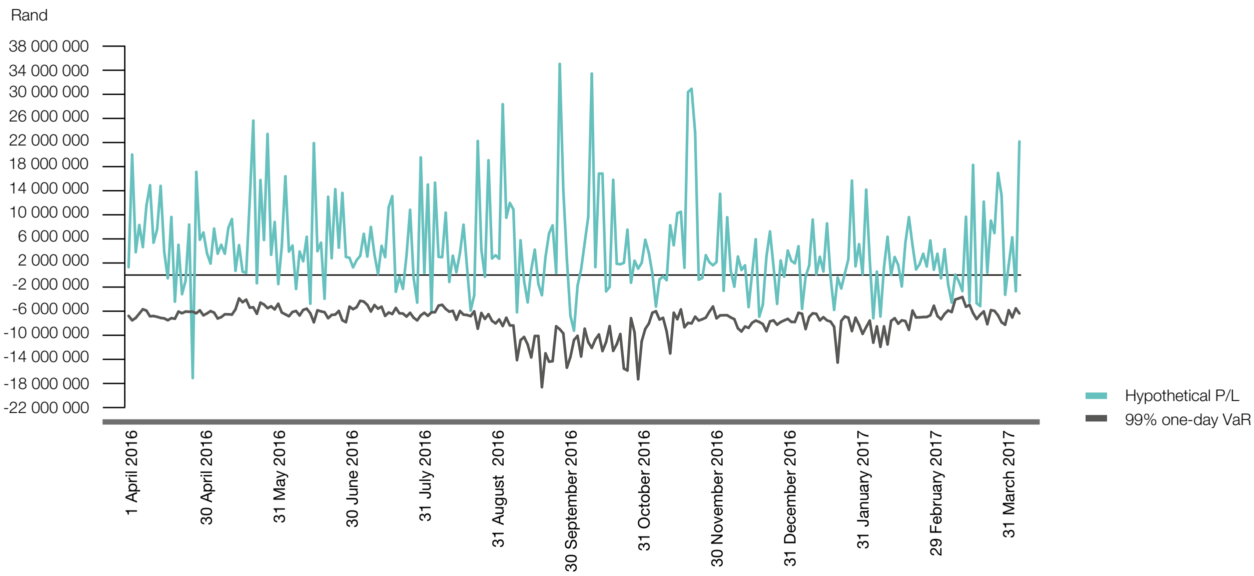
VaR

R'million	31 March 2017 Year end	31 March 2017 Average	31 March 2017 High	31 March 2017 Low	31 March 2016 Year end	31 March 2016 Average	31 March 2016 High	31 March 2016 Low
95% (one-day)								
Commodities	0.1	0.1	0.5	–	0.1	0.1	0.2	–
Equities	2.4	3.6	22.8	1.9	2.6	2.3	5.8	1.2
Foreign exchange	3.7	1.7	5.3	0.9	3.0	2.6	6.4	1.2
Interest rates	0.8	1.6	3.2	0.6	1.1	1.2	3.0	0.5
Consolidated*	**4.5**	**4.2**	**21.8**	**2.1**	**4.8**	**3.9**	**8.5**	**1.8**

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

Average VaR for the year ended March 2017 in the South African trading book was slightly higher than the previous year due to higher VaR utilisation primarily in the equities and interest rate trading desks. Using hypothetical (clean) profit and loss data for backtesting resulted in one exception (as shown in the graph below), which is below the expected number of two to three exceptions that a 99% VaR implies. The exception was due to normal trading losses.

99% one-day VaR backtesting



Expected shortfall

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

R'million For the year to 31 March	2017	2016
Commodities	0.1	0.2
Equities	6.6	6.2
Foreign exchange	4.6	4.4
Interest rates	1.5	1.7
Consolidated*	**7.9**	**8.4**

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

Stress testing

The table below indicates the potential losses that could arise if the portfolio is stress tested under extreme market conditions. The method used is known as extreme value theory (EVT), the reported stress scenario below calculates the 99% EVT which is a 1-in-8 year possible loss event. These numbers do not assume normality but rather rely on modelling the tail of the distribution using a parametric form suitable for extreme moves. In South Africa, average EVT numbers for the year were higher than the previous year due to increased volatility observed during the year.

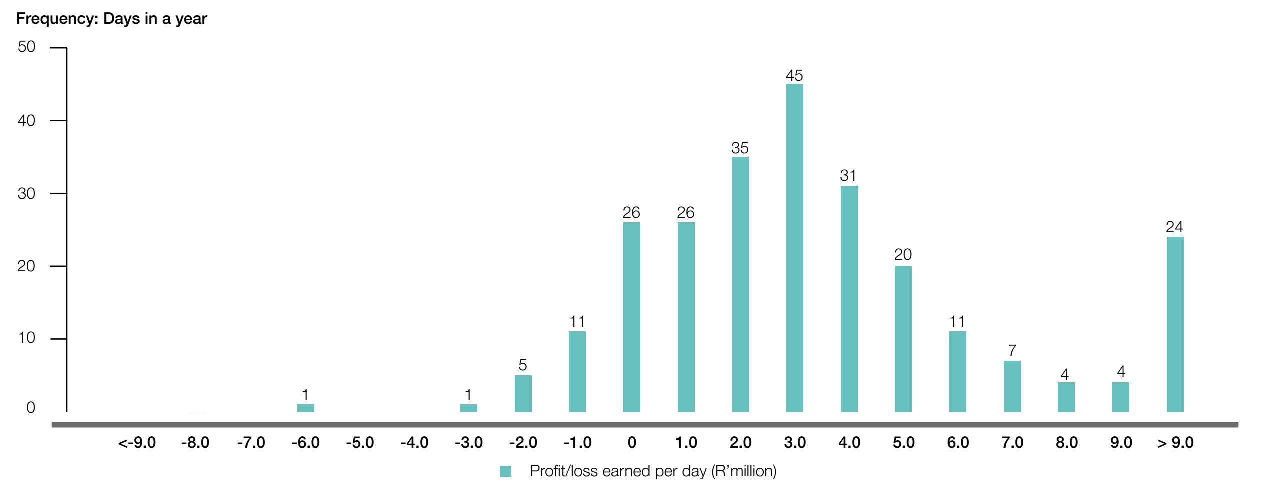
	31 March 2017				31 March 2016
For the year to R'million	Year end	Average	High	Low	Year end
99% (using 99% EVT)					
Commodities	0.2	0.3	2.2	0.1	0.4
Equities	26.6	33.8	98.5	13.7	48.3
Foreign exchange	8.1	7.3	22.5	3.3	11.7
Interest rates	7.7	11.2	22.3	3.7	7.6
Consolidated**	**26.4**	**36.1**	**97.6**	**15.1**	**47.2**

** *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.*

Profit and loss histogram

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

Profit and loss



Traded market risk mitigation

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

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

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

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

Traded market risk year in review

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

Market risk – derivatives

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

Information showing our derivative trading portfolio over the reporting period on the basis of the notional principal and the fair value of all derivatives can be found on page 196.

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

Balance sheet risk management

Balance sheet risk description

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

Balance sheet risk governance structure and risk mitigation

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

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

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

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

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

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

The central treasury, by core geography, directs pricing for all deposit products, establishes and maintains access to stable funds with the appropriate tenor and pricing characteristics, and manages liquid securities and collateral, thus providing prudential management and a flexible response to volatile market conditions.

The Central Treasury functions are the sole interface to the market for both cash and derivative transactions.

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

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

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

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

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

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

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

There is a regular audit of the Balance Sheet Risk Management function, the frequency of which is determined by the independent audit committees.

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

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

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

Liquidity risk

Liquidity risk description

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

Liquidity risk is further broken down into:

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

Sources of liquidity risk include:

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

Management and measurement of liquidity risk

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

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

- The group complies with the BCBS principles for sound liquidity risk management and supervision
- Our liquidity management processes encompass principles set out by the regulatory authorities in each jurisdiction, namely the SARB and BOM
- The risk appetite is clearly defined by the board and each geographic entity must have its own board-approved policies with respect to liquidity risk management
- We maintain a liquidity buffer in the form of unencumbered cash, government or rated securities (typically eligible for repurchase with the central bank), and near cash well in excess of the statutory requirements as protection against unexpected disruptions in cash flows
- Funding is diversified with respect to currency, term, product, client type and counterparty to ensure a satisfactory overall funding mix
- We monitor and evaluate each banking entity's maturity ladder and funding gap (cash flow maturity mismatch) on a 'liquidation', 'going concern' and 'stress' basis
- The balance sheet risk management team independently monitors key daily funding metrics and liquidity ratios to assess potential risks to the liquidity position, which further act as early warning indicators of potential normal market disruption
- The maintenance of sustainable prudent liquidity resources takes precedence over profitability
- The group maintains adequate contingency funding plans designed to protect depositors, creditors and shareholders and maintain market confidence during adverse liquidity conditions.

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

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

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

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

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

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

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

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

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

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

From 1 April 2016 to 31 March 2017 average cash and near cash balances over the period amounted to R125 billion.

We are currently unaware of any circumstances that could significantly detract from our ability to raise funding appropriate to our needs.

The liquidity contingency plans outline extensive early warning indicators, clear lines of communication and decisive crisis response strategies. Early warning indicators span both bank-specific and systemic crises. Rapid response strategies address:

- action plans
- roles and responsibilities
- composition of decision-making bodies involved in liquidity crisis management
- internal and external communications including public relations
- sources of liquidity
- avenues available to access additional liquidity
- supplementary information requirements required to manage liquidity during such an event.

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

Asset encumbrance

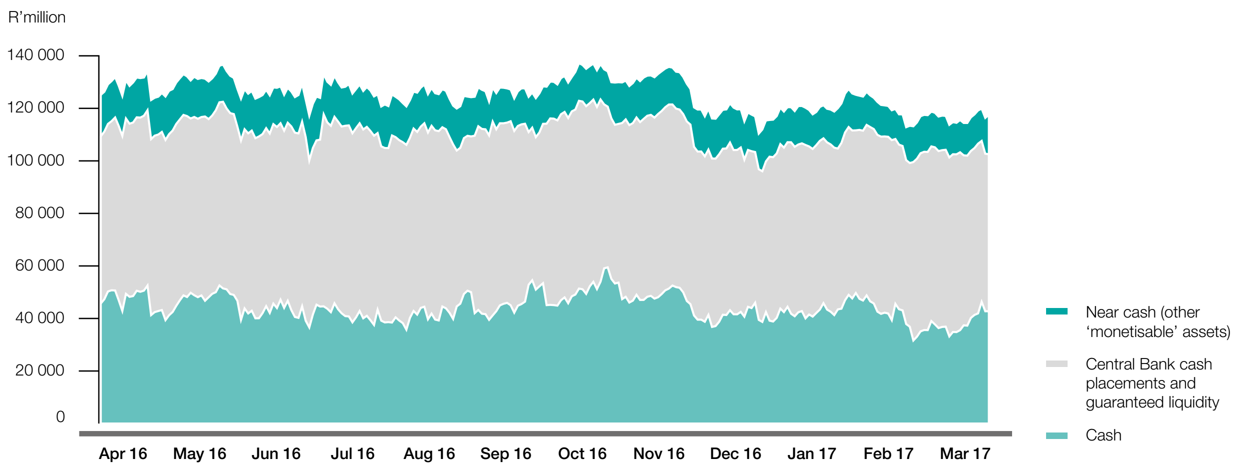
An asset is defined as encumbered if it has been pledged as collateral against an existing liability and, as a result, is no longer available to the group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. An asset is therefore categorised as unencumbered if it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

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

The group uses secured transactions to manage short-term cash and collateral needs. Details of assets pledged through repurchase activity and collateral pledges are reported by line item of the balance sheet on which they are reflected on page 154. Related liabilities are also reported.

On page 194 we disclose further details of assets that have been received as collateral under reverse repurchase agreements and securities borrowing transactions where the assets are allowed to be resold or pledged.

Cash and near cash trend



An analysis of cash and near cash at 31 March 2017

R117 586 million

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

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

R338 903 million

Other financials	41.9%
Non-financial corporates	19.0%
Individuals	16.9%
Banks	10.5%
Public sector	5.9%
Small business	5.8%

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

Liquidity mismatch

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

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

The tables reflect that loans and advances to customers are financed by stable funding sources.

With respect to the contractual liquidity mismatch:

- No assumptions are made except as mentioned below, and we record all assets and liabilities with the underlying contractual maturity as determined by the cash flow profile for each deal
- As an integral part of the broader liquidity generation strategy, we maintain a liquidity buffer in the form of unencumbered cash, government, or rated securities and near cash against both expected and unexpected cash flows
- The actual contractual profile of the assets in the liquidity buffer is of little consequence, as practically the bank would meet any unexpected net cash outflows by repo'ing or selling these securities. We have:
  - set the time horizon to 'on demand' to monetise our statutory liquid assets for which liquidity is guaranteed by the central bank;
  - set the time horizon to one month to monetise our cash and near cash portfolio of 'available-for-sale' discretionary treasury assets, where there are deep secondary markets for this elective asset class; and
  - reported the 'contractual' profile by way of a note to the tables.

With respect to the behavioural liquidity mismatch:

- Behavioural liquidity mismatch tends to display a high probability, low severity liquidity position. Many retail deposits, which are included within customer accounts, are repayable on demand or at short notice on a contractual basis. In practice, these instruments form a stable base for the group's operations and liquidity needs because of the broad base of customers. To this end, behavioural profiling is applied to liabilities with an undefined maturity, as the contractual repayments of many customer accounts are on demand or at short notice but expected cash flows vary significantly from contractual maturity. An internal analysis model is used, based on statistical research of the historical series of products. This is used to identify significant additional sources of structural liquidity in the form of core deposits that exhibit stable behaviour. In addition, reinvestment behaviour, with profile and attrition based on history, is applied to term deposits in the normal course of business.

Contractual liquidity at 31 March 2017

R'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	> Five years	Total
Cash and short-term funds – banks	37 418	2 623	1 736	–	201	1 401	–	43 379
Cash and short-term funds – non-banks	8 855	3	115	20	–	–	–	8 993
Investment/trading assets and statutory liquids	44 517	33 449	5 146	2 005	1 134	37 342	29 904	153 497
Securitised assets	66	9	51	91	159	1 573	6 897	8 846
Advances	5 708	7 776	9 670	12 970	21 550	113 264	56 924	227 862
Other assets	1 783	1 665	124	199	160	3 729	6 599	14 259
Assets	**98 347**	**45 525**	**16 842**	**15 285**	**23 204**	**157 309**	**100 324**	**456 836**
Deposits – banks	(1 988)	(50)	(1 437)	(1 210)	(6 405)	(23 643)	(700)	(35 433)
Deposits – non-banks	(140 376)^	(27 784)	(52 396)	(26 298)	(26 671)	(27 750)	(2 195)	(303 470)
Negotiable paper	(15)	(553)	(48)	(4 421)	(487)	(3 385)	(29)	(8 938)
Securitised liabilities	–	–	–	–	–	–	(1 511)	(1 511)
Investment/trading liabilities	(908)	(13 537)	(756)	(2 201)	(3 471)	(13 190)	(454)	(34 517)
Subordinated liabilities	(638)	–	–	–	–	(4 454)	(8 713)	(13 805)
Other liabilities	(2 673)	(930)	(961)	(450)	(999)	(233)	(6 345)	(12 591)
Liabilities	**(146 598)**	**(42 854)**	**(55 598)**	**(34 580)**	**(38 033)**	**(72 655)**	**(19 947)**	**(410 265)**
Shareholders' funds	**–**	**–**	**–**	**–**	**–**	**(263)**	**(46 308)**	**(46 571)**
Contractual liquidity gap	**(48 251)**	**2 671**	**(38 756)**	**(19 295)**	**(14 829)**	**84 391**	**34 069**	**–**
Cumulative liquidity gap	(48 251)	(45 580)	(84 336)	(103 631)	(118 460)	(34 069)	–	–

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

Behavioural liquidity

As discussed on page 70.

R'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	> Five years	Total
Behavioural liquidity gap	**48 342**	**9 639**	**1 814**	**(7 685)**	**(8 134)**	**(132 630)**	**88 654**	**–**
Cumulative	48 342	57 981	59 795	52 110	43 976	(88 654)	–	–

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

Balance sheet risk year in review

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

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

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

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

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

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

Regulatory considerations – balance sheet risk

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

Two key liquidity measures were defined:

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

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

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

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

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

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

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

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

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

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

Non-trading interest rate risk description

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

Sources of interest rate risk include:

- **Repricing risk:** arises from the timing differences in the fixed rate maturity and floating rate repricing of bank assets, liabilities and off-balance sheet derivative positions. This affects the interest rate margin realised between lending income and borrowing costs when applied to our rate sensitive portfolios
- **Yield curve risk:** repricing mismatches also expose the bank to changes in the slope and shape of the yield curve
- **Basis risk:** arises from imperfect correlation in the adjustments of the rates earned and paid on different instruments with otherwise similar repricing characteristics
- **Embedded option risk:** arises from optional elements embedded in items where the bank or its customers can alter the level and timing of their cash flows
- **Endowment risk:** refers to the interest rate risk exposure arising from the net differential between interest rate insensitive assets, interest rate insensitive liabilities and capital.

The above sources of interest rate risk affect the interest rate margin realised between lending income and borrowing costs, when applied to our rate sensitive asset and liability portfolios, which has a direct effect on future net interest income and the economic value of equity.

Management and measurement of non-trading interest rate risk

Non-trading interest rate risk in the banking book is an inherent consequence of conducting banking activities, and arises from the provision of retail and wholesale (non-trading) banking products and services. The group considers the management of banking margin of importance, and our core non-trading interest rate risk philosophy is reflected in day-to-day practices.

The aim of non-trading interest rate risk management is to protect and enhance net interest income and economic value of equity in accordance with the board-approved risk appetite, and to ensure a high degree of stability of the net interest margin over an interest rate cycle. Non-trading interest rate risk is measured and analysed by utilising standard tools of traditional interest rate repricing mismatch and NPV sensitivity to changes in interest rate risk factors:

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

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

The repricing gap provides a basic representation of the balance sheet, with the sensitivity of earnings to changes to interest rates calculated off the repricing gap. This allows for the detection of interest rate risk by concentration of repricing buckets. Net interest income sensitivity measures the change in accruals expected over the specified horizon in response to a shift in the yield curve, while economic value sensitivity and stress testing to macro-economic movement or changes to the yield curve measures the interest risk implicit change in net worth as a result of a change in interest rates on the current values of financial assets and liabilities. Economic value measures have the advantage that all future cash flows are considered and therefore can highlight risk beyond the earnings horizon.

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

Operationally, daily management of interest rate risk is centralised within the Central Treasury of each geographic entity and is subject to local independent risk and ALCO review. Non-trading interest rate risk is transferred within predefined guidelines from the originating business to the Central Treasury function and aggregated or netted providing Central Treasury with a holistic view of the residual exposure. Central Treasury then implements appropriate balance sheet strategies to achieve a cost-effective source of funding and mitigates any residual undesirable risk where possible, by changing the duration of the banking group's discretionary liquid asset portfolio, or through derivative transactions which transfer the risk into the trading books within the Corporate and Institutional Banking division to be traded with the external market. The Central Treasury mandate allows for a tactical response to market opportunities which may arise during changing interest rate cycles. Any resultant interest rate position is managed under the market risk limits.

Together with the business, the treasurer develops strategies regarding changes in the volume, composition, pricing and interest rate characteristics of assets and liabilities to mitigate the interest rate risk and ensure a high degree of net interest margin stability over an interest rate cycle. These are presented, debated and challenged in the liability product and pricing forum and ALCO.

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

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

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

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

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

Interest rate sensitivity gap

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

R'million	Not > three months	> Three months but < six months	> Six months but < one year	> One year but < five years	> Five years	Non-rate	Total non-trading
Cash and short-term funds – banks	33 562	–	185	–	–	8 170	41 917
Cash and short-term funds – non-banks	8 973	20	–	–	–	–	8 993
Investment/trading assets and statutory liquids	42 194	25 802	6 780	9 959	6 338	42 943	134 016
Securitised assets	8 846	–	–	–	–	–	8 846
Advances	205 042	4 297	1 678	14 382	2 341	122	227 862
Other assets	274	–	–	–	–	12 240	12 514
Assets	**298 891**	**30 119**	**8 643**	**24 341**	**8 679**	**63 475**	**434 148**
Deposits – banks	(33 501)	(980)	(950)	–	–	(2)	(35 433)
Deposits – non-banks	(252 497)	(19 123)	(20 296)	(8 477)	(1 975)	(1 102)	(303 470)
Negotiable paper	(3 820)	(4 377)	(355)	(386)	–	–	(8 938)
Securitised liabilities	(1 508)	–	–	–	–	(3)	(1 511)
Investment/trading liabilities	(1 806)	–	–	–	(100)	(12 535)	(14 441)
Subordinated liabilities	(11 318)	(1 865)	–	(622)	–	–	(13 805)
Other liabilities	(96)	(6)	–	(19)	–	(10 856)	(10 977)
Liabilities	**(304 546)**	**(26 351)**	**(21 601)**	**(9 504)**	**(2 075)**	**(24 498)**	**(388 575)**
Intercompany loans	3 076	3 461	(1 748)	(1 819)	189	588	3 747
Shareholders' funds	(3 126)	–	–	(263)	(2 199)	(40 983)	(46 571)
Balance sheet	**(5 705)**	**7 229**	**(14 706)**	**12 755**	**4 594**	**(1 418)**	**2 749**
Off-balance sheet	(1 013)	(44)	13 497	(9 449)	(5 806)	66	(2 749)
Repricing gap	**(6 718)**	**7 185**	**(1 209)**	**3 306**	**(1 212)**	**(1 352)**	**–**
Cumulative repricing gap	(6 718)	467	(742)	2 564	1 352	–	–

Economic value sensitivity at 31 March 2017

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

	Sensitivity to the following interest rates (expressed in original currencies)						
R'million	**ZAR**	**GBP**	**USD**	**EUR**	**AUD**	**Other (ZAR)**	**All (ZAR)**
200bps down	360.9	2.8	2.3	3.4	(2.5)	1.6	463.2
200bps up	(234.1)	(3.1)	(4.9)	(2.8)	0.7	(1.7)	(386.3)

Operational risk

Operational risk definition

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

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

Operational risk management framework

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

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

The framework is embedded at all levels of the group, supported by the risk culture and enhanced on a continual basis as the discipline matures and in line with regulatory developments.

The operational risk management framework is supported by practices and processes which facilitate the identification, assessment and mitigation of operational risk.

Practices consist of the following:

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

Governance

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

The levels of defence model is applied as follows:

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

Risk tolerance

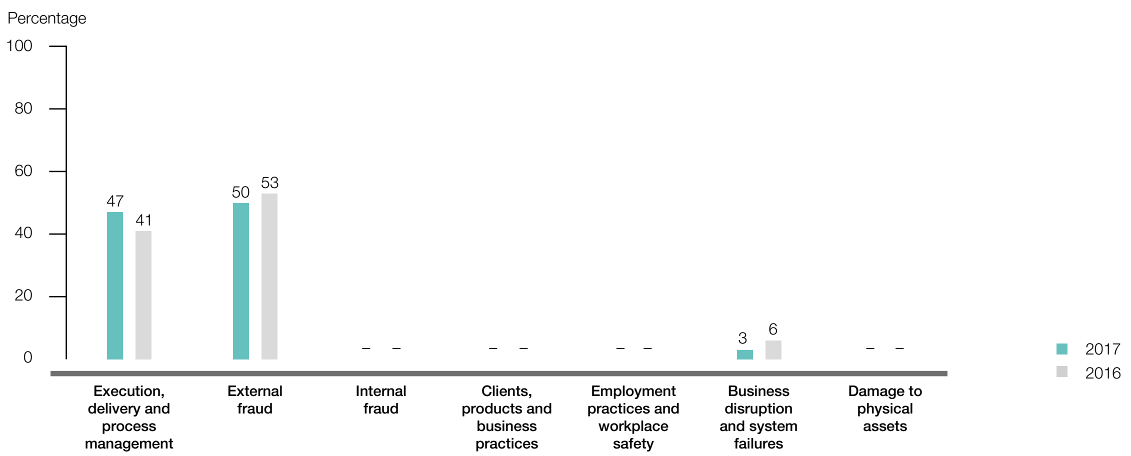
The Operational Risk Tolerance policy defines the amount of operational risk exposure, or potential adverse impact of a risk event, that the group is willing to accept. The objective of the policy is to encourage action and mitigation of risk exposures and provides management with the guidance to respond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

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

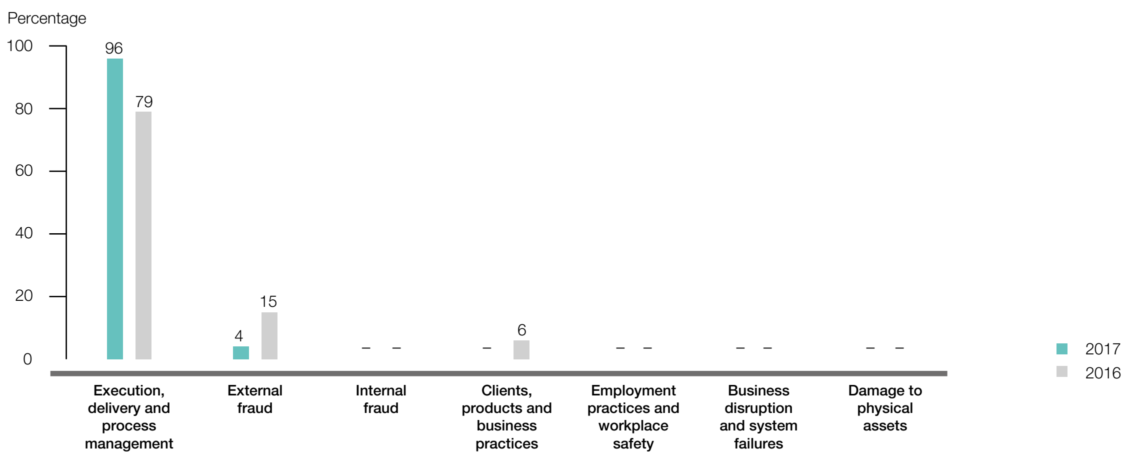
Operational risk year under review

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

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



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



Notes to graphs above:

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

Looking forward

Key operational risk considerations for the year ahead

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

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

Insurance

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

Recovery and resolution planning

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

The recovery plan for Investec Limited:

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

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

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

Reputational and strategic risk

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

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

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

Legal risk management

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

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

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

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

The legal risk policy is implemented through:

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

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

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

Conduct risk

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

Capital management and allocation

Regulatory capital – Investec Bank Limited

Current regulatory framework

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

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

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

Various subsidiaries of Investec 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 prudently above minimum requirements at all times.

Capital targets

Over recent years, capital adequacy standards for banks have been raised as part of attempts to increase the stability and resilience of the global banking sector. Investec 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 SARB regulations. The leverage ratio is a non-risk-based measure intended to prevent excessive build up of leverage and mitigate the risks associated with deleveraging during periods of market uncertainty. The reporting of the leverage ratio in South Africa has been mandatory since 1 January 2013 as part of an exercise to monitor South African banks' readiness to comply with the minimum standard of 4% from 1 January 2018. Following guidance from the SARB, Investec applies the rules as outlined in the most recent BCBS publication.

Leverage ratio target

Investec is currently targeting a leverage ratio above 6%.

Capital management

Philosophy and approach

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

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

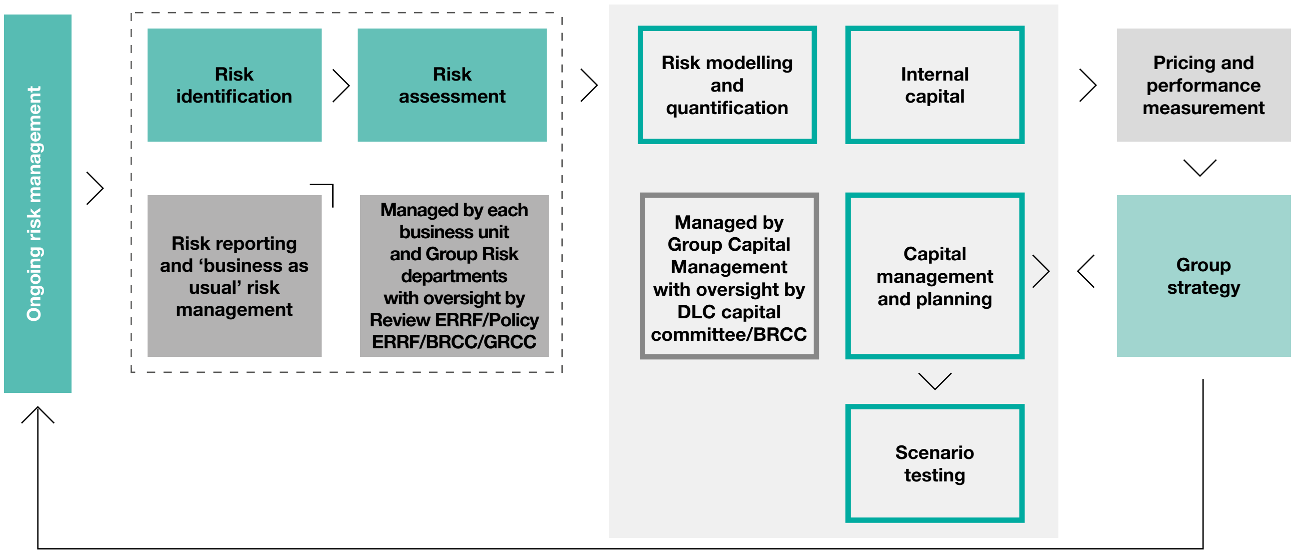
Our internal capital framework is designed to manage and achieve this balance.

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

- Maintain sufficient capital to satisfy the board's risk appetite across all risks faced by the group;
- Provide protection to depositors against losses arising from risks inherent in the business;
- Provide sufficient capital surplus to ensure that the group is able to retain its going concern basis under relatively severe operating conditions.

Risk management framework

The (simplified) integration of risk and capital management



Risk modelling and quantification (internal capital)

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

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

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

Capital planning and stress/ scenario testing

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

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

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

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

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

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

Pricing and performance measurement

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

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

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

Regulatory capital and requirements

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

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

Capital disclosures

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

Capital structure and capital adequacy

Summary information on the terms and conditions of the main features of all capital instruments is provided on pages 211 to 217.

At 31 March 2017	Investec Limited*^ R'million	IBL*^ R'million
Tier 1 capital		
Shareholders' equity	32 317	33 631
Shareholders' equity per balance sheet	35 500	35 165
Perpetual preference share capital and share premium	(3 183)	(1 534)
Non-controlling interests	–	–
Non-controlling interests per balance sheet	8 987	–
Non-controlling interests excluded for regulatory purposes	(8 987)	–
Regulatory adjustments to the accounting basis	900	896
Cash flow hedging reserve	900	896
Deductions	(720)	(679)
Goodwill and intangible assets net of deferred tax	(720)	(679)
Common equity tier 1 capital	**32 497**	**33 848**
Additional tier 1 capital	**2 900**	**767**
Additional tier 1 instruments	5 267	1 534
Phase out of non-qualifying additional tier 1 instruments	(2 359)	(767)
Non-qualifying surplus capital attributable to non-controlling interests	(69)	–
Non-controlling interest in non-banking entities	61	–
Tier 1 capital	**35 397**	**34 615**
Tier 2 capital	**11 153**	**13 501**
Collective impairment allowances	321	321
Tier 2 instruments	13 805	13 180
Phase out of non-qualifying tier 2 instruments	–	–
Non-qualifying surplus capital attributable to non-controlling interests	(2 973)	–
Total regulatory capital	**46 550**	**48 116**
Risk-weighted assets	**329 808**	**313 010**
Capital ratios		
Common equity tier 1 ratio	9.9%	10.8%
Tier 1 ratio	10.7%	11.1%
Total capital adequacy ratio	14.1%	15.4%

* *Where: IBL is Investec Bank Limited. The information for Investec Limited includes the information for IBL.*

^ *Investec Limited's and IBL's capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, Investec Limited's and IBL's common equity tier 1 ratio would be 24bps and 13bps lower respectively.*

Capital structure and capital adequacy *(continued)*

At 31 March 2016	Investec Limited*^ R'million	IBL* R'million
Tier 1 capital		
Shareholders' equity	28 444	30 331
Shareholders' equity per balance sheet	31 627	31 865
Perpetual preference share capital and share premium	(3 183)	(1 534)
Non-controlling interests	–	–
Non-controlling interests per balance sheet	8 140	–
Non-controlling interests excluded for regulatory purposes	(8 140)	–
Regulatory adjustments to the accounting basis	1 842	1 839
Cash flow hedging reserve	1 842	1839
Deductions	(762)	(695)
Goodwill and intangible assets net of deferred tax	(762)	(695)
Common equity tier 1 capital	**29 524**	**31 475**
Additional tier 1 capital	**3 418**	**920**
Additional tier 1 instruments	5 267	1 534
Phase out of non-qualifying additional tier 1 instruments	(1 887)	(614)
Non-qualifying surplus capital attributable to non-controlling interests	(36)	–
Non-controlling interest in non-banking entities	74	–
Tier 1 capital	**32 942**	**32 395**
Tier 2 capital	**10 253**	**10 726**
Collective impairment allowances	229	229
Tier 2 instruments	11 357	10 732
Phase out of non-qualifying tier 2 instruments	(235)	(235)
Non-qualifying surplus capital attributable to non-controlling interests	(1 098)	–
Total regulatory capital	**43 195**	**43 121**
Risk-weighted assets	**309 052**	**295 752**
Capital ratios		
Common equity tier 1 ratio	9.6%	10.6%
Tier 1 ratio	10.7%	11.0%
Total capital adequacy ratio	14.0%	14.6%

* *Where: IBL is Investec Bank Limited. The information for Investec Limited includes the information for IBL.*
^ *Investec Limited's capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, Investec Limited's common equity tier 1 ratio would be 16bps lower.*

Capital requirements

At 31 March 2017	Investec Limited* R'million	IBL* R'million
Capital requirements	**35 454**	**33 649**
Credit risk – prescribed standardised exposure classes	26 008	25 529
Corporates	12 699	12 678
Secured on real estate property	3 102	3 102
Short-term claims on institutions and corporates	8 039	7 850
Retail	566	566
Institutions	623	623
Other exposure classes	751	482
Securitisation exposures	228	228
Equity risk	4 900	4 730
Listed equities	557	500
Unlisted equities	4 343	4 230
Counterparty credit risk	574	574
Credit valuation adjustment risk	195	199
Market risk	500	413
Interest rate	99	99
Foreign exchange	103	103
Commodities	3	3
Equities	295	208
Operational risk – standardised approach	3 277	2 204
At 31 March 2016		
Capital requirements	**32 064**	**30 684**
Credit risk – prescribed standardised exposure classes	23 978	23 603
Corporates	13 402	13 278
Secured on real estate property	2 943	2 943
Short-term claims on institutions and corporates	4 905	4 876
Retail	483	483
Institutions	813	813
Other exposure classes	1 028	806
Securitisation exposures	404	404
Equity risk	4 104	4 005
Listed equities	334	305
Unlisted equities	3 770	3 700
Counterparty credit risk	569	569
Credit valuation adjustment risk	185	185
Market risk	501	475
Interest rate	66	66
Foreign exchange	212	212
Commodities	5	4
Equities	218	193
Operational risk – standardised approach	2 727	1 847

* *Where: IBL is Investec Bank Limited. The information for Investec Limited includes the information for IBL.*

Risk-weighted assets

At 31 March 2017	Investec Limited* R'million	IBL* R'million
Risk-weighted assets	**329 808**	**313 010**
Credit risk – prescribed standardised exposure classes	241 926	237 474
Corporates	118 130	117 944
Secured on real estate property	28 856	28 856
Short-term claims on institutions and corporates	74 784	73 019
Retail	5 261	5 261
Institutions	5 792	5 792
Other exposure classes	6 984	4 483
Securitisation exposures	2 119	2 119
Equity risk	45 583	44 007
Listed equities	5 185	4 654
Unlisted equities	40 398	39 353
Counterparty credit risk	5 344	5 335
Credit valuation adjustment risk	1 817	1 848
Market risk	4 652	3 847
Interest rate	924	924
Foreign exchange	955	955
Commodities	29	29
Equities	2 744	1 939
Operational risk – standardised approach	30 486	20 499
At 31 March 2016		
Risk-weighted assets	**309 052**	**295 752**
Credit risk – prescribed standardised exposure classes	231 113	227 504
Corporates	129 178	127 985
Secured on real estate property	28 361	28 361
Short-term claims on institutions and corporates	47 273	47 001
Retail	4 660	4 660
Institutions	7 838	7 838
Other exposure classes	9 910	7 766
Securitisation exposures	3 893	3 893
Equity risk	39 560	38 603
Listed equities	3 219	2 937
Unlisted equities	36 341	35 666
Counterparty credit risk	5 486	5 486
Credit valuation adjustment risk	1 783	1 783
Market risk	4 825	4 578
Interest rate	636	636
Foreign exchange	2 039	2 039
Commodities	46	46
Equities	2 104	1 857
Operational risk – standardised approach	26 285	17 798

* *Where: IBL is Investec Bank Limited. The information for Investec Limited includes the information for IBL.*

Investec Limited

Movement in risk-weighted assets

Total RWAs grew by 6.7% over the period, with approximately 52% of this growth attributable to credit risk, 29% to equity risk and the remaining risk types contributing the balance.

Credit risk RWAs

For Investec Limited consolidated reporting, we have adopted the standardised approach for calculating credit risk RWAs. Credit risk RWAs grew by R10.8 billion with strong growth across the various businesses, including Corporate and Institutional Banking and Private Client Lending. While a portion of this growth is due to currency movement on foreign-denominated assets, the majority is the result of consistent growth across multiple asset classes, the most noticeable being term and short-dated corporate lending and lending secured by residential real estate. The impact of Basel III and the associated enhancements to the Banks Act by the South African Reserve Bank were implemented in 2013, and there has been minimal change in the methodology governing the calculation of required capital during the 2017 financial year.

Counterparty credit risk and credit valuation adjustment RWAs

Counterparty credit risk RWAs decreased marginally by R142 million, while CVA over the period increased by R34 million. CVA was implemented as part of Basel III in South Africa and captures the risk of deterioration in the credit quality of a bank's OTC derivative counterparties. We currently apply the standardised approach to the calculation of the CVA capital requirement.

Equity risk RWAs

Equity risk grew by approximately R6 billion over the period. The risk weight attributable to equity investments is relatively high, with listed equities attracting an effective 318% and unlisted equities 424%.

The impact of this is a proportionally much larger increase in RWAs than the associated balance sheet equity value. The growth is attributable to new investments and revaluations of existing assets.

Market risk RWAs

Market Risk RWAs are calculated using the Value at Risk (VaR) approach and has shown a decrease, due to market volatility.

Operational risk RWAs

Operational risk is calculated using the standardised approach and is driven by the levels of income over a three-year average period, applying specific factors applicable to the nature of the business generating the income.

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 2017	Investec Limited* R'million	IBL* R'million
Opening common equity tier 1 capital	**29 524**	**31 475**
New capital issues	986	–
Dividends	(2 426)	(1 031)
Profit after taxation	5 064	3 229
Treasury shares	(1 165)	–
Gain on transfer of non-controlling interests	73	–
Share-based payment adjustments	549	–
Movement in other comprehensive income	786	1 104
Goodwill and intangible assets (deduction net of related taxation liability)	42	16
Other, including regulatory adjustments and transitional arrangements	(936)	(945)
Closing common equity tier 1 capital	**32 497**	**33 848**
Opening additional tier 1 capital	**3 418**	**920**
Other, including regulatory adjustments and transitional arrangements	(505)	(153)
Movement in minority interest in non-banking entities	(13)	–
Closing additional tier 1 capital	**2 900**	**767**
Closing tier 1 capital	**35 397**	**34 615**
Opening tier 2 capital	**10 253**	**10 726**
New tier 2 capital issues	4 870	4 870
Redeemed capital	(2 519)	(2 519)
Collective impairment allowances	92	92
Other, including regulatory adjustments and transitional arrangements	(1 543)	332
Closing tier 2 capital	**11 153**	**13 501**
Closing total regulatory capital	**46 550**	**48 116**

* *Where: IBL is Investec Bank Limited. The information for Investec Limited includes the information for IBL.*

Total regulatory capital flow statement *(continued)*

At 31 March 2016	Investec Limited* R'million	IBL* R'million
Opening common equity tier 1 capital	**25 831**	**28 315**
New capital issues	612	–
Dividends	(2 000)	(120)
Profit after taxation	4 996	3 475
Treasury shares	(1 481)	–
Gain on transfer of non-controlling interests	51	–
Share-based payment adjustments	592	–
Movement in other comprehensive income	46	(389)
Goodwill and intangible assets (deduction net of related taxation liability)	(471)	(505)
Other, including regulatory adjustments and transitional arrangements	1 348	699
Closing common equity tier 1 capital	**29 524**	**31 475**
Opening additional tier 1 capital	**4 584**	**1 073**
Other, including regulatory adjustments and transitional arrangements	(447)	(153)
Transfer of non-controlling interest in non-banking entities from common equity tier 1	(719)	–
Closing additional tier 1 capital	**3 418**	**920**
Closing tier 1 capital	**32 942**	**32 395**
Opening tier 2 capital	**9 213**	**10 319**
New tier 2 capital issues	1 985	1 360
Redeemed capital	(1 283)	(1 283)
Collective impairment allowances	60	60
Other, including regulatory adjustments and transitional arrangements	278	270
Closing tier 2 capital	**10 253**	**10 726**
Closing total regulatory capital	**43 195**	**43 121**

A summary of capital adequacy and leverage ratios

At 31 March	Investec Limited*^	IBL*^
2017		
Common equity tier 1 (as reported)	9.9%	10.8%
Common equity tier 1 ('fully loaded')^^	9.9%	10.8%
Tier 1 (as reported)	10.7%	11.1%
Total capital adequacy ratio (as reported)	14.1%	15.4%
Leverage ratio** – permanent capital	7.8%#	7.7%#
Leverage ratio** – current	7.3%#	7.6%#
Leverage ratio** – 'fully loaded'^^	6.8%#	7.4%#
2016		
Common equity tier 1 (as reported)	9.6%	10.6%
Common equity tier 1 ('fully loaded')^^	9.6%	10.6%
Tier 1 (as reported)	10.7%	11.0%
Total capital adequacy ratio (as reported)	14.0%	14.6%
Leverage ratio** – permanent capital	7.4%#	7.4%#
Leverage ratio** – current	6.9%#	7.2%#
Leverage ratio** – 'fully loaded'^^	6.3%#	7.0%#

* *Where: IBL is Investec Bank Limited. The information for Investec Limited includes the information for IBL.*
** *The leverage ratios are calculated on an end-quarter basis.*
# *Based on revised BIS rules.*
^ *Investec Limited's and IBL's capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, Investec Limited's and IBL's common equity tier 1 ratio would be 24bps and 13bps lower respectively. At 31 March 2016, Investec Limited's common equity tier 1 ratio would be 16bps lower.*
^^ *Based on the group's understanding of current and draft regulations, 'fully loaded' is based on Basel III capital requirements as fully phased in by 2022.*

Reconciliation of leverage ratios

At 31 March 2017	Investec Limited R'million^	IBL* R'million^
Total assets per accounting balance sheet	**586 432**	**425 687**
Deconsolidation of non-financial/other entities	(129 596)	–
Consolidation of banking associates	–	–
Total assets per regulatory balance sheet	**456 836**	**425 687**
Reversal of accounting values:		
Derivatives	(9 842)	(9 856)
Securities financing transaction	(30 567)	(26 627)
Regulatory adjustments:	67 348	67 826
Derivatives market value	6 301	6 735
Derivative add-on amounts per the mark-to-market method	3 471	3 471
Securities financing transaction add-on for counterparty credit risk	24 045	24 045
Off-balance sheet items	34 249	34 255
Add-on for written credit derivatives	–	–
Exclusion of items already deducted from the capital measure	(718)	(680)
Exposure measure	**483 775**	**457 030**
Tier 1 capital	35 397	34 615
Leverage ratio – current**	**7.3%#**	**7.6%#**
Tier 1 capital 'fully loaded'	33 108	33 848
Leverage ratio – 'fully loaded'^^**	**6.8%#**	**7.4%#**

At 31 March 2016	Investec Limited R'million^	IBL* R'million^
Total assets per accounting balance sheet	**568 779**	**411 980**
Deconsolidation of non-financial/other entities	(123 540)	–
Consolidation of banking associates	–	–
Total assets per regulatory balance sheet	**445 239**	**411 980**
Reversal of accounting values:		
Derivatives	(15 839)	(15 843)
Regulatory adjustments:	48 622	51 085
Derivatives market value	9 075	9 673
Derivative add-on amounts per the mark-to-market method	3 073	3 197
Securities financing transaction add-on for counterparty credit risk	389	389
Off-balance sheet items	37 595	38 521
Add-on for written credit derivatives	–	–
Exclusion of items already deducted from the capital measure	(1 510)	(695)
Exposure measure	**478 002**	**447 222**
Tier 1 capital	32 942	32 395
Leverage ratio – current**	**6.9%#**	**7.2%#**
Tier 1 capital 'fully loaded'	30 147	31 475
Leverage ratio – 'fully loaded'^^**	**6.3%#**	**7.0%#**

* *Where: IBL is Investec Bank Limited. The information for Limited includes the information for IBL.*
^^ *Based on the group's understanding of current and draft regulations, 'fully loaded' is based on Basel III capital requirements as fully phased in by 2022.*
** *The leverage ratios are calculated on an end-quarter basis.*
# *Based on revised BIS rules.*
^ *Investec Limited's capital information includes unappropriated profits. If unappropriated profits are excluded from the capital information, Investec Limited's common equity tier 1 ratio would be 24bps lower. At 31 March 2016, Investec Limited's common equity tier 1 ratio would be 16bps lower.*

Analysis of rated counterparties in each standardised credit exposure class

The capital requirement disclosed as held against credit risk includes a small amount of capital held for counterparty credit risk, mainly within the group's trading businesses. On the basis of materiality, no detail has been provided on this risk in the following analysis.

The table below shows the exposure amounts associated with the credit quality steps and the relevant risk weightings.

	31 March 2017		31 March 2016	
Credit quality step	**Exposure R'million**	**Exposure after credit risk mitigation R'million**	**Exposure R'million**	**Exposure after credit risk mitigation R'million**
Central banks and sovereigns				
1	46 081	46 032	50 117	50 117
2	–	–	–	–
3	3 619	3 619	626	555
4	–	–	146	146
5	–	–	302	302
6	–	–	–	–
Institutions original effective maturity of more than three months				
1	1 324	1 324	2 111	2 111
2	3 295	2 936	9 890	9 194
3	8 219	7 753	6 369	5 271
4	406	406	222	222
5	–	–	766	766
6	–	–	3 098	3 098
Short-term claims on institutions				
1	2 681	2 681	27	27
2	6 056	6 056	129	129
3	14 653	14 653	13 638	13 581
4	–	–	–	–
5	–	–	–	–
6	–	–	–	–
Corporates				
1	1 486	1 451	882	882
2	2 286	1 389	1 620	915
3	9 629	8 098	18 254	9 927
4	412	331	146	146
5	–	–	–	–
6	–	–	–	–
Securitisation positions				
1	584	584	–	–
2	561	561	126	126
3	506	506	3 494	3 494
4	147	147	65	65
5	–	–	188	188
Total rated counterparty exposure	**101 945**	**98 527**	**112 216**	**101 262**

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 ratings 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 15 June 2017 are as follows:

Rating agency	Investec Limited	Investec Bank Limited – a subsidiary of Investec Limited
Fitch		
Long-term ratings		
Foreign currency	BB+^	BB+^
National		AA(zaf)
Short-term ratings		
Foreign currency	B^	B^
National		F1+(zaf)
Viability rating	bb+^	bb+^
Support rating	5	3
Moody's		
Long-term ratings		
Foreign currency		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.A
Short-term ratings		
Foreign currency		B^
National		za.A-1
Global Credit Ratings		
Local currency		
Long-term rating		AA(za)
Short-term rating		A1+(za)

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

Internal Audit and compliance

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

As a result of the regulatory responsibilities arising from the DLC structure, there are two group Internal Audit departments located in London and Johannesburg, responsible for Investec plc and Investec Limited respectively. In combination, the functions cover all the geographies in which Investec operates. These functions use a global risk-based methodology and cooperate technically and operationally. Investec Bank Limited is served by the Investec Limited Internal Audit department.

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

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

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

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

Compliance

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

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

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

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

Year in review

Changes to the regulatory landscape in South Africa

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

Conduct risk and consumer protection

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

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

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

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

Financial crime

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

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

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

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

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

Tax reporting (FATCA/CRS)

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

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

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

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

Chairman's introduction

Dear Shareholder

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

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

The past year in focus

In an uncertain and volatile world, Investec's culture and values continue to support the organisation in achieving its strategic objectives. Our client focus and entrepreneurial spirit have continued to be front of mind over the past year. The board and management have sought to develop a strategy for the group which is balanced in terms of managing the risks presented in these uncertain times and positioning for future opportunities as they arise.

Strategic initiatives

The board has continued to exercise leadership, integrity and judgement in pursuit of Investec's strategic goals and objectives. In terms of positioning for future opportunities, one area of particular focus has been the digitisation of our product offering. This strategic initiative was discussed and debated at the board's annual strategy session, which was held in February 2017, and remains an ongoing area of discussion at board meetings.

Board effectiveness

The board continues to be committed to regularly evaluating its own effectiveness and that of its committees. The board therefore undertakes an evaluation of its performance and that of its committees and individual directors annually, with independent external input into the process every third year. Given the 2016 effectiveness review was conducted by an independent external facilitator, Professor Rob Goffee, this year the board effectiveness review was internally facilitated. No material issues were identified in this process, however, the findings of Professor Goffee's report continued to provide a useful benchmark for assessing the development of the board in terms of the areas that were identified for improvement. One such area was the bedding down of the board's composition, following the refreshment programme which had been coordinated between 2013 and 2016. Feedback from the 2017 board effectiveness review indicated improved board dynamics and, as such, the refreshment programme will recommence with Peter Thomas stepping down from the board immediately following the annual general meeting on 10 August 2017.

Management succession

The board, working closely with the nominations and directors' affairs committee (nomdac), continues to drive and monitor succession planning. It is vital that there are robust succession plans in place for all key positions throughout the organisation.

Shareholder engagement

During the past year, the board continued its shareholder consultations. The primary focus of these consultations was executive remuneration and succession however, these consultations have also provided an opportunity to discuss governance and business strategy more broadly with shareholders. From a governance perspective, the dialogue centred on the composition of the board, while on remuneration, the discussion related to the appropriate linkage between pay and performance.

Priorities for the year ahead

We approach the year ahead with confidence in our leadership and strategy. With that said, management succession will continue to be an area of focus for the board in the year ahead and more particularly, the ongoing transition of leadership roles within the organisation.

Conclusion

Over the following pages, you will find more detail of our governance framework, including who our 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 hope that this report, together with the strategic report and financial statements will provide you with an overview of how we are managing the group and looking after the interests of our stakeholders.

Fani Titi
Chairman
15 June 2017

Who we are

What we did

How we comply

Who we are

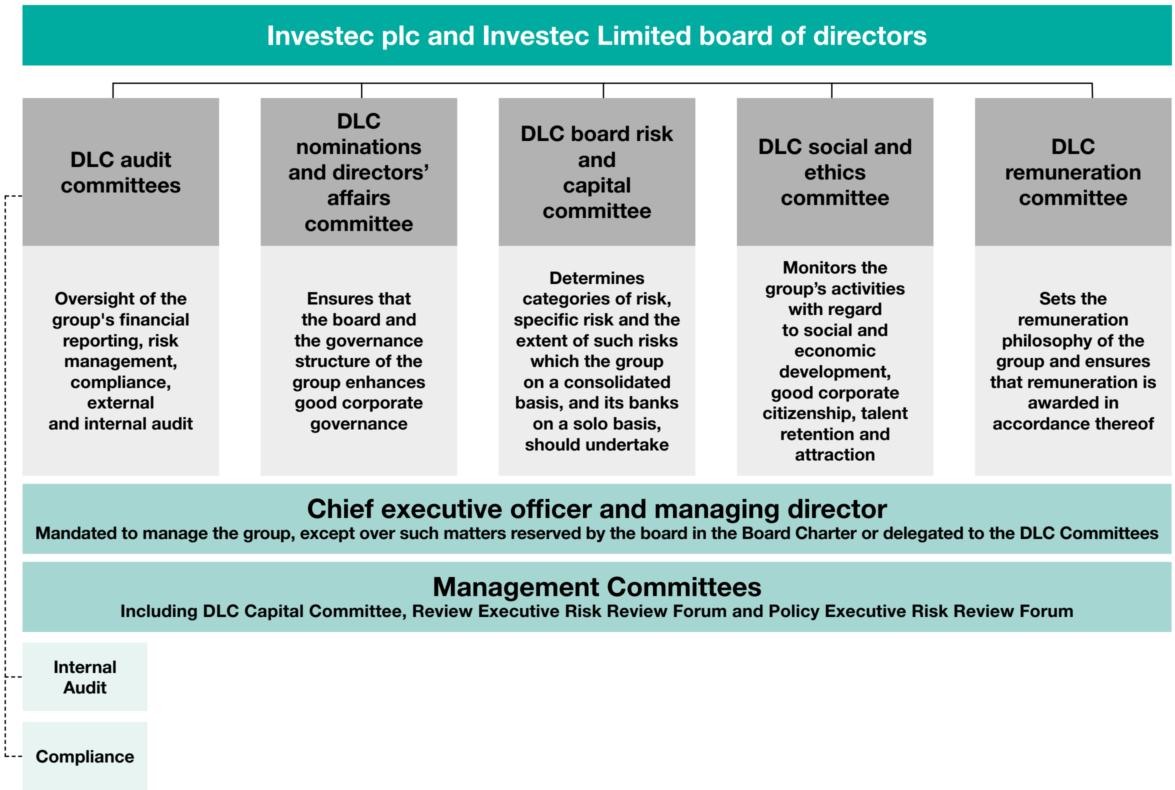
Governance framework

Investec operates under a dual listed company (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, with secondary listings on the Namibia Stock Exchange and the Botswana Stock Exchange.

The boards of Investec plc and Investec Limited are identical in terms of their composition and board meetings are held jointly. The committee structure has been derived from the requirements of the UK Corporate Governance Code and the King III Report on Corporate Governance, as well as the activities of the group.



Board roles

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

Chairman	Chief executive officer and managing director	Group risk and finance director
Fani Titi	*Stephen Koseff and Bernard Kantor*	*Glynn Burger*
• Responsible for setting the board agenda, ensuring that there is sufficient time available for discussion of all items • Encourages open and honest debate between all board directors • Leads and manages the dynamics of the board, providing direction and focus • Ensures that the board sets the strategy of the group and assists in monitoring progress towards achieving the strategy • Performs director evaluations • Serves as the primary interface with regulators and other stakeholders on behalf of the board	• Responsible for leading and managing the group within the authorities delegated by the board • Ensures that the board receives information that is accurate, timely and clear to enable the directors to perform their duties effectively	• Responsible for ensuring that the group's risk management processes are effective • Leads and manages the group finance function • Provides the board with updates on the group's financial performance
Senior independent director	**Non-executive directors**	**Company Secretary**
Perry Crosthwaite	*Zarina Bassa, Laurel Bowden, Cheryl Carolus, David Friedland, Charles Jacobs, Ian Kantor, Lord Malloch-Brown KCMG, Khumo Shuenyane and Peter Thomas*	*Niki van Wyk*
• Available to address any concerns or questions from shareholders and non-executive directors • Provide a sounding board to the chairman • Leads the board in the assessment of the effectiveness of the chairman	• Bring unique perspectives to the boardroom to facilitate constructive debate on proposals • Assist in developing the group's strategy • Monitor the performance of management against their agreed strategic goals • Ensure the effectiveness of internal controls and the integrity of financial reporting • Monitor executive performance	• Responsible for the flow of information to the board and its committees and for ensuring compliance with board procedures • Minute all board and committee meetings to record the deliberations and decisions taken therein • Ensures that the board complies with relevant legislation and regulation, including Listings Requirements

Corporate governance

(continued)

Director biographies

Biographies of our directors are outlined below, including their relevant skills and experience, other principal appointments and any appointments to Investec's DLC committees.

Fani Titi, chairman

Age: 55

Qualifications
BSc (Hons), MA, MBA

Relevant skills and experience
Fani is chairman of Investec Bank Limited, Investec Bank plc, former chairman of Tiso Group Ltd and former deputy chairman of the Bidvest Group.

He is an experienced non-executive director and chairman, having served on the boards of some of South Africa's largest corporates.

Other principal appointments
Investec Asset Management Holdings (Pty) Ltd, Investec Asset Management Ltd, Kumba Iron Ore Ltd (chairman), MRC Media (Pty) Ltd and other 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
Investec Limited and Investec plc 30 January 2004

Stephen Koseff, group chief executive officer

Age: 65

Qualifications
BCom, CA(SA), H Dip 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 Bank Limited, Investec Bank plc and a number of Investec subsidiaries.

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

Date of appointment
Investec Limited 6 October 1986
Investec plc 26 June 2002

Bernard Kantor, managing director

Age: 67

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
Phumelela Gaming and Leisure Ltd, Investec Bank Limited, Investec Bank plc and a number of Investec subsidiaries.

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

Date of appointment
Investec Limited 9 June 1987
Investec plc 19 March 2002

Glynn R Burger, group risk and finance director

Age: 60

Qualifications
BAcc, CA(SA), H Dip 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 Bank Limited and a number of Investec subsidiaries.

Committees
DLC board risk and capital and DLC capital.

Date of appointment
Investec Limited 03 July 2002
Investec plc 03 July 2002

Hendrik J du Toit, Investec Asset Management chief executive officer

Age: 55

Qualifications
BCom Law, BCom (Hons) (cum laude), MCom (cum laude), MPhil (Cambridge)

Relevant skills and experience
After lecturing economics at the University of Stellenbosch, Hendrik joined the Investment division of Old Mutual from where he moved to Investec in 1991 to establish Investec Asset Management.

Other principal appointments
Investec Asset Management Holdings (Pty) Ltd and Investec Asset Management Ltd as well as their subsidiaries. Non-executive Director of Naspers Ltd. Hendrik also serves on the Global Business Commission for Sustainable Development.

Committees
None

Date of appointment
Investec Limited 15 December 2010
Investec plc 15 December 2010

Perry KO Crosthwaite, senior independent director

Age: 68

Qualifications
MA (Hons) in modern languages

Relevant skills and experience
Perry is a former chairman of Investec Investment Banking and Securities.

Other principal appointments
Investec Bank plc, Investec Holdings (Ireland) Ltd (chairman) and Investec Capital and Investments (Ireland) Ltd.

Committees
DLC remuneration (chairman) and DLC nominations and directors' affairs.

Date of appointment
Investec Limited 18 June 2010
Investec plc 18 June 2010

Zarina BM Bassa, independent non-executive director

Age: 53

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 bank's executive committee, with accountability for private banking. She has previously chaired the South African Public Accountants' and the Accounting Standards Board and the South African Auditing Standards Board and has been a member of the JSE GAAP Monitoring Panel.

Other principal appointments
The Financial Services Board, Oceana Group Ltd, Sun International Ltd, Vodacom (Pty) Ltd, Woolworths Holdings Ltd, and a number of Investec subsidiaries.

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

** Appointed as chair on 1 April 2017*

Date of appointment
Investec Limited 1 November 2014
Investec plc 1 November 2014

Laurel C Bowden, independent non-executive director

Age: 52

Relevant skills and experience
Laurel is a partner at 83North (a private equity business), where her areas of focus include internet, enterprise software and fintech. Laurel has over 15 years' investment experience and has led investments in many leading European technology companies, including Just Eat, Qliktech and Hybris (acquired by SAP). She was previously a director at GE Capital in London.

Other principal appointments
Bluevine Capital Inc, Ebury Partners Ltd, iZettle AB, Celonis GMBH, Mirakl SAS, Wonga Group Ltd, MotorK Ltd, Workable Technology Ltd (the majority of these are companies which Laurel serves on as a representative of 83North).

Committees
DLC audit, Investec plc audit and Investec Bank plc audit and Investec Limited and Investec Bank Limited audit.

Date of appointment
Investec Limited 1 January 2015
Investec plc 1 January 2015

Cheryl A Carolus, independent non-executive director

Age: 59

Qualifications
BA (Law), Honorary doctorate in Law

Relevant skills and experience
Cheryl was the South African High Commissioner to London between 1998 and 2001 and was chief executive officer of South African Tourism.

Other principal appointments
De Beers Consolidated Mines Ltd, Gold Fields Ltd (chair), Mercedes-Benz South Africa (Pty) Ltd, WWF South Africa and International, The IQ Business Group (Pty) Ltd, Ponahalo Capital (Pty) Ltd, Investec Asset Management Holdings (Pty) Ltd, Investec Asset Management Ltd, executive chairperson of Peotona Group Holdings (Pty) Ltd (chair) and director of a number of the Peotona group companies and the International Crisis Group.

Committees
DLC social and ethics.

Date of appointment
Investec Limited 18 March 2005
Investec plc 18 March 2005

David Friedland, independent non-executive director

Age: 64

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 KPMG, Cape Town office.

Other principal appointments
Investec Bank Limited, Investec Bank plc, The Foschini Group Ltd, Pick n Pay Stores Ltd and Pres Les (Pty) Ltd.

Committees
DLC audit*, Investec plc and Investec Bank plc audit*, Investec Limited and Investec Bank Limited audit*, DLC board risk and capital (chairman), DLC capital and DLC nominations and directors' affairs.

** David resigned from these committees with effect from 1 April 2017.*

Date of appointment
Investec Limited 1 March 2013
Investec plc 1 March 2013

Charles R Jacobs, independent non-executive director

Age: 50

Qualifications
LLB

Relevant skills and experience
Charles brings to the board a valuable combination of knowledge of the UK regulatory and corporate governance standards, global capital markets and M&A. Charles was elected as chairman and senior partner at the global law firm Linklaters LLP in October 2016, having been appointed a partner in 1999, and has over 26 years of experience of advising companies around the world, including in relation to their legal and regulatory requirements. Charles sits on the board of Fresnillo plc, a FTSE 100 company, and is chairman of their remuneration committee. Charles chairs the Linklaters Partnership Board and holds an LLB from Leicester University.

Other principal appointments
Linklaters LLP and Fresnillo plc (senior independent non-executive director and chairman of the remuneration committee).

Committees
DLC remuneration.

Date of appointment
Investec Limited 8 August 2014
Investec plc 8 August 2014

Ian R Kantor, non-executive director

Age: 70

Qualifications
BSc (Eng), MBA

Relevant skills and experience
Ian is co-founder of Investec, served as the chief executive of Investec Bank Limited until 1985 and was the former chairman of Investec Holdings Ltd. Ian is currently a non-executive director on the boards of Investec Asset Management Holdings (Pty) Ltd and Investec Asset Management Limited.

Other principal appointments
Chairman of Blue Marlin Holdings SA (formerly Insinger de Beaufort Holdings SA (in which Investec Ltd indirectly holds an 8.6% interest) and chairman of the Supervisory Board of Bank Insinger de Beaufort NV.

Committees
None

Date of appointment
Investec Limited 30 July 1980
Investec plc 26 June 2002

Lord Malloch-Brown KCMG, independent non-executive director

Age: 63

Qualifications
BEcon, CA(England & Wales)

Relevant skills and experience
Lord Malloch-Brown is chairman of SGO Corporation Ltd and Senior Advisor to the Eurasia Group, he was UK government minister and member of the cabinet. Lord Malloch-Brown was formerly the deputy secretary-general of the United Nations as well as a vice-president at the World Bank and head of United Nations Development Programme and a journalist at the Economist with wide ranging experience of boards.

Other principal appointments
Seplat Petroleum Development Company plc and Smartmatic Ltd.

Committees
DLC social and ethics.

Date of appointment
Investec Limited 8 August 2014
Investec plc 8 August 2014

Khumo L Shuenyane, independent non-executive director

Age: 46

Qualifications
BEcon, CA(England & Wales)

Relevant skills and experience
Khumo is a partner at Delta Partners, an advisory firm headquartered in Dubai and focused on the telecoms, technology and digital sectors across emerging markets. He also serves on the boards of Investec Bank Limited and Investec Property Fund Ltd. Between 2007 and 2013 Khumo served as Group Chief Mergers & Acquisitions Officer for MTN Group Ltd and was a member of its Group Executive Committee.

Khumo was previously head of Principal Investments at Investec Bank Limited. Prior to taking responsibility for the Principal Investments division in 2005, Khumo was a member of Investec's Corporate Finance division for 7 years.

Prior to joining Investec in 1998 Khumo worked for Arthur Andersen for six years from 1992. He completed his articles during his first three years with the firm in Birmingham, England, qualifying as a member of the Institute of Chartered Accountants in England & Wales in 1995. He subsequently transferred to the firm's Johannesburg office where he worked for a further three years before joining Investec.

Other principal appointments
Investec Life Limited, Investec Specialist Investments (RF) Limited and Investec Property Fund Ltd, Investec Employee Benefits Ltd.

Committees
DLC audit, Investec plc and Investec Bank plc audit, Investec Limited and Investec Bank Limited audit and DLC board risk and capital.

Date of appointment
Investec Limited 8 August 2014
Investec plc 8 August 2014

Peter RS Thomas, independent non-executive director

Age: 72

Qualifications
CA(SA)

Relevant skills and experience
Peter served as the Managing Director of The Unisec Group Ltd. Peter has broad experience in finance and various industrial companies. He also has an extensive background in commercial accounting.

Other principal appointments
Other directorships include: Investec Bank Limited, various Investec subsidiaries, JCI Ltd and various unlisted companies

Committees
DLC audit, Investec plc and Investec Bank plc audit, Investec Limited and Investec Bank Limited audit, DLC nominations and directors' affairs and DLC social and ethics. He is also a member of the audit and risk committees in Mauritius, Australia and the USA.

Date of appointment
Investec Limited 29 June 1981
Investec plc 26 June 2002

Board composition

Independence

- As at 31 March 2017, the board is compliant with Chapter 2, Principle 2.18 of King III in that the majority of non-executive directors are independent.

A summary of the factors the board uses to determine the independence of non-executive directors are detailed below:

Relationships and associations

- Ian Kantor is the brother of Bernard Kantor, Investec's managing director. Ian is also the founder and was previously chief executive officer of Investec. Accordingly, the board concluded that Ian could not be considered independent under King III.
- 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 the Investec account.
- Charles Jacobs is the chairman and senior partner of the global law firm Linklaters LLP, having been appointed on 1 October 2016. Linklaters is currently one of Investec's UK legal advisors. The board concluded that, notwithstanding his association with Linklaters, Charles retains independence of judgement. Selection of legal advisors is not a board matter and is decided at the management level. If any decision were to be made at the board level regarding Linklaters, which has not happened to date, Charles would recuse himself in accordance with the provisions of the relevant Companies Act relating to directors' interests. Where advice is provided by Linklaters to Investec, it is provided by separate Linklaters partners and not Charles. The legal fees paid to Linklaters have not been material either to Linklaters or Investec.

Tenure

The board is also mindful of its responsibility to ensure that there remains an appropriate balance of skills and experience on the board, and it is therefore of the view that the retention of certain members beyond nine years may in certain circumstances be beneficial in ensuring this balance and that orderly succession can take place.

The board follows a thorough process of assessing independence on an annual basis for each director whose tenure exceeds nine years. The board does not believe that the tenure of any of the current non-executive directors interferes with their independence of judgement and their ability to act in Investec's best interest.

Accordingly, the board has concluded that Cheryl Carolus and Peter Thomas, despite having been directors of Investec for nine years or more, retain both financial independence and independence of character and judgement. Peter Thomas will not be standing for reelection at the annual general meeting on 10 August 2017.

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

Attendance at credit

David Friedland and Peter Thomas regularly attend, by invitation, certain credit committees of the group dealing with large exposures requiring sign off by non-executive directors in terms of the delegation of authority. The board considers their attendance at these committees to be desirable in terms of developing an understanding of the day-to-day issues facing the business.

Independence

Chairman	1
Non-independent non-executives	1
Independent non-executive	9
Executives	4

67% of board independent

Balance of non-executive and executive directors:

Pre-2017 AGM

Executive	27%
Non-executive	73%

Post-2017 AGM

Executive	29%
Non-executive	71%

Terms of appointment

On appointment, non-executive directors are provided with a letter of appointment. The letter sets out, among other things, duties, responsibilities and expected time commitments, details of our policy on obtaining independent advice and, where appropriate, details of the board committees of which the non-executive director will be a member. We have an insurance policy that insures directors against liabilities they may incur in carrying out their duties. On the recommendation of the nomdac, non-executive directors will be appointed for an expected term of nine years (three times three-year terms) from the date of their first appointment to the board.

Independent advice

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

Company secretary

Niki van Wyk is the company secretary of Investec Limited. She 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 are a board matter.

In compliance with the JSE Listing 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 Companies Acts and the listings and governance requirements as applicable.

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

Diversity

Age

40 – 50	13%
51 – 60	40%
61 and above	47%

Aspirational target: Per the Hampton-Alexander Review in the UK: Good progress has been made towards the target of 33% female representation by 2020 which continues to be a priority.

Geographical mix:

South Africa	53%
UK	40%
Other	7%

Board gender balance:

Pre-2017 AGM

Male	80%
Female	20%

Post-2017 AGM

Male	79%
Female	21%

Tenure

Average length of service pre-2017 AGM: 11

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

Average length of service post-2017 AGM: 8

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

Pre-2017 AGM: **Average tenure**

0 — 3 years	5
3 — 6 years	1
6 — 9 years	1
9 years plus	4

Post-2017 AGM: **Average tenure**

0 — 3 years	5
3 — 6 years	1
6 — 9 years	1
9 years plus	3

What we did

Board report

Role

The board seeks to exercise leadership, integrity and judgement in pursuit of Investec's strategic goals and objectives to achieve long-term sustainability, growth and prosperity. In fulfilling this objective the board is responsible for:

- Approving the group's strategy
- Acting as a focal point for, and custodian of corporate governance
- Providing effective leadership on an ethical foundation
- Ensuring the group is a responsible corporate citizen
- Being responsible for the governance of risk, including risks associated with information technology
- Ensuring the group complies with the applicable laws and considers adherence to non-binding rules and standards
- Monitoring performance.

The board

Meeting schedule and attendance

The board of Investec Limited meets at least six times annually, excluding the annual two-day board strategy session. Three board meetings were held in the UK and three in South Africa, in line with the requirements of our DLC structure.

Furthermore, during the year ended 31 March 2017, the board of Investec Limited and Investec plc held one additional meeting in the UK and South Africa, respectively. Unscheduled meetings are called as the need arises.
Comprehensive information packs on matters to be considered by the board are provided to directors in advance of the meetings.

How the board spent its time

Strategy formulation and monitoring of implementation	Finance and operations (including monitoring performance, capital and liquidity)	Governance, compliance and risk	Other
25%	50%	20%	5%

Composition

Members throughout the year	Independent	Board member since	Investec Limited & Investec plc (7 meetings in the year) Eligible to attend	Attended
F Titi (Chairman)	On appointment	30 Jan 2004	7	7
ZBM Bassa	Yes	1 Nov 2014	7	7
LC Bowden	Yes	1 Jan 2015	7	5
GR Burger	Executive	3 Jul 2002	7	7
CA Carolus	Yes	18 Mar 2005	7	7
PKO Crosthwaite	Yes	18 Jun 2010	7	7
HJ du Toit	Executive	15 Dec 2010	7	7
D Friedland	Yes	1 Mar 2013	7	7
CR Jacobs	Yes	8 Aug 2014	7	6
B Kantor	Executive	9 Jun 1987	7	7
IR Kantor	No	30 Jul 1980	7	7
S Koseff	Executive	6 Oct 1986	7	7
Lord Malloch-Brown KCMG	Yes	8 Aug 2014	7	7
KL Shuenyane	Yes	8 Aug 2014	7	7
PRS Thomas	Yes	29 Jun 1981	7	7

Other regular attendees

- Head of company secretarial and share schemes

Corporate governance

(continued)

Board activities

Areas of focus	Matter addressed	Role of the board	Conclusions/actions taken
Group strategy	• Group strategy involves setting business objectives, long-range plans and annual budgets	• Formulation of strategy and monitoring its implementation	• Set strategy and deliver value to shareholders and stakeholders • Monitor management activity and performance against targets • Provide constructive challenge to management • Set parameters for promoting and deepening the interest of shareholders
Group compliance		• Receive and review compliance reports	• Confirmation that the group meets all internal and regulatory requirements • Investec Limited continues to cooperate with the Competition Commission Authorities with respect to their investigation into alleged collusion to fix Rand-Dollar trades. The bank has requested further information from the Authorities
Risk		• Receive quarterly reports from BRCC for review and consideration	• Adoption of Group Anti-Money Laundering (AML) and Counter Terrorism Financing (CFT) Policy • Consideration of impact of King IV and the JSE Listing Requirements • Approval of the recovery and resolution plan for South Africa • Consideration and approval of capital plans • Approval of risk appetite
Corporate governance	• Consideration of the independence of Investec plc and Investec Limited's non-executive directors, with particular regard to those directors who had served on the boards for a period longer than nine years	• Considered the independence of the non-executive directors giving regard to the factors that might impact their independence • Considered the directors' contribution at board meetings and whether they in fact demonstrated independent challenge	• Confirmation of the independence of directors of Investec Limited and Investec plc
Leadership		• The board is responsible for ensuring that the policies and behaviours set at board level are effectively communicated and implemented across the group	• Consideration of regular updates by the various committees
Effectiveness	• Reviewed the process for the 2016 board effectiveness evaluation and made suggestions for changes to enhance the process	• Considered the process for the 2017 board effectiveness	• The 2017 board effectiveness review took the form of a self-assessment followed by one on one meetings between the chairman and directors • Amended/added questions regarding Risk and Audit, presentation of projects to the boards, IT and succession planning • The 2017 effectiveness review showed good progress on those issues identified in the independently facilitated 2016 effectiveness review • Topics for directors' development sessions finalised

Board activities

Areas of focus	Matter addressed	Role of the board	Conclusions/actions taken
Remuneration			• Received a report from the Remuneration committee chair at each meeting • Reports covered a variety of topics including regulatory developments pertaining to remuneration
Relations with stakeholders	• Shareholder views on governance and strategy • Relationship with regulators	• Ensure satisfactory dialogue with shareholders • Fostering strong and open relationships with regulators	Noted and discussed the key areas of feedback from shareholders, including feedback relating to: • Board refreshment and succession • Succession planning for the CEO, MD and senior management • Remuneration of executive directors • Regular meetings and open dialogue with regulators
Corporate Citizenship	• Promotion of equality, prevention of unfair discrimination and reduction of corruption • Consider 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 company's advertising, public relations and compliance with consumer protection laws • Labour and employment – the group'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 discusses and monitors the various elements of good corporate citizenship	• The board is satisfied that the Investec group's standing and commitment to the various elements of good corporate citizenship remain in place and was actively enforced • Frequency of social and ethics committee (SEC) meetings amended to quarterly • Approval of revised SEC terms of reference • Employment Equity Forum: Appointment of Cumesh Moodilar as chairman and Melanie Humphries as deputy chairman • Reviewing the annual report with respect to the role Investec plays in society • Establishment by IW&I South Africa of Investec Philanthropy Services: IW&I Educational Trust

Board activities			
Areas of focus	**Matter addressed**	**Role of the board**	**Conclusions/actions taken**
Subsidiary board and committee composition and governance	• Discussion of succession planning including an update on senior management succession • The board received reports on the composition of the key subsidiaries of Investec plc and Investec Limited	• Receive reports from the nomdac at each meeting covering the matters within its delegated authority for review and consideration	• Approved the appointment of Zarina Bassa as chair of the audit committees • Noted changes made to subsidiary boards on the recommendation of nomdac
Financial results	• Consideration of financial results	• Review of financial results • Appointment of sub-committee	• Approval of financial results ended 31 March 2017 for Investec Limited • Approval of financial results for the half year ended 30 September 2016
Liquidity and solvency	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	• Review of discharge of Liquidity and Solvency requirements as required by Section 4 of the South African Companies Act as amended • Approval of dividend policy	• Confirmation that the group was liquid and that the solvency and liquidity test has been satisfied • Confirmation that adequate resources exist to support the group on a going concern basis • Adoption of the going concern concept • Confirmation that regulatory capital information, including a foreseeable dividend amount, will be declared in accordance with the formally approved dividend policy

DLC nominations and directors' affairs committee report

Dear Shareholder

As the chairman of the nomination and director's affairs committee (nomdac), I am pleased to present you with our report.

The key processes of the nomdac are designed to ensure that the board and senior management are comprised of a talented and diverse range of people with the collective skills and experience that are necessary for the group to meet its objectives and strategic goals. This is essential for the effective governance of the group and the successful running of our business.

At Investec, our culture and values are at the core of how we make decisions and how we are governed and the nomdac is always guided by these values. Our detailed recruitment process ensures that those joining the organisation understand our culture, the needs of our clients and our focus on the long-term success of the group. The tone must be set from the top - our most senior people must be able to live and demonstrate our values: distinctive performance, dedicated partnerships, client focus and cast-iron integrity.

Over the following pages we will share with you some key information about the role and functioning of the nomdac. We will explain in more detail the key topics and themes that the nomdac has looked at during the year, and what we hope to focus on in the forthcoming year. Topics will be considered under the following headings:

- Skills, knowledge and experience
- Independence
- Diversity
- Succession
- Subsidiary board composition.

Fani Titi
Chairman, DLC nomdac

15 June 2017

"We embrace differences as a strength within our company"

DLC nomdac

Fani Titi

Chairman of the DLC nomdac

Key achievements in 2016/17

- Succession planning and bedding down of senior executive management appointments in subsidiaries
- Driving governance changes

Areas of focus in 2017/18

- Continue to focus on senior management succession planning
- Continue to implement structured board refreshment programme

How the nomdac works

Role

The nomdac is an essential part of the group's governance framework to which the board has delegated the following key functions:

- Identification and nomination of candidates for board vacancies, as and when they arise
- Evaluation of the adequacy of the group's corporate governance structure
- Maintenance of the board directorship refreshment programme, which addresses succession planning
- Consideration of other key matters relating to the election of directors, including the definition of key board roles, terms of appointment and regular review of the appropriateness of the boards' composition

Composition and meeting frequency

The board has formed the opinion that the nomdac has the appropriate balance of knowledge and skills in order to discharge its duties. In particular, the majority of members are independent non-executive directors and all members have the relevant experience for them to be able to consider the issues that are presented to the committee.

DLC nomdac

Meeting schedule and attendance

In terms of the approved terms of reference for the nomdac, meetings of the committee shall be held at least three times per annum and as and when required on an ad hoc basis.

During the financial year ended 31 March 2017, the committee met on four occasions.

How the committee spent its time

Composition of boards and committees	Succession planning	Corporate governance and review of disclosures	Board effectiveness	Training and development	Other
25%	25%	15%	15%	10%	10%

Composition

Members throughout the year	Committee member since	DLC (4 meetings in the year) Eligible to attend	Attended
F Titi (Chairman)	9 Sept 2010	4	3
PKO Crosthwaite	16 Sept 2014	4	4
D Friedland*	16 Sept 2014	4	4
PRS Thomas	9 Sept 2010	4	4
SE Abrahams**	9 Sept 2010	4	3

* *In principle, it has been agreed that the chairs of the group's key governance committees (audit, board risk and capital and remuneration committees) be appointed to the nomdac. Accordingly, and further to Zarina Bassa's appointment as the Chair of the audit committees, Zarina Bassa was appointed to the nomdac with effect from 1 April 2017.*

** *SE Abrahams represents Investec Bank Limited on nomdac.*

Skills, knowledge and experience

The nomdac continually monitors the composition of the current board and considers what attributes, skills and experience are necessary in order for the board to effectively discharge its responsibilities. The nomdac has overseen the programme of directors' development to ensure that it includes training to keep directors up to speed with the latest relevant developments, including technology and cybersecurity. Additionally, the appointment of Laurel Bowden in 2015 was to ensure that there was strong independent non-executive representation in the technology area. Laurel has significant experience of fintech and involvement with businesses at the leading edge of technology and digital solutions.

Independence

Open and honest debate is part of Investec's culture, and challenge is expected from all employees. Robust independent challenge is a critical component of how the board operates. Investec has always been an organisation that places value on substance over form, and the nomdac therefore considers all relevant circumstances regarding directors' independence. Ultimately, however, its concern is whether directors, in fact, demonstrate independence of character and judgement, and exhibit this in the boardroom by providing challenge to the executive board members.

Tenure is one matter that the nomdac considers when determining independence, and when considering the composition of the board as a whole. The nomdac is mindful that there needs to be a balance resulting from the benefits brought on board by new independent directors, versus retaining individuals with valuable skills, knowledge, experience, and an understanding of Investec's unique culture that has been developed over time. For this reason, Investec has, over a number of years, operated a structured board refreshment programme whereby longer-serving members of the board step down and are replaced with new non-executive directors.

Over the last three years, six directors have retired, and five new directors have been appointed and, as a result, the average tenure for serving directors has reduced considerably. There has been a significant amount of change and previous board effectiveness reviews clearly articulated the need to let these changes settle down before further changes to the composition of the board were made. The nomdac, and the board, are now satisfied that the new members of the board have settled in. Accordingly, the structured board refreshment programme will proceed and Peter Thomas will step down from the board immediately following the annual general meeting on 10 August 2017.

The nomdac continues to challenge and assess the independence and performance of directors, regardless of tenure, however, after nine years' service, non-executive directors are subjected to a rigorous test to establish whether they continue to demonstrate independence of character and judgement. Furthermore, all new appointments of non-executive directors are made for an initial period of three years, and with an expectation, made clear at the outset, that they will be unlikely to serve for a period exceeding nine years.

Diversity

The nomdac, in considering the composition of the board, is mindful of all aspects of diversity. This includes gender, race, skills, experience and knowledge. At Investec we embrace differences as a strength within our company. Having a diverse board is a clear benefit, bringing with it distinct and different outlooks, alternative viewpoints, and challenging mindsets.

With regard to gender diversity, Investec is cognisant of the recommendations of the Hampton-Alexander Review in the UK with regards to the setting of targets for the representation of women on the board, and has an aspirational target of 33% female representation by 2020. However, Investec is a meritocracy, and believes that targets should be achieved without the setting of formal quotas. We therefore recognise the need to create opportunities for talented individuals to move up through the organisation. To assist with this, Investec undertakes a number of diversity initiatives across the organisation and has signed up to the 30% Club which promotes female board representation.

Succession

A further key area of focus for the nomdac has been with regard to succession planning. The nomdac has conducted formal succession appraisals for all key positions, and has continued to ensure that succession plans are in place that will allow the managing director and the chief executive officer to hand over operational responsibilities and leadership of the group to the next generation of leaders.

The nomdac considers succession planning both in terms of ensuring there are named individuals able to step in and provide cover in the event of an immediate vacancy, and in terms of ensuring that the group is increasing the internal pool of talented and skilled individuals by providing opportunities for individuals to develop and grow within the organisation. Investec's approach to succession has been a successful one, the organisation has an excellent track record of developing talent and managing transition, and has never had a situation where it was unable to fill a key management position through internal resources.

Further information about the specific actions of the nomdac during the financial year ended 31 March 2017, is contained within the following table.

Committee activities

Areas of focus	Matter addressed	Role of the committee	Conclusions/actions taken
Succession planning	• Discussion of succession planning including an update on senior management succession	• Received a detailed report from the chief executive and the managing director on the implementation of management succession changes that had taken place since November 2015 • Considered management succession in Investec Bank Limited (new chief executive officer) • Received a forward looking report on future succession	• The committee continually monitors and reviews succession and assesses the success of management changes that have been implemented.
Subsidiary board composition	The board received reports on the composition of the key subsidiaries of Investec Limited, including: • Investec Bank Limited • Investec Wealth & Investment Limited • Investec Securities Limited • Investec Asset Management Limited • Investec Life Limited • IEP Group (Proprietary) Limited formerly Investec Equity Partners (Proprietary) Limited • Investec Bank Mauritius	• Reviewed the composition of each of the key subsidiaries of Investec Limited • Considered any vacancies, new appointments or changes that would enhance the effectiveness of the boards, with particular regard to group oversight and governance of subsidiary companies with due regard to local regulatory or legal requirements and best practice, and ensuring an appropriate level of independent scrutiny at subsidiary level	The following matters were agreed: Investec Bank Limited • Appointment of Nishlan Samujh as an executive director • Consideration and engagement of consultant for the appointment of an additional non-executive director
Corporate governance	• Consideration of the independence of Investec Limited's non-executive directors, with particular regard to those directors who had served on the boards for a period longer than nine years	• Considered the independence of the non-executive directors giving regard to the factors that might impact their independence, and in particular considered the independence of Peter Thomas and Chery Carolus, each of whom had served on the boards for periods exceeding nine years • Considered the directors contribution at board meetings and whether they in fact demonstrated independent challenge	• The committee concluded that it was satisfied that both Cheryl Carolus and Peter Thomas remained independent, and confirmed that they should be regarded as independent non-executive directors
Board diversity	• Considered the target for the representation of women on the board of Investec Limited and confirmed its support of the 33% target recommended by the Hampton-Alexander Review in the UK	• Noted governance requirements that required certain regulated entities to adopt a Board Diversity Policy and a target for female representation on the board	• Adoption of changes to the terms of reference

Committee activities			
Areas of focus	**Matter addressed**	**Role of the committee**	**Conclusions/actions taken**
Board effectiveness	• Reviewed the process for the 2016 board effectiveness evaluation and made suggestions for changes to enhance the process	• Considered the process for the 2017 board effectiveness	• The 2017 board effectiveness review would take the form of a self-assessment followed by one on one meetings between the chairman and directors • Amended/added questions regarding risk and audit, presentation of projects to the boards, IT and succession planning • The 2017 board effectiveness review showed good progress on the issues identified in the independently facilitated review

Looking ahead

The nomdac will continue to focus on how to further develop senior management in order to support our succession plans.

Furthermore, the nomdac will continue to implement its refreshment programme, with careful consideration and challenge around the independence of those directors who have served for longer than nine years. As noted, the nomdac continuously looks forward to the challenges and opportunities that the group will face, and will continue to review the composition of the board to ensure that it is optimally structured to drive forward the strategy that will enable the group to succeed.

The nomdac will continue to focus on the composition of the board with respect to race and gender diversity, especially in light of the new requirements as set out in King IV regarding the adoption of a diversity policy.

DLC social and ethics committee report

Dear Shareholder

As the chairman of this committee, I am pleased to present the report of the social and ethics committee (SEC) and the work done by this committee during the last financial year.

Although the formation of the SEC is a South African legal requirement, given the relevance of its mandate across all jurisdictions, the board has resolved to constitute the SEC to monitor the activities for the Investec group and not just for Investec Limited.

Core to the objectives of the SEC are the values and principles of Investec and the desire to make a meaningful contribution to the world we live in. While our shareholders remain at the forefront of the board's attention, our purpose is not only about driving profits. We strive to be a distinctive and relevant specialist bank and asset manager, demonstrating cast-iron integrity, moral strength and behaviour which promotes trust. Our core values include unselfishly contributing to society, valuing diversity and respecting others. Outstanding, empowered talent, entrepreneurial spirit and regard for the planet are other qualities that align our culture and our approach to responsible business.

Investec's approach is greater than simply complying with the functions of the SEC as set out in the South African Companies Act, 2008, as amended. We care about the world we live in and believe in living in society and not off it. We recognise that economic growth and societal transformation are vital to creating a sustainable future for all the communities in which we operate and that we play a critical role in enabling this.

Over the following pages we will share with you some key information about the role and functioning of the SEC. We will explain in more detail the key themes that the SEC has looked at during the year, such as:

- Social and economic development
- Good corporate citizenship
- Environment, health and public safety
- Consumer relations
- Talent management and labour relations.

Fani Titi
Chairman, DLC SEC Committee

15 June 2017

"Investec lives in society and not off it"

DLC Social and ethics committee

Fani Titi

Chairman of the DLC SEC

Key achievements in 2016/17

- Corporate and Social Investment (CSI) spend of R85.9 million during 2017
- Skills development spend of just under R231 million during 2017
- 115 individuals have graduated on the bursary programme since 2012
- Launched the Promaths bursary fund with R5 million of initial capital allocated by Investec

Areas of focus in 2017/18

- Oversight and coordination of group social, environmental and ethics matters
- Improved communication of the various group environmental, social and ethics efforts
- Intensify our engagement in South African society to support socio-economic development

How the SEC works

Role

Our commitment to sustainability means integrating social, ethical and environmental considerations. For Investec, being a good corporate citizen is about building our businesses to ensure we have a positive impact on the economy and social progress of communities and on the environment, while growing and preserving clients' and stakeholders wealth based on strong relationships and trust. Our corporate citizenship activities are outlined below.

The SEC is an essential part of the group's governance framework to which the board has delegated the monitoring of the group's activities in relation to:

- Social and economic development
- Good corporate citizenship.

Composition and meeting frequency

The nomdac and the board have formed the opinion that the SEC has the appropriate balance of knowledge and skills in order to discharge its duties. In particular, the majority of members are independent non-executive directors and all members have the relevant knowledge and experience for them to be able to consider the issues that are presented to the committee.

DLC Social and ethics committee

Meeting schedule and attendance

In terms of the approved terms of reference for the social and ethics committee, meetings of the committee shall be held quarterly. At a meeting of the committee held on 26 July 2016, the frequency of meetings was discussed and it was agreed that there should be 4 scheduled meetings per annum, although the committee could determine that one of the scheduled meetings could be cancelled.

How the committee spent its time

Employment matters	DLC corporate responsibility	Reputational risk	Policy matters
20%	50%	5%	25%

Composition

Members throughout the year	Committee member since	Eligible to attend (3 meetings in the year)	Attended
F Titi (Chairman)	17 May 2012	3	2
CA Carolus	17 May 2012	3	3
B Kantor	17 May 2012	3	3
S Koseff	17 May 2012	3	3
Lord Malloch-Brown KCMG	8 Aug 2014	3	3
PRS Thomas	17 May 2012	3	3

The composition of the committee is in accordance with the requirements of Section 72(8) of the South African Companies Act, 2008, as amended, and its associated regulations.

Other regular attendees

- Sustainability and strategy
- Head of organisational development
- Head of investor relations
- Head of company secretarial and staff share schemes

Corporate governance

(continued)

Committee activities

Areas of focus	Matter addressed	Role of the committee	Conclusions/actions taken
Social and economic development (including human rights)	Monitoring the group's standing in terms of the goals and purposes of: • The Organisation of Economic Co-Operation and Development (OECD) recommendations regarding corruption	The committee: • ensures that the Investec group and its subsidiaries adhere to the relevant laws in all its jurisdictions	• The committee supports the international agenda to abolish human trafficking, slavery, forced and child labour. • The committee ensures that the group was not complicit in any human rights abuses
Good corporate citizenship	• Refer to page 109 for further details	• The committee discusses and monitors the various elements of good corporate citizenship	• The committee is satisfied that the group's standing and commitment to the various elements of good corporate citizenship remain in place and was actively enforced
The South African Employment Equity Act	• Monitoring Investec Limited and its subsidiaries' compliance with the relevant legislation	The committee: • Monitors progress made against Investec Limited's employment equity plans • Engages with the management of human resources to address challenges around matters such as diversity and employment equity targets • Engages with members of the employment equity forum • Monitors and reviews diversity across the group and considers any regulatory developments in this regard	• The committee is satisfied that the group does take the appropriate measures in order to comply with the relevant legislation
The South African Broad-Based Black Economic Empowerment Act	• Monitoring Investec Limited and its subsidiaries' compliance with the relevant legislation	The committee: • Monitors Investec Limited's empowerment rating and discuss with management how to improve the rating • Receives and reviews detailed information on recent developments with respect the Department of Trade and Industry Codes and the Financial Sector Charter and the scorecards going forward	• The committee is satisfied that the group does take the appropriate measures in order to comply with the legislation

Committee activities

Areas of focus	Matter addressed	Role of the committee	Conclusions/actions taken
Contribution to the development of communities	• Monitoring Investec Limited and its subsidiaries' activities in contributing to the development of the communities in which its activities are predominantly conducted or within which its products and services are predominantly marketed	• The committee receives regular reports on the group's corporate and social investment initiatives as well as the strategy and spend in respect thereof	• The committee ensures that the Investec group contributes to the development of communities
Talent retention and attraction of employees	• Investing in learning and development opportunities for employees as well as individuals outside of the workplace	• The committee receives regular reports on the learning opportunities and development of employees and others outside of the workplace	• The committee notes that the Investec group is heavily involved in secondary and tertiary education of the community as well as the development of employees
Culture and ethics	• Investec's core values include unselfishly contributing to society, valuing diversity and respecting others	• The committee receives regular reports on the group's activities in respect of programmes offered to enhance its core values	• The committee is satisfied that the Investec group's core values have a positive impact on the success and well-being of local communities, the environment and on overall macro-economic stability
Reporting to shareholders	• Reporting to shareholders on matters within its mandate	• The committee reports to the shareholders on its activities on an annual basis by means of the annual reports and at the annual general meeting of both companies	• The committee ensures that it complies with this function
Advising the board on matters within its mandate	• By advising the board of directors of any relevant matter within its mandate as the occasion requires	• A report is made/tabled at the combined board meeting of Investec Limited	• The committee ensures that the board is aware of relevant matters within its mandate which could impact the Investec group's reputation

Audit committee report

Dear Shareholder

We are pleased to present you with the report of the DLC audit committee, the Investec plc and Investec Bank plc audit committee (the PLC audit committee) and the Investec Limited and Investec Bank Limited audit committee (the INL audit committee) for the financial year ended 31 March 2017. For the purposes of this report, the term audit committees will be used to refer to the DLC audit committee, PLC audit committee and INL audit committee combined.

Over the following pages we will share with you some key information about the role and functioning of Investec's audit committees within the DLC structure. In addition to outlining the audit committees' structure, we have included some insight into how decisions are made and where judgement needs to be applied to the significant issues addressed by the audit committees during the year. Information has been provided under the following headings, which align to the key functions of the audit committees:

- Financial reporting
- External audit
- Internal controls.

Committee performance

The audit committees' performance was considered as part of the board effectiveness process that was conducted during 2016. This process did not identify any areas of concern about the functioning of the audit committees.

Role of the chair

The role of the chairman of the audit committees requires regular meetings with the Heads of internal audit, as well as the lead external audit partner and senior management outside of formal committee meetings in order to maintain and develop an understanding of the group's operations and risks facing the business. These interactions are an essential part of the role of the chairman of the audit committees, as it provides an additional layer of assurance to gain comfort that these control functions are aligned in terms of their understanding of the risks facing the business and mitigation thereof.

With effect from 1 April 2017, the role of chairman of the audit committees transitioned between us; from David Friedland to Zarina Bassa. This change will result in the audit committees and the board risk and capital committee (BRCC) being chaired by different independent non-executive directors. Whilst these committees have met all legal and regulatory requirements from a composition and independence perspective to date, this change is viewed as providing an additional layer of independence between these committees. It is essential that there are some synergies in membership, as such, the audit committees and BRCC will continue to have some common membership given the nature of the matters discussed by these committees. For that reason, the BRCC will continue to be chaired by David and Zarina will continue to be a member.

As part of the handover, we met on several occasions to discuss the role of chairman of the audit committees. Given that Zarina has been a member of the audit committees since 2014, she is already aware of the issues known to the audit committees, as well as how the meetings are currently conducted. We also met with the external audit partner and key members of Investec's internal control functions, including internal audit, finance and compliance as part of the handover. Zarina is also an experienced audit committee chairman and the board has every confidence that Zarina is well equipped to lead the audit committees in an effective manner going forward.

"Investec's robust governance framework is supported by its open and honest culture which helps to ensure any issues are escalated in a timely manner"

DLC audit committee

David Friedland
Chairman of the DLC audit committee until 31 March 2017

Zarina Bassa
Chairman of the DLC audit committee from 1 April 2017

Key achievements in 2016/17

- Implementation of whistle-blowing hotline

Areas of focus in 2017/18

- IT risk and cybersecurity
- Business continuity
- Implementation of IFRS 9
- Implementation of King IV
- Conduct

Looking ahead

In the year ahead, IT risk and cybersecurity will continue to be key focus areas of the audit committees. We are acutely aware of the threats posed by these areas and, as such, have sought more reporting on these topics, which have become a significant portion of the audit committees' agendas over recent years. The audit committees will spend time on the implementation of King IV, IFRS 9 and issues relating to conduct.

David Friedland
Former chairman, audit committees

15 June 2017

Zarina Bassa
Chairman, audit committees

15 June 2017

How the audit committees work

Role

The audit committees are an essential part of the group's governance framework to which the board has delegated the following key functions:

- oversight of the group's financial reporting process and risks
- managing the relationship with the group's external auditor
- reviewing the group's internal controls and assurance processes, including that of internal audit.

Structure of the audit committees

In terms of Investec's DLC structure, the Investec plc board has mandated authority to the PLC audit committee and the Investec Limited board has mandated authority to the INL audit committee to be the audit committees for those respective companies and their subsidiaries.

A DLC audit committee, which has responsibility for audit-related matters that are common to both Investec plc and Investec Limited, has also been formed. In particular, the combined group financial statements and year-end and interim results are considered and recommended for approval to the board by the DLC audit committee.

Composition and meeting frequency

To ensure continuity across the matters considered by the audit committees, the membership of the audit committees are identical. All of the members are independent non-executive directors, whose continuing independence is assessed annually by the nomdac, who in turn make a recommendation on the members' independence to the board. The nomdac and board have formed the opinion that the audit committees have the appropriate balance of knowledge and skills in order for them to discharge their duties. In particular, a majority of the members are chartered accountants and all members have relevant commercial experience in order for them to effectively consider the issues that are presented to the committees.

Audit committee reporting lines

Investec Limited board of directors

DLC audit committee

Responsible for matters that are common to the PLC and INL audit committee, including the combined group financial statements and results announcements, review of the independence and effectiveness of the external audit function, review of the going concern concept, group viability statement, review of the finance function and finance director

Investec Limited and Investec Bank Limited audit committee

Responsible for all legal and regulatory requirements as necessary under South African legislation and listing rules – including King III

Subsidiaries and audit sub-committees

Assurance functions, including group compliance, group legal, group finance, tax, internal audit, external audit and group risk

Audit committees

Meeting schedule and attendance

During the financial year ended 31 March 2017, the DLC, PLC and INL audit committees each met four times, resulting in 12 meetings in aggregate.

How the committees spent their time

DLC

Financial reporting	External audit matters	Risk management and internal controls	Other (including governance matters)
60%	25%	10%	5%

INL

Financial reporting	External audit matters	Internal audit matters	Risk management and internal controls (including BCP, IT risk and cybersecurity)	Other (including macro issues and reports from subsidiary committees)
25%	25%	25%	15%	10%

The agenda and meeting schedule for the audit committees' meetings was such that the PLC and INL audit committees spent more of their time throughout the annual cycle obtaining the assurance of internal control and compliance functions, which in turn allows the DLC audit committee to focus on the items which are within its mandate, including consideration of the financial statements and assessment of the external auditor.

Composition

Members throughout the year	Committee member since	DLC (4 meetings in the year)		INL (4 meetings in the year)	
		Eligible to attend	Attended	Eligible to attend	Attended
D Friedland	1 Mar 2013	4	4	4	4
ZBM Bassa	1 Nov 2014	4	4	4	4
LC Bowden	1 Jan 2015	4	3	4	3
K Shuenyane	8 Aug 2014	4	4	4	4
PRS Thomas	17 May 2006	4	4	4	4

Other regular attendees

- DLC board chairman
- 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
- Head of finance
- External auditors
- Head of company secretarial and share schemes

Financial reporting

Process

The audit committees' primary responsibility in relation to the group's financial reporting is to review with both management and the external auditor the appropriateness and accuracy of the half-year and financial statements.

In this process, amongst other matters, the audit committees consider:

- the appropriateness of accounting policies and practices and any areas of judgement
- significant issues that have been discussed with the external auditor
- the clarity of disclosures and compliance with financial reporting standards and other relevant financial and governance reporting requirements.

The audit committees receive reports from group finance and external audit at each of their quarterly meetings. The committee meetings afford the non-executive directors the opportunity to discuss with management the key areas of judgement applied and significant issues disclosed in the financial statements.

Areas of judgement and significant issues

The audit committees have assessed whether suitable accounting policies have been adopted and whether management has made appropriate judgements and estimates. The main areas of judgement that have been considered by the audit committees to ensure that appropriate rigour has been applied are outlined below. All accounting policies can be found on pages 159 to 167.

Significant judgements and issues	Committee review and conclusion
Impairments • Determining the appropriateness of impairment losses requires the group to make assumptions based on management judgement.	• The committee challenged the level of provisions made and the assumptions used to calculate the impairment provisions held by the group including assessing impairment experience against forecasts. Particular focus was given to the legacy portfolio and exposures which are affected by the current macroeconomic environment. • Certain members of the audit committee attend the BRCC where impairment provisions are also challenged at a more granular level. The BRCC has oversight of the governance process pertaining to impairments. • The committee was satisfied that the impairment provisions were appropriate.
Valuations • The group exercises judgement in the valuation of complex/ illiquid financial instruments, unlisted investments and embedded derivatives, particularly the level 3 instruments within the portfolio.	• Material individual positions, in particular the unlisted private equity investments, are challenged and debated by the committees with the most material noted as standing agenda items for each of the audit committees throughout the year. • We debated the portfolio valuation adjustment which was recorded to take into account macroeconomic risks on the South African private equity portfolio. • At the year end, prior to the audit committee meetings the audit committee chair met with management and received a presentation on the material investments across the group including an analysis of the key judgements and assumptions used. • The audit committee approved the valuation adjustments proposed by management for the year to 31 March 2017.

Going concern

One of the key roles of the DLC audit committee is to review the going concern concept as presented by management and, if appropriate, make the necessary recommendation to the boards in this regard.

Whilst the liquidity and solvency of the Investec group is closely monitored on a daily basis by relevant individuals in the group's risk management division, the DLC audit committee and board expressly consider the assumptions underlying the going concern of the Investec group as part of the financial statement process. The following areas are considered in order to make this statement:

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

For the year ended 31 March 2017, the DLC audit committee recommended to the board that, based on its knowledge of the group, key processes in operation and enquiries, it is reasonable for the financial statements to be prepared on a going concern basis.

Fair, balanced and understandable

At the request of the board, the DLC audit committee has considered whether, in its opinion, the annual report and financial statements for the year ended 31 March 2017 is fair, balanced and understandable, and whether it provides the information necessary for shareholders to assess the group's position and performance, business model and strategy.

In forming its opinion, the DLC audit committee has:

- Met with senior management to gain assurance that the processes underlying the compilation of the financial statements were appropriate
- Conducted an in-depth, critical review of the financial statements and, where necessary, requested amendments to disclosure.

As such, the DLC audit committee has formed the view that the annual report and financial statements for the year ended 31 March 2017 is fair, balanced and understandable.

External audit

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

Auditor appointment

Investec's external auditors at the DLC level are Ernst & Young LLP and Ernst & Young Inc. (Ernst & Young). Ernst & Young Inc. and KPMG Inc. are joint auditors of the Investec Limited silo and Ernst & Young LLP are the auditors of the Investec plc silo. Ernst & Young have been the group's auditors since Investec's listing on the London Stock Exchange in 2002.

The DLC audit committee considers the reappointment of the external auditors each year before making a recommendation to the board and shareholders. It assesses the independence of the external auditors on an ongoing basis.

Working with the external auditor

The audit committees meet 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 committees chairman.

The audit committees evaluated the effectiveness of the auditors which, amongst other things, assessed the audit partners, audit team and audit approach (planning and execution), during their presentations at audit committee meetings and ad hoc meetings held with the auditors throughout the year. Senior finance function executives also provided feedback to the audit committees.

Independence and objectivity

The DLC audit committee considers the reappointment of the external auditors each year before making a recommendation to the board and shareholders. It assesses the independence of the external auditors on an ongoing basis. The external auditors are required to rotate the lead audit partner every five years and other senior audit staff every seven years. Partners and senior staff associated with the Investec audit may only be employed by the group after a cooling off period. The lead partners commenced their five-year rotation in 2016 and 2017.

Although Ernst & Young has been the group's auditors since 2002, we continue to believe that partner rotation, limitations on non-audit services including pre-approval of non-audit work and the confirmation of the independence of both Ernst & Young and the audit team are adequate safeguards to ensure that the audit process is both objective and effective.

Non-audit services

The audit committees have adopted a policy on the engagement of the external auditors to provide non-audit services. This policy, designed to safeguard auditor objectivity and independence, includes guidelines on permitted and non-permitted services and on services requiring specific approval by the audit committees.

The audit committees review whether the level of non-audit fees could impact the independence of the auditors. This is monitored by reference to the level of fees paid for services, excluding services which are required to be provided by the external auditors due to their office, against the fees paid for the audit of the group. Total audit fees paid to all auditors for the year ended 31 March 2017 were £10.5 million (2016: £8.4 million), of which £1.6 million (2016: £1.8 million) related to the provision of non-audit services.

Internal controls

The INL audit committee has responsibility for assessing the adequacy of the group's internal controls. To fulfil this responsibility, the INL audit committee receives regular reports from risk management, compliance and internal audit including a written opinion from internal audit on the risk management framework, internal controls and internal financial controls. Outlined below are some of the key areas of focus of the INL audit committee over the past year in terms of the ongoing assessment of the adequacy of the group's internal controls.

Internal audit

In 2015, Grant Thornton were engaged to complete an external review on the effectiveness of the internal audit function. A recommendation of this review was to streamline the internal audit process and, in particular, reduce the number of lower level reviews. Since then, this has been a focus area for internal audit and an area of discussion at INL audit committee meetings. During the course of this year, challenge at committee meetings has centred on getting this balance right in terms of the number of audits, given the risk profile of business' activities. Delivery of the internal audit plan has been another key area of focus by the INL audit committee. Monitoring the completion of overdue audit findings and the resourcing of the internal audit function has also been addressed.

Risk management

The PLC and INL audit committees receive regular reports from operational risk, information technology and compliance. During the course of the year, key topics that have been discussed and debated by the INL audit committees have been:

Whistle-blowing
Oversight of the selection of an appropriate provider for Investec's whistle-blowing reporting line
Information cybersecurity
Received and discussed the findings of a follow-up targeted attack simulation that was performed on Investec by an external provider
Regulatory compliance
Review and monitoring of results of regulatory compliance reviews

Board risk and capital committee report

Dear Shareholder

As the Chairman of the board risk and capital committee (the BRCC), during the financial year ended 31 March 2017, I am pleased to present you with our report.

The role of the committee is to review, on behalf of the board, management recommendations on a range of risks facing the business. We perform this function by considering the risk reports presented and question that either no management action is required or that existing actions taken by management following discussion are appropriate.

The year under review presented a number of emerging economic and political risks. Investec Limited continued to make progress on the move towards the Advanced Internal Ratings Based (AIRB) approach in order to measure credit risk. The committee was actively involved in reviewing the various models of the AIRB project and special meetings were held where the various models were presented to the committee for approval. Subject to regulatory approval, the completion of the AIRB project is due in 2018 and is expected to have a positive impact on Investec Limited's capital ratios. Apart from the special meetings held to approve specific models, the committee regularly reviewed progress made on the timelines indicated in the AIRB project plan. Furthermore, the committee reviewed and approved the capital plans for Investec Limited.

As a committee, we gained comfort in the fact that a detailed review of the risk appetite limits was conducted by the executive in policy executive risk review committee (Policy ERRF), who recommended the risk appetite limits to the committee for approval. We reviewed the risk appetite limits and challenged the assumptions contained therein.

Reporting to the committee focuses on the key risk disciplines of credit, operational, legal, conduct, reputational, capital, liquidity, market risk and cybersecurity. However, due to the dynamic nature of the business environment in which Investec operates, the committee is flexible to consider other matters of relevance as they arise. For example, the committee requested a number of ad hoc reports in order to adequately assess risks that are due to once off events.

At each board meeting, I report on the key matters discussed at the committee.

Committee performance

The committee's performance was considered as part of the DLC board effectiveness process that was conducted during 2016. This process did not identify any areas of concern about the functioning of the committee.

Role of the Chair

During the year, I met regularly with the heads of risk, as well as heads of the risk disciplines outside of formal committee meetings in order to maintain and develop my understanding of the group's operations and risks facing the business. As with my role as audit committee chairman, I believe that these interactions are an essential part of the role of the chairman, as it provides an additional layer of assurance to help me gain comfort that these risks that are reported to the committee accurately reflect the risks facing the business.

With effect from 1 April 2017, Zarina Bassa took over the role of audit committee chairman from me. This change will result in the DLC audit committee and BRCC being chaired by different independent non-executive directors. Whilst these committees have met all legal and regulatory requirements from a composition and independence perspective to date, this change is viewed as providing an additional layer of independence between these committees. It is essential that there are some synergies in membership, as such, the DLC audit committee and BRCC will continue to have some common members. For that reason, I will continue to chair the BRCC, of which Zarina will continue to be a member.

Looking forward

In the year ahead, the committee will continue to focus on matters related to information security, cybercrime and risks associated with the fast pace of regulatory change faced by the business and assessing the impact of external factors on the group's risk profile. Progress made towards to the AIRB project deadline will also be a regular agenda item.

David Friedland
Chairman, DLC BRCC

15 June 2017

"We believe that robust risk management systems and processes are in place to support the group strategy"

DLC board risk and capital committee

David Friedland
Chairman of the BRCC

Key achievements in 2016/17

- Review of successful targeted attack simulations to mitigate cybercrime risk
- Monitoring of progress of the AIRB project

Areas of focus in 2017/18

- Monitoring and continued mitigation of risks related to cybercrime and information security
- Progress towards the implementation of the AIRB approach

How the BRCC works

Role

The BRCC is an essential part of the group's governance framework to which the board have delegated the monitoring of the group's activities in relation to a number of risks and capital management.

Composition and meeting frequency

The nomdac and the board have formed the opinion that the BRCC has the appropriate balance of knowledge and skills in order to discharge its duties. In particular, the majority of members are independent non-executive directors and all members have the relevant knowledge and experience for them to be able to consider the issues that are presented to the committee.

BRCC

Meeting schedule and attendance

BRCC meets at least six times every year. During the year ended 31 March 2017, the BRCC met nine times.

How the committee spent its time

Balance sheet risk	Credit risk	Market risk	Capital	Other (Including legal, operational, group insurance, conduct risk business continuity, cybercrime and IT)
20%	20%	10%	25%	25%

Composition

Members throughout the year	Committee member since	Eligible to attend	Attended (9 meetings in the year)
D Friedland (Chairman)	Sept 2013	9	9
SE Abrahams	Mar 2011	9	8
ZBM Bassa	Nov 2014	9	8
GR Burger	Sept 2013	9	9
H Fukuda	Sept 2013	9	8
B Kantor	Mar 2011	9	4
S Koseff	Mar 2011	9	9
KL Shuenyane	Jan 2015	9	9
B Stevenson	Sept 2016	3	1
F Titi	Mar 2011	9	8
PRS Thomas	Mar 2011	9	7

Other regular attendees

- Group compliance head – Investec Limited
- Chief risk officer – Investec Limited
- Chief risk officer – Investec plc
- Investec Asset Management COO
- Investor relations
- Global head of governance and compliance
- CFO Private Bank – Investec Limited (for AIRB meetings)
- AIRB project representative (for AIRB meetings)

Committee activities

Areas of focus	Matter addressed	Role of the committee	Conclusions/actions taken
Recovery and resolution plan	• Annual review of the recovery and resolution plans	• Questioned the contents of the recovery and resolution plans which address how the board and management will recover from extreme financial stress to avoid liquidity and capital difficulties in Investec Limited	• The committee gained comfort that adequate plans had been put in place for a scenario where Investec Limited was required to recover from extreme financial stress
Operational risk	• Exposure to any instance where there is potential or actual impact to the group resulting from failed internal processes, people, systems, or from external events	• Monitored the 12-month rolling losses due to operational risk events against the internal risk appetite limit • Monitored losses from single events to the internal risk appetite limit for the largest loss from a single event • Reviewed the overall operational risk rating for Investec Limited in accordance with the operational risk tolerance policy • Discussed risk appetite breaches, in particular the remedial action taken to mitigate the risk events • Reviewed significant risk exposures and interrogated the way in which management was addressing these	• The committee gained comfort that operational risks were appropriately identified and managed within acceptable levels
Capital	• The progress/plan to achieving required regulatory and internal targets and capital and leverage ratios	• Measured key capital ratios against the internal and regulatory limits and what actions management planned to meet these ratios/limits • Reviewed impending regulations on the management of capital	• The committee satisfied itself that Investec Limited was adequately capitalised and that progress was being made towards achieving impending regulatory amendments to capital ratios
Market risk	• Market risk capital requirements	• Monitored risk appetite breaches and challenged management action which addressed these breaches	• The committee gained comfort that it addressed breaches to limits appropriately
Credit and counterparty risk	• Risk of an obligor failing to meet the terms of any agreement	• Monitored the risk appetite limit and queried management action taken in respective of breaches	• The committee challenged the effectiveness of the management of such risks within the business
Reputational risk	• Risk of damage to our reputation, name or brand	• Monitored events which could potentially create reputational risk and addressed and ensured that appropriate corporate governance practices, which require that activities, processes and decisions are based on a carefully considered principle	• The committee gained comfort that reputational risk was mitigated as much as possible through detailed processes and governance escalation procedures from business units to the board, and from regular, clear communication with all stakeholders
Conduct risk	• Risk that detriment caused to the bank, its customers, its counterparties or the market as a result of inappropriate execution of business activities	• The committee reviewed and questioned the conduct risk report which is discussed at each meeting	• The committee challenged the effectiveness of the management of such risks within the business

Committee activities

Areas of focus	Matter addressed	Role of the committee	Conclusions/actions taken
Balance sheet risk	• Financial risks relating to our asset and liability portfolios, comprising market liquidity, funding, concentration, non-trading interest rate and foreign exchange, encumbrance and leverage risks	• The committee reviewed a report which highlights bank activity, exposures and key measures against thresholds and limits	• The committee challenged the effectiveness of the management of such risks within the business
Business continuity risk	• Strategy to be able to function in the event of a disaster	• The committee reviewed, challenged and debated reports which highlight processes in place to manage this risk	• The committee challenged the effectiveness of the management of such risk within the business
Cybercrime risk	• Cybercrime risk is the risk the group is exposed to by criminal activities carried out by means of computers or the internet	• Regular reports were received regarding the cybercrime landscape, including lessons learnt from external cyberattacks • Received the targeted attack simulation results and ensured that any remediation required was completed	• The committee gained comfort that the management of cybercrime was given the necessary priority

Board remuneration committee report

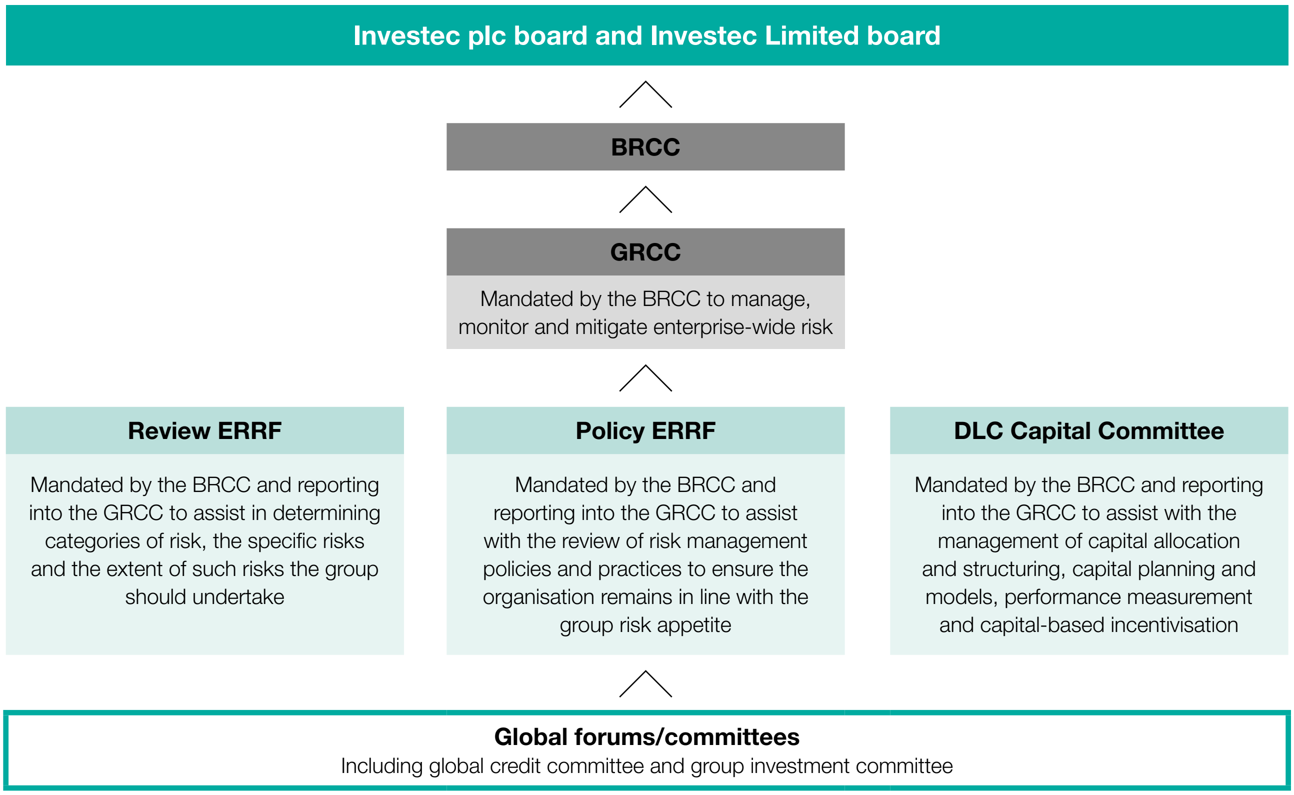
For information on the decisions taken by the board remuneration committee, refer to the remuneration report contained in Investec's 2017 integrated report.

Management committees

A number of management committees have been established to support management in their governance of the group. In particular, four key committees have been established to assist with the management and monitoring of the risks facing the group. These are the:

- Group risk and capital committee (GRCC)
- Review executive risk review forum (Review ERRF)
- Policy executive risk review forum (Policy ERRF)
- DLC capital committee.

Each of these committees have been established by the BRCC and the reporting line back into the board is outlined below, as well as the division of responsibilities.



How we comply

Regulatory context

Investec operates under a dual listed company (DLC) structure which requires compliance with the principles contained in the South African King III Code of Corporate Governance Principle (available at www.iodsa.co.za) and the September 2014 edition of the UK Corporate Governance Code (available at www.frc.org.uk).

We believe that sound corporate governance depends on much more than mere compliance with regulations. Good conduct and ethical practice is embedded in everything that we do at Investec. By acting in accordance with our values and principles, we believe that good governance is ensured.

Statement of compliance

King III

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

A more detailed analysis of Investec's compliance with King III is available on the Investec website (www.investec.com).

Any changes required to our governance processes as a result of King IV will be made during the course of the year ahead and reported against in next year's annual report.

Other statutory information

Conflict of interest

Certain statutory duties with respect to directors' conflict of interest are in force under the South African Companies Act 2008, as amended. In accordance with this Act and the Memorandum of Incorporation (MOI) of Investec Limited, the board may authorise any matter that otherwise may involve the directors breaching their duty to avoid conflicts of interest. The board has adopted a procedure, as set out in the Articles and MOI that includes a requirement for directors to submit, in writing, disclosures detailing any actual or potential conflict for consideration, and if considered appropriate, approval.

Dealings in securities

Dealings in securities are subject to the personal account dealing policy. The policy is based on regulatory guidance and industry practice and is updated to ensure compliance with applicable regulations and industry best practice.

The policy is designed to discourage speculative trading and highlight potential conflicts of interest between the interest of employees and the Investec group or any of its clients, shareholders or potential shareholders.

The South African Companies Act requires directors to disclose any direct or indirect material interest they have in contracts, including proposed contracts, which are of significance to the company's business. Directors are required to make these disclosures at board meetings, and all disclosures made are recorded in the minutes of that meeting.

Staff are required to undertake not to use any personal hedging strategies to lessen the impact of a reduction in value of any share award or any vested shares which are subject to a retention period following any vesting date. Any breach of this condition will result in the lapse of any unvested proportion of such reward, unless the DLC remuneration committee determines otherwise.

Directors' dealings

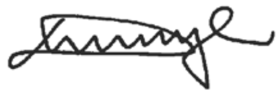
Directors' dealings in the securities of Investec Limited are subject to a policy based on the JSE Listing Requirements.

All directors' and company secretary dealings require the prior approval of the Compliance division and the chairman, the senior independent director or the chairman of the audit committee.

All dealings of persons discharging management responsibilities require approval by line management, the compliance division and the chairman.

Report to shareholders

This report to shareholders has been approved and authorised for issue to the shareholders and Investec Limited on 15 June 2017 and signed on its behalf by:



Niki van Wyk
Company secretary

Investec Limited

Shareholder analysis

Investec ordinary shares

As at 31 March 2017 Investec Limited had 301.2 million ordinary shares in issue.

Spread of ordinary shareholders as at 31 March 2017

Investec Limited ordinary shares in issue

Number of shareholders	Holdings	% of total shareholders	Number of shares in issue	% of issued share capital
4 073	1 – 500	46.3%	781 921	0.3%
1 395	501 – 1 000	15.9%	1 079 755	0.4%
1 797	1 001 – 5 000	20.5%	4 108 380	1.4%
424	5 001 – 10 000	4.8%	3 110 267	1.0%
642	10 001 – 50 000	7.3%	15 163 456	5.0%
170	50 001 – 100 000	1.9%	11 851 907	3.9%
291	100 001 and over	3.3%	265 069 488	88.0%
8 792		**100.0%**	**301 165 174**	**100.0%**

Geographical holding by beneficial ordinary share owner as at 31 March 2017

Investec Limited	
South Africa	**62.4%**
UK	**7.0%**
USA and Canada	**15.2%**
Rest of Europe	**1.6%**
Asia	**2.5%**
Other countries and unknown	**11.3%**

Largest ordinary shareholders as at 31 March 2017

In accordance with the terms provided for in section 56 of the South African Companies Act, 2008, as amended, the group has conducted investigations into the registered holders of its ordinary shares (including nominee and asset management companies) and the results are as discussed below.

Investec Limited

Shareholder analysis by manager group	Number of shares	% holding
1. Public Investment Corporation (ZA)	35 213 851	11.7%
2. Allan Gray (ZA)	27 504 421	9.1%
3. Investec Staff Share Schemes (ZA)	25 444 842	8.4%
4. Old Mutual (ZA)	15 960 095	5.3%
5. Sanlam Group (ZA)	12 460 194	4.1%
6. BlackRock Inc (UK and US)	11 382 316	3.8%
7. Coronation Fund Mgrs (ZA)	9 772 984	3.2%
8. Dimensional Fund Advisors (UK)	9 666 468	3.2%
9. The Vanguard Group, Inc (UK and US)	9 582 111	3.2%
10. AQR Capital Mgt (US)	7 172 136	2.4%
	164 159 418	**54.4%**

The top 10 shareholders account for 54.4% of the total shareholding in Investec Limited. This information is based on a threshold of 20 000 shares. Some major fund managers hold additional shares below this, which may cause the above figures to be marginally understated.

Shareholder classification as at 31 March 2017

	Number of Investec Limited shares	% holding
Public*	271 253 292	90.1%
Non-public	29 911 882	9.9%
Non-executive directors of Investec Limited	325	–
Executive directors of Investec Limited	4 466 715	1.5%
Investec staff share schemes	25 444 842	8.4%
Total	**301 165 174**	**100.0%**

* *As per the JSE Listings Requirements.*

Share statistics

Investec Limited

For the period ended	31 March 2017	31 March 2016	31 March 2015	31 March 2014	31 March 2013	31 March 2012	31 March 2011
Closing market price per share (Rands)							
– Year ended	91.46	109.91	100.51	84.84	64.26	47.16	52.80
– Highest	112.11	121.90	107.35	85.04	69.89	57.36	65.50
– Lowest	81.46	93.91	86.02	59.00	41.31	42.00	49.49
Number of ordinary shares in issue (million)**	301.2	291.4	285.7	282.9	279.6	276.0	272.8
Market capitalisation (R'million)**	87 646	99 886	90 388	75 652	56 857	41 232	42 768
Market capitalisation (£'million)**	5 213	4 662	5 045	4 325	4 061	3 340	3 872
Daily average volume of shares traded ('000)	1 149	963	739	810	980	1 033	794

** *The JSE Limited have agreed to use the total number of shares in issue for the combined group, comprising Investec plc and Investec Limited in calculating market capitalisation, i.e. a total of 958.3 million shares in issue.*

Investec preference shares

Investec Limited and Investec Bank Limited have issued preference shares. Share statistics

Spread of preference shareholders as at 31 March 2017

Investec Limited perpetual preference shareholders

Number of shareholders	Holdings	% of total shareholders	Number of preference shares in issue	% of issued preference share capital
997	1 – 500	18.1%	314 391	1.0%
1 269	501 – 1000	23.0%	1 057 576	3.3%
2 391	1001 – 5000	43.4%	5 594 966	17.4%
417	5001 – 10000	7.6%	2 976 741	9.1%
359	10001 – 50000	6.5%	7 043 281	21.9%
41	50001 – 100000	0.8%	2 922 170	9.1%
33	100001 and over	0.6%	12 305 374	38.2%
5 507		**100.0%**	**32 214 499**	**100.0%**

Investec Limited redeemable preference shareholders

Number of shareholders	Holdings	% of total shareholders	Number of preference shares in issue	% of issued preference share capital
47	1 – 500	53.3%	5 667	2.2%
7	501 – 1000	8.0%	6 118	2.3%
21	1001 – 5000	23.9%	50 366	19.2%
5	5001 – 10000	5.7%	39 176	14.9%
7	10001 – 50000	8.0%	108 625	41.3%
1	50001 – 100000	1.1%	52 930	20.1%
–	100001 and over	–	–	–
88		**100.0%**	**262 882**	**100.0%**

Investec Bank Limited perpetual preference shareholders

Number of shareholders	Holdings	% of total shareholders	Number of preference shares in issue	% of issued preference share capital
822	1 – 500	21.7%	241 829	1.6%
1 000	501 – 1000	26.5%	864 466	5.6%
1 491	1001 – 5000	39.5%	3 518 175	22.8%
226	5001 – 10000	6.0%	1 660 149	10.7%
199	10001 – 50000	5.3%	3 767 392	24.4%
21	50001 – 100000	0.6%	1 546 013	10.0%
16	100001 and over	0.4%	3 849 606	24.9%
3 775		**100.0%**	**15 447 630**	**100.0%**

Investec Bank Limited redeemable preference shareholders

Number of shareholders	Holdings	% of total shareholders	Number of preference shares in issue	% of issued preference share capital
903	1 – 500	90.9%	122 475	35.8%
52	501 – 1000	5.2%	35 140	10.3%
27	1001 – 5000	2.7%	47 510	13.9%
5	5001 – 10000	0.5%	30 819	9.0%
6	10001 – 50000	0.6%	105 773	31.0%
0	50001 – 100000	0.0%	–	0.0%
0	100001 and over	0.0%	–	0.0%
993		**100.0%**	**341 717**	**100.0%**

Largest preference shareholders as at 31 March 2017

Shareholders holding beneficial interests in excess of 5% of the issued preference shares are as follows:

Investec Limited perpetual preference shares
Standard Chartered Bank – Coronation Strategic Income fund 5.2%

Investec Limited redeemable preference shares
Private individual 5.8%
Private individual 6.7%
Private individual 11.9%
Private individual 11.9%

Investec Bank Limited perpetual preference shares
There were no shareholders holding beneficial interests in excess of 5% of the issued preference shares in Investec Bank Limited, as at 31 March 2017.

Investec Bank Limited redeemable preference shares
Investec Securities Pty Ltd 6.6%
Private individual 6.8%
Private corporate 5.9%

Building trust and credibility among our stakeholders is vital to good business

The board recognises that effective communication is integral in building stakeholder value and is committed to providing meaningful, transparent, timely and accurate financial and non-financial information to primary stakeholders as defined below. The purpose is to help these stakeholders make meaningful assessments and informed investment decisions about the group.

We endeavour to present a balanced and understandable assessment of our position by addressing material matters of significant interest and concern. We seek to highlight the key risks to which we consider ourselves exposed and our responses to minimise the impact of these risks. Another objective is to show a balance between the positive and negative aspects of our activities in order to achieve a comprehensive and fair account of our performance.

As a requirement of our DLC structure, we comply with the disclosure obligations contained in the applicable listing rules of the UK Listing Authority (UKLA) and Johannesburg Stock Exchange (JSE) and other exchanges on which our shares are listed, and with any public disclosure obligations as required by the UK regulators and the South African Reserve Bank (SARB). We also recognise that from time to time we may be required to adhere to public disclosure obligations in other countries where we have operations.

The Investor Relations division has a day-to-day responsibility for ensuring appropriate communication with stakeholders and, together with the Group Finance and Company Secretarial divisions, ensures that we meet our public disclosure obligations.

We have a board-approved policy statement in place to ensure that we comply with all relevant public disclosure obligations and uphold the board's communication and disclosure philosophy.

Employees

- Communication policy
- Quarterly magazine (*Impact*)
- Staff updates hosted by executive management
- Group and subsidiary fact sheets
- Tailored internal investor relations training
- Induction training for new employees

Government and regulatory bodies

- Active participation in policy forums
- Response and engagement on regulatory matters
- Industry consultative bodies

Suppliers

- Centralised negotiation process
- *Ad hoc* procurement questionnaires requesting information on suppliers' environmental, social and ethical policies

Media

- Regular email and telephonic communication
- Stock exchange announcements
- Comprehensive investor relations website
- Regular meetings with investor relations team and executive management

Investors and shareholders

- Annual general meeting
- Four investor presentations
- Stock exchange announcements
- Comprehensive investor relations website
- Shareholder roadshows and presentations
- Regular meetings with investor relations team and executive management
- Regular email and telephonic communication
- Annual and interim reports

Clients

- Four investor presentations
- Regular email and telephonic communication
- Comprehensive investor relations website
- Tailored client presentations
- Annual and interim reports
- Client relationship managers within the business

Rating agencies

- Four investor presentations
- Regular email and telephonic communication
- Comprehensive investor relations website
- Regular meetings with investor relations team, group risk management and executive management
- Tailored presentations
- Tailored rating agency booklet
- Annual and interim reports

Equity and debt analysts

- Four investor presentations
- Stock exchange announcements
- Comprehensive investor relations website
- Regular meetings with investor relations team and executive management
- Regular email and telephonic communication
- Annual and interim reports

Corporate responsibility business practices

Our corporate responsibility philosophy

Guided by our purpose to create sustained long-term wealth, we seek to be a positive influence in all our core businesses and in each of the societies in which we operate. We do this by empowering communities through entrepreneurship and education, and leveraging the value in our diversity. We recognise the challenges that climate change presents to the global economy and we will consider supporting any meaningful activity that either reduces the negative impact on or prolongs the life of our planet.

Investec as a responsible corporate citizen

At Investec we recognise that, while our shareholders remain at the forefront, our purpose ultimately is not only about driving profits. We strive to be a distinctive specialist bank and asset manager, demonstrating cast-iron integrity, moral strength and behaviour which promotes trust. Our core values include unselfishly contributing to society, valuing diversity and respecting others. Outstanding and empowered talent, entrepreneurial spirit and regard for the planet are other qualities that align with the culture of our organisation and our approach to responsible business.

Our culture and values demonstrate our belief that as an organisation we can and must have a positive impact on the success and well-being of communities local to our offices, the environment, and on overall macro-economic stability.

Our philosophy seeks to align the interests of shareholders and stakeholders over time, and provides the individual business units and regions with a basis from which to determine their own approach. The group's philosophy is not intended to be mutually exclusive or exhaustive, but allows us to concentrate, for now, on key focus areas. Deliberately not driven on a top-down basis, the executive maintains responsibility for oversight, direction, coordination and integration of our corporate responsibility efforts while the individual business units provide the key drivers behind our activities, in a manner that best makes sense to each.

Please refer to the website for Investec's full corporate citizenship statement.

Memberships

Investec participates and has maintained its inclusion in the following international initiatives

	2016	2015	2014
Carbon Disclosure Project (CDP) (Investec is a member and Investec Asset Management is a signatory investor)	A-	A-	B
Code for Responsible Investing in South Africa (CRISA)	Signatory	Signatory	Signatory
Dow Jones Sustainability Investment Index (score out of 100)	75	74	75
FTSE4Good Index	Included	Included	Included
JSE Limited Socially Responsible Investment Index	Constituent	Constituent	Constituent
MSCI Global Sustainability Index Series (Investec plc) – Intangible value assessment (IVA) rating	AAA	AAA	AAA
STOXX Global ESG Leaders Indices	Member	Member	Member
United Nations Global Compact	Active	Active	Active
United Nations Principles for Responsible Investment (UNPRI)	Signatory	Signatory	Signatory

Other: Investec Asset Management CEO, HJ du Toit, is a member of The Global Commission on Business and Sustainability Development.

Corporate responsibility

(continued)

Investec carries out its commitment to corporate responsibility through three key focus areas of people, planet and profit.

People

We care about our EMPLOYEES:

- Attracting and developing a strong, diverse and capable workforce
- Providing a progressive work environment
- Respecting and upholding human rights

R246.7mn | Employee learning and development spend (2016: R192.1mn)

We care about our COMMUNITIES:

Unselfishly contributing to our communities through education and entrepreneurship

R85.9mn | Group Corporate Social and Investment (CSI) spend (2016: R70.1mn)

We care about our CLIENTS:

- At Investec, we pride ourselves on giving our clients an extraordinary experience
- We strive to build business depth by deepening existing and creating new client relationships
- We provide a high level of service by being nimble, flexible and innovative.

Recognition

- SERAS awards – most socially responsible company in Africa
- SERAS awards – second runner up in CSR practitioner of the year
- Investec has been voted second most attractive employer in South Africa in the 2017 Universum awards.

Planet

Direct impact:

Reduce the operational impacts of our physical business.

- Scope 1 emissions (tones of CO_2e) decreased 9.9%
- Scope 2 emissions (tonnes of CO_2e) decreased 3.6%
- Scope 3 emissions (tonnes of CO_2e) decreased 12.1%.

44 712 CO_2 | Total emissions (tonnes of CO_2e) decreased 6.7%

Indirect impact:

- Embed environmental considerations into business activities
- Responsible financing and investing
- Participating in renewable energy projects and green developments.

Conserving the environment:

Given Investec's African heritage, we are passionate about ensuring the continued existence of a number of African species

- Over R12 million spent on **Rhino Lifeline** since inception. Over 66% spent on educating communities
- R3.5 million spent on **BirdLife SA since inception.**

Recognition

- Investec Limited won the IJ Global African Renewables deal 2016 Award for the Kathu Solar Park Concentrated Solar Power (CSP) project in South Africa
- Investec Limited won the SERAS awards for the best company in affordable and clean energy
- Investec Limited was awarded an A- for the CDP 2016 climate scoring

Profit

Financial strength and resilience:

Balanced and resilient business model.

- Our capital light activities contributed 48% to group income and capital intensive activities contributed 52% to group income.
- Liquidity remains strong.

R118bn | Cash and near cash balances (2016: R125bn)

- Capital remained in excess of current regulatory requirements.

Governance:

- Strong culture and values to underpin our processes, functions and structures.

Recognition

- The Financial Times of London has recognised Investec Private Banking and Wealth & Investment as the best private bank and wealth manager in South Africa – for the fourth consecutive year – at the Global Private Banking Awards
- The Investec Managed Fund was awarded the special Raging Bull Award for risk-adjusted performance by a South African multi-asset equity fund over 21 years
- Investec digital offering ranked 9th in the world in the Independent Wealth Service Survey
- SERAS awards – Best company in sustainability reporting
- Investec Wealth & Investment's Discretionary Fund Management (DFM) service was Gold rated by Defaqto in February 2016.

Annexure 1: Summary employment equity progress report at 31 March 2017

Every designated employer that is a public company is required in terms of section 22 of the Employment Equity Act to publish a summary report of their employment equity progress in their integrated annual report. Investec Limited's progress in this regard is reported in the table below.

Occupational level*

	Male			
	African	Coloured	Indian	White/ Foreign
Top management	2	–	2	8
Senior management	67	39	84	705
Professionally qualified and experienced specialist and mid-management	209	66	100	347
Skilled, academic, junior management, supervisors, foremen and superintendents	114	35	17	51
Semi-skilled and discretionary decision-making	180	18	10	12
Total	**572**	**158**	**213**	**1 123**

	Female				
	African	Coloured	Indian	White/ Foreign	Total
Top management	1	–	–	4	17
Senior management	48	34	78	461	1 516
Professionally qualified and experienced specialist and mid-management	338	171	205	563	1 999
Skilled, academic, junior management, supervisors, foremen and superintendents	115	71	47	62	512
Semi-skilled and discretionary decision-making	162	23	15	18	438
Total	**664**	**299**	**345**	**1 108**	**4 482**

* *Where: Top management is Investec's South African management forum. The remaining occupational levels are defined as per the South African Employment Equity Act.*

Annexure 2: Home loan mortgage disclosure at 31 December 2016

In terms of the Home Loan Mortgage Disclosure Act 63 of 2003, all financial institutions are required to disclose information regarding the provision of home loans. Investec offers home loans to individuals through its Private Banking division. The information required to be disclosed by the Act can be seen in the tables below.

	Total number of applications	Total Rand amount
Applications received	11 336	27 088 729 825
Approved	9 620	22 128 105 595
Declined	156	346 122 876
Disbursed/paid out	6 407	15 182 198 066

Race groups

	African		Coloured		Indian	
	Number of applications	Rand amount	Number of applications	Rand amount	Number of applications	Rand amount
Applications received	1 576	2 754 542 585	450	841 068 693	922	1 998 640 530
Approved	1 273	2 150 119 949	397	707 053 356	781	1 643 335 851
Declined	46	76 180 975	6	15 648 511	22	43 841 805
Disbursed/paid out	871	1 377 845 955	231	381 166 749	468	965 016 588

	White		Other	
	Number of applications	Rand amount	Number of applications	Rand amount
Applications received	5 911	14 705 131 853	2 477	6 789 346 164
Approved	5 091	12 168 325 575	2 078	5 459 270 865
Declined	64	153 757 710	18	56 693 875
Disbursed/paid out	3 126	7 269 863 120	1 711	5 188 305 655

Province

	Eastern Cape		Free State	
	Number of applications	Rand amount	Number of applications	Rand amount
Applications received	422	816 953 450	125	228 479 804
Approved	359	667 511 935	114	207 733 719
Declined	4	6 591 700	3	4 601 760
Disbursed/paid out	259	728 770 580	52	86 025 548

Additional information

(continued)

	Gauteng		KwaZulu-Natal	
	Number of applications	Rand amount	Number of applications	Rand amount
Applications received	6 054	14 178 667 656	965	2 368 361 281
Approved	5 075	11 466 424 185	803	1 967 251 799
Declined	113	249 093 787	23	46 448 290
Disbursed/paid out	3 455	7 515 254 283	620	1 738 349 211

	Limpopo		Mpumalanga	
	Number of applications	Rand amount	Number of applications	Rand amount
Applications received	68	105 081 280	159	260 857 044
Approved	61	96 989 780	140	229 498 043
Declined	2	1 469 800	3	3 650 000
Disbursed/paid out	43	61 718 668	105	180 643 771

	North West		Northern Cape	
	Number of applications	Rand amount	Number of applications	Rand amount
Applications received	87	187 229 638	38	65 858 215
Approved	67	139 648 220	30	53 631 170
Declined	1	2 502 280	–	–
Disbursed/paid out	55	98 289 225	21	34 801 018

	Western Cape	
	Number of applications	Rand amount
Applications received	3 418	8 877 241 458
Approved	2 971	7 299 416 745
Declined	7	31 765 259
Disbursed/paid out	1 797	4 738 345 762

04

Financial statements

Directors' responsibility statement

The financial statements and the group financial statements of Investec Limited, as set out on pages 152 to 228, are prepared to present the financial position, results and cash flows of Investec Limited and its directly owned subsidiaries as if Investec Limited were a standalone component of the dual listed companies structure of Investec Limited and Investec plc, as explained in the accounting policies, and are otherwise in accordance with International Financial Reporting Standards on this basis.

The directors consider that in preparing the financial statements, the company and group have used appropriate accounting policies supported by reasonable and prudent judgement and estimates.

The financial statements of the company and group have been prepared on the going concern basis. The directors are of the opinion, based on their knowledge of the company and group, key processes in operation and specific enquiries, that adequate resources exist to support the company and group on a going concern basis over the next year.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group and to enable them to ensure that the financial statements comply with the Companies Act of South Africa. They are also responsible for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approval of group financial statements and company financial statements

The directors' commentary and the financial statements of Investec Limited, which appear on pages 145 to 147 and pages 152 to 228 were approved by the board of directors on 15 June 2017.

Stephen Koseff
Chief executive officer

Bernard Kantor
Managing director

Declaration by the company secretary

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

Niki van Wyk
Company secretary, Investec Limited

15 June 2017

Extended business review

Investec Limited is a part of an international specialist bank and asset manager that provides a diverse range of financial products and services to a select client base in South Africa. Investec focuses on delivering distinctive profitable solutions for its clients in three core areas of activity namely, Asset Management, Wealth & Investment and Specialist Banking.

The operating financial review on pages 6 to 26 provides an overview of our strategic position, performance during the financial year and outlook for the business.

Authorised and issued share capital

Investec Limited

During the year, the following shares were issued:

- 30 870 000 special convertible redeemable preference shares on 6 June 2016 at par
- 6 809 664 ordinary shares on 10 June 2016 at R105.30 per share (R0.0002 par and premium of R105.2998 per share)
- 8 135 825 special convertible redeemable preference shares on 10 June 2016 of R0.0002 each at par
- 2 991 804 ordinary shares on 8 December 2016 at R89.97 per share (R0.0002 par and premium of R89.9698 per share)
- 680 936 special convertible redeemable preference shares on 8 December 2016 of R0.0002 each at par.

On 20 March 2017, the final redemption of 333 863 Class ILRP1 redeemable non-participating preference shares at R1 000.00 per share, took place (R0.01 par and premium of R999.99 per share) being all the remaining issued shares in that class.

Investec Limited did not repurchase any of its ordinary shares during the financial year ended 31 March 2017.

At 31 March 2017, Investec Limited held 31 354 669 shares in treasury (2016: 24 158 289). The maximum number of shares held in treasury by Investec Limited during the period under review was 30 105 100 shares.

Financial results

The results of Investec Limited are set out in the financial statements and accompanying notes for the year ended 31 March 2017. The preparation of these combined results was supervised by the group risk and finance director, Glynn Burger.

Ordinary dividends

An interim dividend of 178.0 cents per ordinary share (2015: 207.0 cents) was declared to shareholders registered on 9 December 2016 and was paid on 22 December 2016.

The directors have proposed a final dividend in respect of the financial year ended 31 March 2017 of 225 cents (2016: 266 cents) per ordinary share. The final dividend will be payable on Monday, 14 August 2017 to shareholders on the register at the close of business on Friday, 28 July 2017. The annual general meeting at which the proposed dividend will be considered for approval is scheduled to take place on Thursday, 10 August 2017.

Preference dividends

Non-redeemable, non-cumulative, non-participating preference shares

Investec Limited

Non-redeemable, non-cumulative, non-participating preference shares

Preference dividend number 24 for the period 1 April 2016 to 30 September 2016, amounting to 409.41111 cents per share, was declared to shareholders holding preference shares registered on 2 December 2016 and was paid on 12 December 2016.

Preference dividend number 25 for the period 1 October 2016 to 31 March 2017, amounting to 407.17389 cents per share, was declared to shareholders holding preference shares registered on 9 June 2017 and will be paid on 19 June 2017.

Class ILRP1 redeemable non-participating preference shares

Preference dividend number 12 for the period 1 April 2016 to 30 June 2016, amounting to 1 459.78410 cents per share, was declared to shareholders holding preference shares on 22 July 2016 and was paid on 25 July 2016.

Preference dividend number 13 for the period 1 July 2016 to 30 September 2016, amounting to 1 475.82569 cents per share, was declared to shareholders holding preference shares on 28 October 2016 and was paid on 31 October 2016.

Preference dividend number 14 for the period 1 October 2016 to 31 December 2016, amounting to 1 475.82569 cents per share, was declared to shareholders holding preference shares on 27 January 2017 and was paid on 30 January 2017.

On 20 March 2017, the remaining issued 333 863 Class ILRP1 redeemable non-participating preference shares were redeemed at R1 000.00 per share and a final dividend for the period 1 January 2017 to 19 March 2017 amounting to 1 251.24352 cents per share was declared to shareholders holding preference shares on 17 March 2017 and was paid on 20 March 2017.

Class ILRP2 redeemable non-participating preference shares

Preference dividend number 5 for the period 1 April 2016 to 30 June 2016, amounting to 1 459.78410 cents per share, was declared to shareholders holding preference shares on 22 July 2016 and was paid on 25 July 2016.

Preference dividend number 6 for the period 1 July 2016 to 30 September 2016, amounting to 1 457.82569 cents per share, was declared to shareholders holding preference shares on 28 October 2016 and was paid on 31 October 2016.

Preference dividend number 7 for the period 1 October 2016 to 31 December 2016, amounting to 1 475.82569 cents per share, was declared to shareholders holding preference shares on 27 January 2017 and was paid on 30 January 2017

Preference dividend number 8 for the period 1 January 2017 to 31 March 2017, amounting to 1443.74252 cents per share, was declared to shareholders holding preference shares on 21 April 2017 and was paid on 24 April 2017.

Redeemable cumulative preference shares

Dividends amounting to R23 190 399 (2016: R21 453 331) were paid on the redeemable cumulative preference shares.

Directors and secretaries

Details of directors and secretaries of Investec Limited are reflected on pages 99 and 104.

In accordance with the UK Corporate Governance Code, the entire board with the exception of Peter Thomas who will be standing down as a director, will offer itself for re-election at the 2017 annual general meeting.

The company secretary of Investec Limited is Niki van Wyk.

Directors and their interests

Directors' shareholdings and options to acquire shares are set out in Investec's 2017 integrated annual report.

The register of directors' interests contains full details of directors' shareholdings and options to acquire shares.

Corporate governance

The group's corporate governance board statement and governance framework are set out on pages 96 to 131.

Share incentives

Details regarding options granted during the year are set out on in the Investec's 2017 integrated annual report.

Audit committees

As allowed under the Companies Act, No 71 of 2008, as amended, and the Banks Act, No 96 of 1990, as amended, the audit committee of Investec Limited performs the necessary functions required on behalf of Investec Limited and its subsidiaries.

The audit committees comprising independent non-executive directors meet regularly with senior management, the external auditors, Operational Risk, Internal Audit, Compliance and the Finance division to consider the nature and scope of the audit reviews and the effectiveness of our risk and control systems.

The report to shareholders by the chairman of the audit committees can be found on pages 120 to 125.

Auditors

Ernst & Young LLP have indicated their willingness to continue in office as auditors of Investec plc and Ernst & Young Inc. and KPMG Inc. have indicated their willingness to continue in office as joint auditors of Investec Limited.

A resolution to reappoint them as auditors will be proposed at the annual general meeting scheduled to take place on 10 August 2017.

Contracts

Refer to Investec's 2017 integrated annual report.

Subsidiary and associated companies

Details of principal subsidiary and associated companies are reflected on page 207 to 208.

Major shareholders

The largest shareholders of Investec Limited are reflected on page 132.

Special resolutions

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

- A renewable authority was granted to Investec plc to acquire its own ordinary shares in accordance with the terms of section 701 of the Companies Act 2006
- A renewable authority was granted to Investec plc to acquire its own preference shares in accordance with the terms of section 701 of the Companies Act 2006.

Investec Limited

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

- A renewable authority was granted to Investec Limited and any of its subsidiaries to acquire its own ordinary shares in terms of the provisions of the South African Companies Act, No 71 of 2008
- A renewable authority was granted to Investec Limited and any of its subsidiaries to acquire its own Class ILRP1 redeemable, non-participating preference shares, Class ILRP2 redeemable, non-participating preference shares, any other redeemable, non-participating preference shares and non-redeemable, non-cumulative, non-participating preference shares in terms of the provisions of the South African Companies Act, No 71 of 2008
- A renewable authority was granted to Investec Limited to provide financial assistance in order to comply with the provisions of sections 44 and 45 of the South African Companies Act, No 71 of 2008
- A renewable authority was granted to Investec Limited to approve directors' remuneration in order to comply with the provisions of sections 65(11)(h), 66(8) and 66(9) of the South African Companies Act, No 71 of 2008
- Clause 8.2 of the Memorandum of Incorporation was amended by the deletion of the current Clause 8.2 and the substitution thereof with a new Clause 8.2.

Accounting policies and disclosure

These policies are set out on pages 159 to 167.

Financial instruments

Detailed information on the group's risk management process and policy can be found in the risk management report on pages 28 to 95.

Information on the group's hedge accounting policy and the use of derivatives and hedges can be found on pages 163 and 164 and in note 53.

Employees

Our policy is to recruit and promote on the basis of aptitude and ability, without discrimination of any kind. Applications for employment by disabled people are always considered bearing in mind the qualifications and abilities of the applicants.

In the event of employees becoming disabled, every effort is made to ensure their continued employment. Our policy is to adopt an open management style, thereby encouraging informal consultation at all levels about aspects of our operations, and motivating staff involvement in our performance by means of employee share schemes.

We are committed to ensuring the health, safety and welfare of our employees and to providing and maintaining safe working conditions. We have health and safety policies in all regions of operation that cover all legislated requirements and additional benefits are provided for staff where possible. We constantly seek to improve both policies and the execution of health and safety standards in all our offices. This takes the form of staff education, regular fire drills and maintenance of an open door policy with regard to dialogue on the issue. Where appropriate, the appointment of individuals responsible for various areas of health and safety is made.

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

Political donations and expenditure

Invested Limited through its subsidiaries, made political donations totalling R3.5 million in 2017 (2016: R1.5 million).

Environment, including greenhouse gas emissions

We are committed to pursuing sound environmental policies in all aspects of our business and seek to encourage and promote good environmental practice among our employees and within the community in which we operate.

Further information is set out in Investec’s 2017 integrated annual report.

Going concern

Refer to page 144, for the directors statement in relation to going concern.

Research and development

In the ordinary course of business, Investec develops new products and services in each of its business divisions.

Risk management policies

The group’s policies for managing the financial risk to which it is exposed and exposure to price, credit, liquidity and cash flow risk are set out in the risk management section on pages 28 to 95.

The board considers that this integrated annual report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group’s performance, business model and strategy.

On behalf of the board of Investec Limited

Fani Titi	**Stephen Koseff**
Chairman	Chief executive officer

15 June 2017

Independent auditors' report to the shareholders of Investec Limited

Opinion

We have audited the consolidated and separate financial statements of Investec Limited (the group and company), which comprise the balance sheets at 31 March 2017 and the income statements, the statements of total comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements which include a summary of accounting policies and other explanatory notes, as set out on pages 152 to 228 and the specified disclosures within the risk management and corporate governance report that are marked as audited.

In our opinion the consolidated and separate financial statements of Investec Limited for the year ended 31 March 2017, are prepared, in all material respects, in accordance with the basis of presentation described in the accounting policies to the financial statements.

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 Auditor's 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 of 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.

Emphasis of matter – basis of accounting

We draw attention to the basis of presentation described in the accounting policies, which describes the basis of accounting. The consolidated and separate financial statements are prepared in accordance with the group and the company's accounting policies to satisfy the financial information needs of the shareholders. As a result the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. There are no key audit matters reported in respect of our audit of the separate financial statements.

Key audit matter	How our audit addressed the matter
Monitoring of credit quality and the appropriateness of the allowance for credit losses, including the risk of management override Loans and advances to customers and the associated impairment of loans and advances to customers are significant. The appropriateness of the allowance for credit losses is subjective due to the high degree of judgement applied by management in determining the timing of recognition and estimation in size of any allowance for credit losses at the balance sheet date. Given the inherent subjectivity in the valuation, as well as the material nature of the allowance for credit losses, we have classified the appropriateness of the allowance for credit losses as a key audit matter in our audit of the consolidated and separate financial statements. Collective impairments on portfolios of similar, homogenous assets are determined using sophisticated modelling techniques. The models used to determine credit impairments are complex, and certain inputs used are not fully observable. Significant judgements are applied to the modelling design and inputs. Specific impairment allowances are determined on specific financial assets. Significant estimates, judgements and assumptions have been made by management to estimate recoverability, including evaluating the adequacy and accessibility of collateral and determining the expected timing and amount of future cash flows. *Refer to accounting policies page 167; and Note 26 of the consolidated financial statements page 197.*	We evaluated the appropriateness of accounting policies and assessed the loan impairment methodologies applied, and compared these to the requirements of IAS 39 Financial Instruments: Recognition and Measurement. We documented and tested management's processes and controls for credit origination and monitoring, as well as for assessing, calculating and accounting for the allowance for credit losses, including the governance over the impairment process and the identification of impairment events. In particular we focused on the controls over the monitoring of loans with higher risk of default, annual loan credit file reviews and assessment and approval of impairment provisions including the valuation of collateral held for impaired exposures. For impairments determined on specific assets, our audit procedures included the following: • We selected a sample of loans and advances that had been assessed and impaired, including those on the watch list after performing a risk assessment on the portfolio, to understand the latest developments which influence performance and recoverability. We independently assessed the valuation of the allowance for credit losses including developing our own expectation of the allowance amount. • We performed additional scenario and sensitivity analyses on the expected performance of certain exposures which are affected by the current macroeconomic environment. We based this on our own independent judgement and market available information to form an independent view of the appropriateness of management's loan loss allowance assessments. • We also applied our judgement in selecting additional loans that were not impaired to test whether the assessment by management was appropriate. We formed our own independent view on the appropriateness of the conclusions reached based on our own knowledge and external evidence to support our conclusions. • We assessed management's assumptions about future cash flow projections and the valuation of and rights to collateral held, against legal contracts and other supporting documents, against our previous experience and available market information. For collective impairments determined on a model basis, our audit procedures included the following, performed in conjunction with our risk specialists: • We critically assessed the appropriateness of the methodologies and assumptions underlying the provisioning models; • We tested the information used in the models back to source systems and input data; and • We performed a reasonableness assessment by comparing the collective impairments against an independent model estimate calculated using our independent challenger models applied to the entity's historical data.

Independent auditors' report to the shareholders of Investec Limited

(continued)

Key audit matter	How our audit addressed the matter
Valuation of complex/illiquid financial instruments, unlisted investments and embedded derivatives, including the risk of management override There are portfolios of financial assets that are required to be fair valued under the requirements of IAS 39. The valuation of complex/illiquid financial instruments, unlisted investments and embedded derivatives is complex, requiring a high level of judgement in applying appropriate valuation techniques, unobservable valuation inputs and assumptions. Financial instruments have an element of estimation uncertainty inherent in their balance sheet values. The estimation uncertainty is higher for the valuation of level 3 financial instruments, such as unlisted equity investments, which include significant unobservable inputs and for which there is necessarily a large degree of subjectivity surrounding the various inputs. With volatility in the global financial markets and the lack of observable liquid market inputs, determining appropriate valuations continues to be difficult and highly judgemental. This may result in subjective fair value movements which are material. Accordingly the valuation of complex/illiquid financial instruments, unlisted investments and embedded derivatives is a key audit matter in our audit of the consolidated financial statements. *Refer to the accounting policies page 167; and Note 14 of the consolidated financial statements page 185.*	We tested the design and operating effectiveness of controls for the valuation of financial instruments. Together with our valuations specialists, we performed a detailed examination of management's valuation methodologies and models and assessed the appropriateness of these against market practice and our prior experience. We assessed the appropriateness and consistency of model inputs and key assumptions for a sample of positions against our understanding of the positions and, where possible, against market observable information. Where such inputs and assumptions were not observable in the market our valuation specialists critically assessed whether they fell within an acceptable range based on relevant knowledge and experience of the market. For certain unlisted investments management applies a portfolio valuation adjustment to account for estimation and macroeconomic risks that are not included in the model valuations. Together with our valuations specialists, we have formed independent estimates for acceptable valuation ranges of these investments and compared these to management's estimate in assessing the appropriateness of the portfolio valuation adjustment.

Other matter

The company has prepared a combined consolidated set of annual financial statements for the year ended 31 March 2017 incorporating Investec plc and its subsidiaries in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa 2008 on which separate auditors' reports to the shareholders of Investec Limited and Investec plc dated 9 June 2017 has been issued.

Other information

The directors are responsible for the other information. The other information comprises all other information included in the annual report that is not marked as audited. Other information does not include the consolidated and separate financial statements and our auditors' report thereon.

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information, 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 management's and those charged with governance for the financial statements

The directors are responsible for the preparation and presentation of the consolidated and separate financial statements in accordance with the basis of presentation described in the accounting policies, for determining that the basis of preparation is acceptable in the circumstances and for such internal control as the directors determines 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 relating to going concern and using the going concern basis of accounting unless the directors either intends to liquidate the group and/or the company or to cease operations, or has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the 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 auditor's 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 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 internal control.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group and/or the company to cease to continue as a going concern.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and 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 auditor's 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, and subsequent guidance, we report that Ernst & Young Inc. and KPMG Inc. have been the auditors of Investec Limited for 42 and 23 years respectively.

Ernst & Young Inc.

Registered Auditor

Ernst & Young Inc.

Per Farouk Mohideen
Chartered Accountant (SA)
Registered Auditor
Director
15 June 2017

KPMG Inc.

Registered Auditor

KPMG Inc.

Per Peter MacDonald
Chartered Accountant (SA)
Registered Auditor
Director
15 June 2017

Income statements

For the year to 31 March R'million	Notes	Group 2017	Group 2016	Company 2017	Company 2016
Interest income	2	30 349	23 977	84	53
Interest expense	2	(23 242)	(17 491)	(132)	(77)
Net interest income/(expense)		**7 107**	**6 486**	**(48)**	**(24)**
Fee and commission income	3	8 988	7 749	–	–
Fee and commission expense	3	(491)	(463)	–	(1)
Investment income	4	1 248	2 119	2 083	871
Share of post taxation operating profit/(loss) of associates	28	306	(11)*	–	–
Trading income arising from				–	
– customer flow		492	353	–	–
– balance sheet management and other trading activities		4	438	–	–
Other operating income	5	5	38	–	–
Total operating income before impairment losses on loans and advances		**17 659**	**16 709**	**2 035**	**846**
Impairment losses on loans and advances	26/27	(659)	(520)	–	–
Operating income		**17 000**	**16 189**	**2 035**	**846**
Operating costs	6	(9 238)	(8 751)	(49)	(145)
Operating profit before goodwill and acquired intangibles		**7 762**	**7 438**	**1 986**	**701**
Impairment of goodwill	33	(26)	(34)	–	–
Amortisation of acquired intangibles	34	(51)	(39)	–	–
Operating profit		**7 685**	**7 365**	**1 986**	**701**
Gain on partial disposal of subsidiary		–	–	86	–
Profit before taxation		**7 685**	**7 365**	**2 072**	**701**
Taxation on operating profit before goodwill and acquired intangibles	8	(1 440)	(1 456)	(51)	(3)
Taxation on acquired intangibles	8	14	11	–	–
Profit after taxation		**6 259**	**5 920**	**2 021**	**698**
Profit attributable to Asset Management non-controlling interests		(156)	(129)	–	–
Profit attributable to other non-controlling interests		(1 039)	(795)	–	–
Earnings attributable to shareholders		**5 064**	**4 996**	**2 021**	**698**

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

Statements of total comprehensive income

For the year to 31 March R'million	Group		Company	
	2017	2016	2017	2016
Profit after taxation	6 259	5 920	2 021	698
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	943	(708)	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	580	(349)	–	–
Gain on realisation of available-for-sale assets recycled to the income statement	(61)	(13)	–	–
Foreign currency adjustments on translating foreign operations	(676)	1 116	–	–
Total comprehensive income	**7 045**	**5 966**	**2 021**	**698**
Total comprehensive income attributable to ordinary shareholders	5 399	4 631	1 701	408
Total comprehensive income attributable to non-controlling interests	1 195	924	–	–
Total comprehensive income attributable to perpetual preferred securities and Other Additional Tier 1 securities	451	411	320	290
Total comprehensive income	**7 045**	**5 966**	**2 021**	**698**

Balance sheets

At 31 March R'million	Notes	Group 2017	Group 2016	Company 2017	Company 2016
Assets					
Cash and balances at central banks	17	8 353	7 801	–	–
Loans and advances to banks	18	35 026	29 483	37	35
Non-sovereign and non-bank cash placements		8 993	9 858	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	19	30 567	43 317	–	–
Sovereign debt securities	20	47 822	41 325	–	–
Bank debt securities	21	7 758	15 117	–	–
Other debt securities	22	12 028	11 753	–	–
Derivative financial instruments	23	9 842	15 839	–	–
Securities arising from trading activities	24	14 320	12 566	–	–
Investment portfolio	25	6 502	4 683	–	–
Loans and advances to customers	26	227 552	208 720	–	–
Own originated loans and advances to customers securitised	27	8 673	9 238	–	–
Other loans and advances	26	310	367	–	–
Other securitised assets	27	173	201	–	–
Interests in associated undertakings	28	5 514	5 145	–	–
Deferred taxation assets	29	738	572	–	–
Other assets	30	12 040	9 596	–	–
Property and equipment	31	762	729	–	–
Investment properties	32	18 688	18 167	–	–
Goodwill	33	211	238	–	–
Intangible assets	34	508	524	–	–
Investment in subsidiaries	36	–	–	15 940	15 605
Non-current assets held for sale	13	456	–	–	–
		456 836	**445 239**	**15 977**	**15 640**
Other financial instruments at fair value through profit or loss in respect of liabilities to customers	37	129 596	123 540	–	–
		586 432	**568 779**	**15 977**	**15 640**
Liabilities					
Deposits by banks		35 433	40 063	–	–
Derivative financial instruments	23	12 558	13 424	–	–
Other trading liabilities	38	14 134	15 441	–	–
Repurchase agreements and cash collateral on securities lent	19	7 825	16 916	–	–
Customer accounts (deposits)		303 470	279 820	–	–
Debt securities in issue	39	8 938	12 779	582	916
Liabilities arising on securitisation of own originated loans and advances	27	1 511	1 810	–	–
Current taxation liabilities		1 413	1 084	144	103
Deferred taxation liabilities	29	238	457	–	–
Other liabilities	40	10 940	10 237	377	333
		396 460	**392 031**	**1 103**	**1 352**
Liabilities to customers under investment contracts	37	129 554	123 508	–	–
Insurance liabilities, including unit-linked liabilities	37	42	32	–	–
		526 056	**515 571**	**1 103**	**1 352**
Subordinated liabilities	41	13 805	11 357	625	625
		539 861	**526 928**	**1 728**	**1 977**
Equity					
Ordinary share capital	42	1	1	1	1
Share premium	44	11 895	10 909	11 945	10 958
Treasury shares	45	(1 189)	(1 249)	–	–
Other reserves		1 748	970	62	62
Retained income		23 045	20 996	1 691	2 092
Shareholders' equity excluding non-controlling interests		**35 500**	**31 627**	**13 699**	**13 113**
Other Additional Tier 1 securities in issue	46	550	550	550	550
Non-controlling interests	47	10 521	9 674	–	–
– Perpetual preferred securities issued by subsidiaries		1 534	1 534	–	–
– Non-controlling interests in partially held subsidiaries		8 987	8 140	–	–
Total equity		**46 571**	**41 851**	**14 249**	**13 663**
Total liabilities and equity		**586 432**	**568 779**	**15 977**	**15 640**

Cash flow statements

For the year to 31 March R'million	Notes	Group 2017	Group 2016	Company 2017	Company 2016
Profit before taxation adjusted for non-cash and non-operating items	49	8 627	8 615	1 955	336
Taxation paid		(1 852)	(1 930)	(10)	(18)
Increase in operating assets	49	(13 286)	(90 269)	–	–
Increase/(decrease) in operating liabilities	49	12 016	85 802	(290)	166
Net cash inflow from operating activities		**5 505**	**2 218**	**1 655**	**484**
Cash flow on acquisition of property, equipment and intangible assets		(302)	(169)	–	–
Cash flow on disposal of property, equipment and intangible assets		31	14	–	–
Proceeds from partial disposal of subsidiary		87	–	87	–
Net (increase)/decrease in loans to group companies		–	–	(336)	249
Net cash (outflow)/inflow from investing activities		**(184)**	**(155)**	**(249)**	**249**
Dividends paid to ordinary shareholders		(1 975)	(1 589)	(2 071)	(1 678)
Dividends paid to other equity holders		(1 089)	(1 022)	(320)	(290)
Proceeds on issue of shares, net of related costs		986	245	987	611
Cash flow on net acquisition of treasury shares, net of related costs		(1 165)	(1 481)	–	–
Issue of shares to non-controlling interests		284	3 247	–	–
Proceeds from subordinated debt raised		4 870	1 985	–	625
Repayment of subordinated debt		(2 519)	(1 283)	–	–
Net cash (outflow)/inflow from financing activities		**(608)**	**102**	**(1 404)**	**(732)**
Effects of exchange rates on cash and cash equivalents		**(786)**	**791**	**–**	**–**
Net increase in cash and cash equivalents		**3 927**	**2 956**	**2**	**1**
Cash and cash equivalents at the beginning of the year		29 187	26 231	35	34
Cash and cash equivalents at the end of the year		**33 114**	**29 187**	**37**	**35**
Cash and cash equivalents is defined as including:					
Cash and balances at central banks		8 353	7 801	–	–
On demand loans and advances to banks		15 768	11 528	37	35
Non-sovereign and non-bank cash placements		8 993	9 858	–	–
Cash and cash equivalents at the end of the year		**33 114**	**29 187**	**37**	**35**

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

Statements of changes in equity

R'million	Ordinary share capital	Share premium	Treasury shares
Group			
At 1 April 2015	**1**	**10 297**	**(971)**
Movement in reserves 1 April 2015 – 31 March 2016			
Profit after taxation	–	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–	–
Gain on realisation available-for-sale assets recycled to the income statement	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	–
Total comprehensive income	**–**	**–**	**–**
Share-based payments adjustments	–	–	–
Dividends paid to ordinary shareholders	–	–	–
Dividends declared to other equity holders included in non-controlling interests in other Additional Tier 1 security holders	–	–	–
Dividends paid to perpetual preference shareholders included in non-controlling interests and Other Additional Tier 1 security holders	–	–	–
Dividends paid to non-controlling interests	–	–	–
Issue of ordinary shares	–	612	–
Movement in non-controlling interests due to share issues in subsidiary	–	–	–
Movement of treasury shares	–	–	(1 481)
Transfer from retained income to regulatory reserve	–	–	–
Transfer from share-based payment reserve to treasury shares	–	–	1 203
At 31 March 2016	**1**	**10 909**	**(1 249)**
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 available-for-sale assets recycled to the income statement	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	–
Total comprehensive income	**–**	**–**	**–**
Issue of ordinary shares	–	986	–
Movement of treasury shares	–	–	(1 165)
Share-based payments adjustments	–	–	–
Transfer from share-based payments reserve to treasury shares	–	–	1 225
Other equity movements	–	–	–
Partial disposal of group operations	–	–	–
Movement in non-controlling interests due to share issues in subsidiary	–	–	–
Transfer from non-controlling interests to retained income	–	–	–
Dividends declared to other equity holders included in non-controlling interest and other Additional Tier 1 security holders	–	–	–
Dividends paid to perpetual preference shareholders included in non-controlling interests and other Additional Tier 1 security holders	–	–	–
Dividends paid to ordinary shareholders	–	–	–
Dividends paid to non-controlling interests	–	–	–
At 31 March 2017	**1**	**11 895**	**(1 189)**

Other reserves									
Capital reserve account	Available-for-sale reserves	Regulatory general risk reserve	Cash flow hedge reserve	Foreign currency reserve	Retained income	Share-holders' equity excluding non-controlling interests	Non-controlling interests	Other Additional Tier 1 securities in issue	Total
61	**36**	**477**	**(1 135)**	**1 294**	**18 751**	**28 811**	**6 165**	**550**	**35 526**
–	–	–	–	–	4 996	4 996	924	–	5 920
–	–	–	(708)	–	–	(708)	–	–	(708)
–	(349)	–	–	–	–	(349)	–	–	(349)
–	(13)	–	–	–	–	(13)	–	–	(13)
–	–	–	–	1 116	–	1 116	–	–	1 116
–	**(362)**	**–**	**(708)**	**1 116**	**4 996**	**5 042**	**924**	**–**	**5 966**
–	–	–	–	–	592	592	–	–	592
–	–	–	–	–	(1 589)	(1 589)	–	–	(1 589)
–	–	–	–	–	(411)	(411)	119	58	(234)
–	–	–	–	–	–	–	(119)	(58)	(177)
–	–	–	–	–	–	–	(611)	–	(611)
–	–	–	–	–	–	612	–	–	612
–	–	–	–	–	51	51	3 196	–	3 247
–	–	–	–	–	–	(1 481)	–	–	(1 481)
–	–	191	–	–	(191)	–	–	–	–
–	–	–	–	–	(1 203)	–	–	–	–
61	**(326)**	**668**	**(1 843)**	**2 410**	**20 996**	**31 627**	**9 674**	**550**	**41 851**
–	–	–	–	–	5 064	5 064	1 195	–	6 259
–	–	–	943	–	–	943	–	–	943
–	580	–	–	–	–	580	–	–	580
–	(61)	–	–	–	–	(61)	–	–	(61)
–	–	–	–	(676)	–	(676)	–	–	(676)
–	**519**	**–**	**943**	**(676)**	**5 064**	**5 850**	**1 195**	**–**	**7 045**
–	–	–	–	–	–	986	–	–	986
–	–	–	–	–	–	(1 165)	–	–	(1 165)
–	–	–	–	–	549	549	–	–	549
–	–	–	–	–	(1 225)	–	–	–	–
–	–	(8)	–	–	6	(2)	–	–	(2)
–	–	–	–	–	73	73	12	–	85
–	–	–	–	–	–	–	286	–	286
–	–	–	–	–	8	8	(8)	–	–
–	–	–	–	–	(451)	(451)	131	64	(256)
–	–	–	–	–	–	–	(131)	(64)	(195)
–	–	–	–	–	(1 975)	(1 975)	–	–	(1 975)
–	–	–	–	–	–	–	(638)	–	(638)
61	**193**	**660**	**(900)**	**1 734**	**23 045**	**35 500**	**10 521**	**550**	**46 571**

Statements of changes in equity

(continued)

R'million	Ordinary share capital	Share premium	Other reserves: Capital reserve account	Retained income	Other Additional Tier 1 securities in issue	Total equity
Company						
At 1 April 2015	**1**	**10 347**	**62**	**3 727**	**550**	**14 687**
Movement in reserves 1 April 2015 – 31 March 2016						
Profit after taxation	–	–	–	698	–	698
Total comprehensive income	**–**	**–**	**–**	**698**	**–**	**698**
Share-based payments adjustments	–	–	–	(365)	–	(365)
Dividends paid to ordinary shareholders	–	–	–	(1 678)	–	(1 678)
Dividends declared to perpetual preference shareholders including Other Additional Tier 1 securities	–	–	–	(290)	58	(232)
Dividend paid to Additional Tier 1 security holders	–	–	–	–	(58)	(58)
Issue of ordinary shares	–	611	–	–	–	611
At 31 March 2016	**1**	**10 958**	**62**	**2 092**	**550**	**13 663**
Movement in reserves 1 April 2016 – 31 March 2017						
Profit after taxation	–	–	–	2 021	–	2 021
Total comprehensive income	**–**	**–**	**–**	**2 021**		**2 021**
Share-based payments adjustments	–	–	–	(31)	–	(31)
Dividends paid to ordinary shareholders	–	–	–	(2 071)	–	(2 071)
Dividends declared to perpetual preference shareholders including Other Additional Tier 1 security holders	–	–	–	(320)	64	(256)
Dividend paid to Additional Tier 1 security holders	–	–	–	–	(64)	(64)
Issue of ordinary shares	–	987	–	–	–	987
At 31 March 2017	**1**	**11 945**	**62**	**1 691**	**550**	**14 249**

Basis of presentation

Under the contractual arrangements implementing the dual listed companies (DLC) structure, Investec Limited and Investec plc, the latter a company incorporated in the United Kingdom, effectively form a single economic enterprise in which the economic and voting rights of shareholders are equalised. In accordance with this structure the appropriate presentation under International Financial Reporting Standards is achieved by combining the results and the financial position of both companies using merger accounting principles. Those combined consolidated financial statements have been separately prepared.

The Companies Act of South Africa does not specifically envisage a reporting structure such as the DLC structure. The combined consolidated financial statements of Investec Limited and Investec plc are considered the statutory financial statements of Investec Limited and Investec plc. The attached financial statements and the group financial statements of Investec Limited are prepared to present the financial position, results and cash flows of Investec Limited and its directly owned subsidiaries in the absence of a DLC structure, and are prepared in accordance with International Financial Reporting Standards as if Investec Limited were a standalone component of the DLC structure, but with earnings per share disclosed in the DLC combined consolidated financial statements by virtue of the sharing arrangement. For an understanding of the financial position, results and cash flows of the Investec DLC structure, the user is referred to the combined consolidated financial statements of Investec Limited and Investec plc.

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 and corporate governance sections on pages 28 to 92.

Certain disclosures required under IAS 24 Related Party Disclosures have been included in the section marked as audited in the remuneration report in Investec's 2017 integrated annual report.

Basis of consolidation

All subsidiaries or structured entities are consolidated when the group controls an investee. The group controls an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial results of subsidiaries are included in the consolidated 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 private equity investments, which give rise to significant, but not majority, voting rights. Assessing these voting rights and whether the group controls these entities requires judgement that affects the date at which subsidiaries are consolidated or deconsolidated.

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

For equity accounted associates, the consolidated 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 consolidated balance sheet reflects the associated undertakings net of accumulated impairment losses.

Investments in subsidiaries (including loan advances to subsidiaries) are accounted for at cost less 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 for which discrete financial information is available of the operating segments are reviewed regularly by chief operating decision-makers which include members of the board.

The group's segmental reporting is presented in the form of a business analysis. The business analysis is presented in terms of the group's three principal business divisions namely Asset Management, Wealth & Investment and Specialist Banking. Group costs that are disclosed separately largely relate to group brand and marketing costs and a portion of executive and support functions which are associated with group level activities. These costs are not incurred by the operating divisions and are necessary to support the operational functioning of the group.

For further detail on the group's segmental reporting basis refer to pages 6 and 7.

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 in which 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.

All entities of the group account for any share-based payment recharge costs allocated to equity in the period during which it is levied in their separate 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 7.

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 a 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 operate, except Mauritius which is in US Dollars.

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

Foreign currency transactions are translated into the functional currency of the entity in which the transactions arise based on rates of exchange ruling at the date of the transactions. At each balance sheet date, foreign currency items are translated as follows:

- Monetary items (other than monetary items that form part of the net investment in a foreign operation) are translated using closing rates, with gains or losses recognised in the income statement
- Exchange differences arising on monetary items that form part of the net investment in a foreign operation are determined using closing rates and recognised as a separate component of equity (foreign currency translation reserve) upon consolidation and is reclassified to the income statement upon disposal of the net investment
- Non-monetary items that are measured at historical cost are translated using the exchange rates ruling at the date of the transaction.

On consolidation, the results and financial position of foreign operations are translated into the presentation currency of the group as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet
- Income and expense items are translated at exchange rates ruling at the date of the transaction
- All resulting exchange differences are recognised in other comprehensive income (foreign currency translation reserve), which is reclassified to the income statement on disposal of the foreign operation

- Cash flow items are translated at the exchange rates ruling at the date of the transactions.

Revenue recognition

Revenue consists of interest income, fee and commission income, investment income, trading income arising from customer flow, trading income arising from balance sheet management and other trading activities and other operating income.

Revenue is recognised when it can be reliably measured and it is probable that the economic benefits will flow to the entity.

Revenue related to provision of services is recognised when the related services are performed. Revenue is measured at the fair value of the consideration received or receivable.

Interest income is recognised in the income statement using the effective interest rate method. Fees charged on lending transactions are included in the effective yield calculation to the extent that they form an integral part of the effective interest rate yield, but exclude those fees earned for a separately identifiable significant act, which are recognised upon completion of the act. Fees and commissions charged in lieu of interest are recognised as income as part of the effective interest rate on the underlying loan.

The effective interest rate method is based on the estimated life of the underlying instrument and, where this estimate is not readily available, the contractual life.

Fee and commission income includes fees earned from providing advisory services as well as portfolio management and includes rental income from investment properties. Investment advisory and management fees are accrued over the period to which the income relates. Performance fees are recognised when they become receivable. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due.

Investment income includes income, other than margin from securities held for the purpose of generating interest yield, dividends and capital appreciation.

Trading income arising from customer flow 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 profit on trading portfolios, which are marked to market daily. Equity investments received in lieu of corporate finance fees are included in investment portfolio and valued accordingly.

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

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

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 time frame established by market convention are recorded at trade date.

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

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

Financial instruments classified as held-for-trading or designated as held at fair value through profit or loss are initially recorded at fair value on the balance sheet with changes in fair value subsequently recognised in the income statement. Financial instruments are classified as trading when they are held with the intention of short-term disposal, held with intention of generating short-term profit, or are derivatives which are not designated as part of effective hedges. Financial instruments designated as held at fair value through profit or loss are designated as such on initial recognition of the instrument and remain in this classification until derecognition.

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

- it eliminates or significantly reduces an inconsistent measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases; or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy and information about the group is provided internally on that basis to the group's key management personnel; and

- a contract contains one or more embedded derivatives (which significantly modifies the cash flows that would be required by the contract and is not clearly prohibited from separation from the host contract) and the group has designated the entire hybrid contract as a financial instrument at fair value through profit or loss.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial instruments with fixed or determinable payments and maturity dates which the group has the intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity assets are measured at amortised cost using the effective interest rate method, less impairment losses.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in interest income in the income statement. The losses arising from impairment of such investments are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and exclude the following:

- Those that the group intends to trade in, which are classified as held-for-trading and those that the group designates at fair value through profit or loss
- Those that the group designates as available-for-sale
- Those for which the group may not recover substantially all of its initial investment, other than because of credit deterioration, which is accounted for as available-for-sale instruments.

Subsequent to initial recognition, loans and receivables are measured at amortised cost, using the effective interest rate method, less impairment losses. The effective interest rate represents the rate that exactly discounts future projected cash flows over the expected life of the financial instrument, to the net carrying amount of the financial instrument. Included in the calculation of the effective interest rate, is any discount or premium on acquisition and fees that are an integral part of the effective interest rate.

Losses arising from impairment of such investments are recognised in the income statement line, 'impairment losses on loans and advances'.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Securitisation/credit investment and trading activities exposures

The group makes use of securitisation vehicles as a source of finance, as a means of risk transfer and to leverage returns through the retention of equity tranches in low default rate portfolios. The group predominantly focuses on the securitisation of 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 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 reclassified to 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 one profit or loss

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

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

Impairments of financial assets held at amortised cost

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

The test for impairment is based either on specific financial assets or collectively on a portfolio of similar, homogeneous assets. Over and above individual collective impairments raised at specific portfolio levels, the group recognises a collective impairment allowance at a central level 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 (that is, exposures in all business segments). Assets specifically identified as impaired are excluded from the collective assessment.

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

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

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

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

Derecognition of financial assets and liabilities

A financial asset, or a portion thereof, is derecognised when the group's rights to cash flows have expired or when the group has transferred its rights to cash flows relating to the financial assets and either (a) the group has transferred substantially all the risks and rewards associated with the financial assets or (b) the group has neither transferred nor retained substantially all the risks and rewards associated with the financial assets but has transferred control of the assets.

A financial liability is derecognised when it is extinguished, that is when the obligation is discharged, cancelled or expired.

When an existing financial liability is replaced or modified with substantially different terms, such a replacement or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

Reclassification of financial instruments

The group may reclassify, in rare circumstances, non-derivative financial assets out of the held-for-trading category 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 into the loans and receivables category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

Derivative instruments

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

Derivative positions are entered into either for trading purposes or as part of the group's asset and liability management activities to manage exposures to interest rate and foreign currency risks. Both realised and unrealised profit or losses arising on derivatives are recognised in the income statement as part of trading income (other than circumstances in which cash flow hedging is applied as detailed below).

Derivative instruments entered into as economic hedges which do not qualify for hedge accounting and derivatives that are entered into for trading purposes are treated in the same way as instruments that are held-for-trading.

Credit derivatives are entered into for trading purposes. Credit derivatives are initially recognised at their fair values, being the transaction price of the derivative. Subsequently the derivatives are carried at fair value, with movements in fair value through profit or loss, based on the current market price or remeasured price.

The counterparty risk from derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit value adjustment (CVA).

Hedge accounting

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

- At inception of the hedge, the group formally documents the relationship between the hedging instrument(s) and hedged item(s) including the risk management objectives and the strategy in undertaking the hedge transaction. Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%
- For cash flow hedges, a forecasted transaction that is the subject of the hedge must be highly probable and must present an exposure to 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 arising from balance sheet management and other trading activities.

For qualifying cash flow hedges in respect of financial assets and liabilities, the change in fair value of the hedging instrument, which represents an effective hedge, is initially recognised in other comprehensive income and is released to the income statement in the same period during which the relevant financial asset or liability affects the income statement. Any ineffective portion of the hedge is immediately recognised in the income statement.

Qualifying hedges of a net investment in a foreign operation including a hedge of a monetary item that is accounted for as part of the net investment are accounted for in a way similar to cash flow hedges. Changes in the fair value of the hedging instrument relating to the effective portion of the hedge are recognised in the foreign currency translation reserve in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of any such gain or loss recorded in other comprehensive income is reclassified to the income statement.

Hedge accounting is discontinued when it is determined that the instrument ceases to be highly effective as a hedge; when the derivative expires, or is sold, terminated or exercised; when the hedged item matures or is sold or repaid; when a forecasted transaction is no longer deemed highly probable or when the designation as a hedge is revoked.

Embedded derivatives

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

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; and
- 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 valuation 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 issued by subsidiaries of Investec Limited are recorded as non-controlling interests on the balance sheet.

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

Treasury shares represent issued equity repurchased by the group which have not been cancelled. Treasury shares are deducted from shareholders' equity and represent the purchase consideration, including directly attributable costs. Where treasury shares are subsequently sold or reissued, net proceeds received are included in shareholders' equity.

Sale and repurchase agreements (including securities borrowing and lending)

Securities sold subject to a commitment to repurchase, at a fixed price or a selling price plus a lender's return, remain on balance sheet. Proceeds received are recorded as a liability on 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 intention to settle net.

Financial guarantees

Financial guarantee contracts issued by the group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due, in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at fair value, adjusted for the transaction costs that are directly attributable to the issuance of the guarantee.

Subsequent to initial recognition, the liability under each guarantee is measured at the higher of the amount recognised less cumulative amortisation and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Subsequent to initial measurement, all changes in the balance sheet carrying value are recognised in the income statement.

Instalment credit, leases and rental agreements

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset/assets, even if that right is not explicitly specified in an arrangement.

A finance lease is a lease that transfers substantially all of the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

Where classified as a finance lease, amounts outstanding on these contracts, net of unearned finance charges, are included in loans and advances where the group is the lessor and included in liabilities where the group is the lessee. Finance charges on finance leases and instalment credit transactions are credited or debited to the income statement in proportion to the capital balances outstanding at the rate implicit in the agreement.

Where classified as operating leases, rentals payable/receivable are charged/credited in the income statement on a straight-line basis over the lease term. Contingent rentals (if any) are accrued to the income statement when incurred.

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and impairments.

Cost is the cash equivalent paid or the fair value of the consideration given to acquire an asset and includes other expenditures that are directly attributable to the acquisition of the asset.

Depreciation is provided on the depreciable amount of each component on a straight-line basis over the expected useful life of the asset.

The depreciable amount related to each asset is determined as the difference between the cost and the residual value of the asset. The residual value is the estimated amount, net of disposal costs that the group would currently obtain from the disposal of an asset in similar age and condition as expected at the end of its useful life.

The current and comparative annual depreciation rates for each class of property and equipment is as follows:

- Computer and related equipment 20% – 33%
- Motor vehicles 20% – 25%
- Furniture and fittings 10% – 20%
- Freehold buildings 2%
- 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.*

No depreciation is provided on freehold land. However, similar to other property related assets, it is subject to impairment testing when an indication of impairment exists.

Routine maintenance and service costs 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.

Impairment losses are recognised as an expense in the income statement in the period in which they are identified. Reversals of impairment losses are recognised in income in the period in which the 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.

Non-current assets held for sale

Non-current assets held for sale are measured at the lower of cost and fair value less costs to sell.

Trust and fiduciary activities

The group acts as a trustee or in other fiduciary capacities that result in the holding, placing or managing of assets for the account of and at the risk of clients. As these are not assets of the group, they are not recognised on the balance sheet but are included at market value as part of assets under administration.

Taxation and deferred taxation

Current taxation payable is provided for based on the amount expected to be payable on taxable profit at rates that are enacted or substantively enacted and applicable to the relevant period.

Deferred taxation is provided on temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base, except where such temporary differences arise from:

- The initial recognition of goodwill
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction has no effect on the income statement or taxable profit
- In respect of temporary differences associated with the investments in subsidiaries and interests in associated undertakings, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred taxation assets or liabilities are measured using the taxation 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.

Insurance contracts

Insurance contracts are those contracts in which the group assumes significant insurance risk. The deposit components of insurance contracts are unbundled and accounted for separately.

Insurance premiums are recognised in income in the period in which the group is entitled to the premium. Insurance claims are recognised in the income statement in the period in which a contractual obligation arises for the group to make payment under an insurance contract.

Reinsurance assets and liabilities and associated premiums/claims are not offset in the income statement or balance sheet.

Insurance liabilities are measured at their actuarial values, and are tested for adequacy on an annual basis. Any deficiency identified is recognised in the income statement.

Insurance income is included in other operating income.

Employee benefits

The group operates various defined contribution schemes.

All employer contributions are charged to the income statement as incurred, in accordance with the rules of the scheme, and included under staff costs.

The group has no liabilities for other post-retirement benefits.

Borrowing costs

Borrowing costs that are directly attributable to property developments which take a substantial period of time to develop are capitalised.

Provisions, contingent liabilities and contingent assets

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the income statement net of any reimbursement. Contingent assets and contingent liabilities are not recognised on balance sheet.

Standards and interpretations issued but not yet effective

The following significant 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 financial statements. The group intends to comply with these standards from the effective dates.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments was issued in July 2014 and will replace certain key elements of IAS 39. The mandatory effective date for IFRS 9 is for annual periods beginning on or after 1 January 2018 with early adoption permitted. The two key elements that would impact the group's accounting policies include:

- classification and measurement of financial assets and financial liabilities: the standard requires that all financial assets be classified as either held at fair value through profit or loss, fair value through other comprehensive income or amortised cost. The amortised cost classification is only permitted where it is held within a business model where the underlying cash flows are held in order to collect contractual cash flows and that the cash flows arise solely from payment of principal and interest. Financial assets which are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (and whose contractual cash flows represent solely payments of principal and interest will be measured at fair value through other comprehensive income. The standard further provides that gains or losses on assets held at fair value are recognised in the income statement unless the entity has elected to recognise gains or losses on non-trading equity investments directly through other comprehensive income. With reference to financial liabilities held at fair value, the standard requires that changes to fair value attributable to own credit risk are recognised directly in other comprehensive income without recycling through the income statement;
- impairment methodology: the key change is related to a shift from an incurred loss to an expected loss impairment methodology. At initial recognition an allowance (or provision in the case of commitments and guarantees) is required for expected credit losses (ECL) resulting from default events that are possible within the next 12 months (12-month ECL). In the event of a significant increase in credit risk since initial recognition, IFRS 9 requires the recognition of lifetime expected credit losses. Impairment measurement will involve increased complexity and significant judgements on areas such as the estimation of probabilities of default, loss given default, unbiased future economic scenarios, estimation of expected lives, estimation of exposures at default and assessing whether a significant increase in credit risk has occurred.

IFRS 9 also includes guidance on hedge accounting. The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. The standard does not address macro hedge accounting strategies, which are being considered in a separate project. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge accounting requirements, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting. The group intends to continue applying IAS 39's hedge accounting, although it will implement the amended IFRS 7 hedge accounting disclosure requirements, until the macro hedge accounting project has been completed.

The regulatory capital impact of IFRS 9 could be affected by changes to the regulatory rules. The Basel Committee on Banking Supervision is considering amending the capital rules of IFRS 9, with discussions being held on transitional impacts and longer-term changes It is not clear whether any transitional capital arrangements will be in place for 1 January 2018.

The group has established an IFRS 9 steering committee comprising of executive representation and key management from Risk, Finance, Analytics and IT.

The committee is accountable for IFRS 9 implementation and is supported by working groups responsible for different work streams. The committee continues to progress with documentation of the group's accounting policy and governance framework and the development of ECL models and operating and system target operating models. The committee provides updates of the status of the project to appropriate board committees. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The group does not intend to restate comparatives.

Current assessment of classification and measurement:

The group expects that generally:

- loans and advances to banks and to customers and non-trading reverse repurchase agreements that are classified as loans and receivables under IAS 39 will be measured at amortised cost under IFRS 9, with the exception of current investments for which embedded derivatives are recognised separately unless a separate derivative instrument can be recognised, the entire loan would be recognised at fair value;
- financial assets designated at fair value through profit or loss (FVTPL) under IAS 39 will be measured at FVTPL under IFRS 9;

- certain debt securities held within the group's credit portfolio may be reclassified from available-for-sale to amortised cost. The remaining debt securities classified as available-for-sale will be measured at fair value through other comprehensive income (FVOCI) under IFRS 9; and
- equity instruments securities classified as available-for-sale or FVTPL will be measured at FVTPL under IFRS 9.

The group continues to assess the impact of this standard, but expects that the recognition and measurement basis of the majority of the group's financial assets will be largely unchanged on application of IFRS 9.

The group is monitoring the IASB's project to amend IFRS 9 to the effect that basic lending arrangements with symmetrical break clauses continue to qualify for amortised cost accounting. These clauses are common features in fixed rate loans due to market practice and may result in compensation for early termination being paid by either the borrower or the group. The IASB has issued an exposure draft in April 2017 which will be, effective 1 January 2018 in line with IFRS 9's effective date. Based on these anticipated amendments, we expect that we can continue to measure the impacted loans at amortised cost.

Current assessment of impairments: As noted, the group would also shift its impairment methodology from the current incurred loss basis to expected loss. Credit risk methodologies have been defined and model build and approval is underway and nearing completion. Investec intends to perform a parallel run during 2017 and in doing so models and credit risk processes will be tested during this period to embed the changes and help improve the understanding of the new impairment models.

The group has reviewed key definitions such as significant deterioration in credit quality and default against our current asset quality classifications. A framework is being established that incorporates both quantitative and qualitative measures. Any decisions in relation to credit deterioration will be management decisions subject to approval by governing bodies.

The group will incorporate IFRS 9 requirements into our group credit risk classification and provisioning policy.

It will not be practical to disclose reliable financial impact estimates until the implementation programme and validation and testing is further advanced. The group intends to disclose this in the 2018 financial statements.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. The standard is effective for annual periods beginning on or after 1 January 2018 with early application permitted.

IFRS 15 provides a principles-based approach for revenue recognition and introduces the concept of recognising revenue for obligations as they are satisfied. The standard should be applied retrospectively, with certain practical expedients available. The group's current measurement and recognition principles are aligned to the standard and we do not expect an impact to measurement principles currently applied. The impact of the disclosure requirements of the standard is currently being assessed.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases. The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 Leases. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the period of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17. The group is currently assessing the impact of this standard but it is not practicable to quantify the effect as at the date of the publication of these financial statements.

All other standards and interpretations issued but not yet effective are not expected to have a material impact on the group.

Key management assumptions

In preparation of the 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 25 with further analysis contained in the risk management section on pages 58 to 60.

- Valuation of investment properties is performed twice annually by directors that are qualified valuators. The valuation is performed by capitalising the budgeted net income of a property at the market related yield applicable at the time. Properties in the listed fund are valued according to the JSE Listings Requirements.

Refer to note 32 for the carrying value of investment property with further analysis contained in the risk management section on pages 58 to 60.

- 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 34 to 57 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 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
  - Where appropriate the group has utilised expert external advice as well as experience of similar situations elsewhere in making any such provisions.
- Determination of interest income and interest expense using the effective interest rate method involves judgement in determining the timing and extent of future cash flows.

For the year to 31 March R'million	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Total group
1. Consolidated segmental analysis					
Group					
2017					
Segmental business analysis – income statement					
Net interest income	92	134	6 881	–	7 107
Net fee and commission income	3 233	1 385	3 879	–	8 497
Investment income	2	2	1 244	–	1 248
Share of post taxation operating profit of associates	–	–	306	–	306
Trading income/(loss) arising from					
– customer flow	–	5	487	–	492
– balance sheet management and other trading activities	(18)	(3)	25	–	4
Other operating income	5	–	–	–	5
Total operating income before impairment on loans and advances	**3 314**	**1 523**	**12 822**	**–**	**17 659**
Impairment losses on loans and advances	–	–	(659)	–	(659)
Operating income	**3 314**	**1 523**	**12 163**	**–**	**17 000**
Operating costs	(1 963)	(1 009)	(6 033)	(233)	(9 238)
Operating profit/(loss) before goodwill, acquired intangibles and non-controlling interests	**1 351**	**514**	**6 130**	**(233)**	**7 762**
Profit attributable to non-controlling interests	(156)	–	(1 039)	–	(1 195)
Profit before goodwill, acquired intangibles, taxation after non-controlling interests	**1 195**	**514**	**5 091**	**(233)**	**6 567**
Cost to income ratio	59.2%	66.3%	47.1%	n/a	52.3%
Total assets (R'million)	132 057	15 561	438 814	–	586 432
2016					
Segmental business analysis – income statement					
Net interest income	74	66	6 346	–	6 486
Net fee and commission income	2 895	1 329	3 062	–	7 286
Investment income	1	6	2 112	–	2 119
Share of post taxation operating loss of associates	–	–	(11)	–	(11)
Trading income arising from					
– customer flow	–	–	353	–	353
– balance sheet management and other trading activities	–	6	432	–	438
Other operating income	35	–	3	–	38
Total operating income before impairment on loans and advances	**3 005**	**1 407**	**12 297**	**–**	**16 709**
Impairment losses on loans and advances	–	–	(520)	–	(520)
Operating income	**3 005**	**1 407**	**11 777**	**–**	**16 189**
Operating costs	(1 812)	(942)	(5 776)	(221)	(8 751)
Operating profit/(loss) before goodwill, acquired intangibles and non-controlling interests	**1 193**	**465**	**6 001**	**(221)**	**7 438**
Profit attributable to non-controlling interests	(129)	–	(795)	–	(924)
Profit before goodwill, acquired intangibles, taxation after non-controlling interests	**1 064**	**465**	**5 206**	**(221)**	**6 514**
Cost to income ratio	60.3%	67.0%	47.0%	n/a	52.4%
Total assets (R'million)	126 114	16 742	425 923	–	568 779

The company's activities mainly comprise central funding activities within the Specialist Banking segment.

Net assets by class of business is not disclosed as the directors do not view it to be meaningful to provide the information by class of business since the economic capital of certain significant businesses of the group is not held in, or allocated to, these businesses, but is centrally held. No geographical analysis has been presented as the group only operates in one geographical segment, namely Southern Africa.

2. Net interest income/(expense)

For the year to 31 March R'million	Notes	Group 2017 Balance sheet value	Group 2017 Interest income	Group 2016 Balance sheet value	Group 2016 Interest income	Company 2017 Balance sheet value	Company 2017 Interest income	Company 2016 Balance sheet value	Company 2016 Interest income
Cash, near cash and bank debt and sovereign debt securities	1	138 519	7 244	146 901	6 065	37	3	35	2
Core loans and advances	2	236 225	21 639	217 958	17 146	–	–	–	–
Private client		157 854	14 529	144 870	11 404	–	–	–	–
Corporate, institutional and other clients		78 371	7 110	73 088	5 742	–	–	–	–
Other debt securities and other loans and advances		12 338	1 060	12 121	610	–	–	–	–
Other interest-earning assets	3	173	406	201	156	930	81	594	51
Total interest-earning assets		**387 255**	**30 349**	**377 181**	**23 977**	**967**	**84**	**629**	**53**

For the year to 31 March R'million	Notes	Group 2017 Balance sheet value	Group 2017 Interest expense	Group 2016 Balance sheet value	Group 2016 Interest expense	Company 2017 Balance sheet value	Company 2017 Interest expense	Company 2016 Balance sheet value	Company 2016 Interest expense
Deposits by banks and other debt-related securities	4	52 196	(2 151)	69 757	(1 781)	582	(35)	916	(37)
Customer accounts (deposits)		303 470	(19 797)	279 820	(14 582)	–	–	–	–
Other interest-bearing liabilities	5	1 511	(240)	1 810	(321)	–	(23)	–	(21)
Subordinated liabilities		13 805	(1 054)	11 357	(807)	625	(74)	625	(19)
Total interest-bearing liabilities		**370 982**	**(23 242)**	**362 744**	**(17 491)**	**1 207**	**(132)**	**1 541**	**(77)**
Net interest income/ (expense)			**7 107**		**6 486**		**(48)**		**(24)**
Net interest margin			**1.86%***		**1.90%***		**(6.02%)**		**(3.19%)**

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 cash 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.*
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.*

* *Impacted by debt funding issued by the Investec Property Fund in which the group has a 27.86% interest. Excluding this debt funding cost, the net interest margin amounted to 1.99% (2016: 1.98%).*

For the year to 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
3. Net fee and commission income				
Asset management and wealth management businesses net fee and commission income	**4 618**	**4 224**	**–**	**–**
Fund management fees/fees for assets under management	4 056	3 689	–	–
Private client transactional fees	717	716	–	–
Fee and commission expense	(155)	(181)	–	–
Specialist Banking net fee and commission income/(expense)	**3 879**	**3 062**	**–**	**(1)**
Corporate and institutional transactional and advisory services	3 536	2 704	–	–
Private client transactional fees	679	640	–	–
Fee and commission expense	(336)	(282)	–	(1)
Net fee and commission income/(expense)	**8 497**	**7 286**	**–**	**(1)**
Annuity fees (net of fees payable)	6 945	5 694	–	(1)
Deal fees	1 552	1 592	–	–

Trust and fiduciary fees amounts to R4.6 million (2016: R4.2 million) and is included in private client transactional fees in the group.

For the year to 31 March R'million	Asset portfolio: Investment portfolio (listed and unlisted equities)*	Asset portfolio: Debt securities (sovereign, bank and other)	Asset portfolio: Investment properties	Asset portfolio: Other asset categories	Total
4. Investment income					
The following table analyses investment income generated by the asset portfolio shown on the balance sheet:					
2017					
Group					
Realised	361	127	373	43	904
Unrealised^	(298)	35	354	(83)	8
Dividend income	337	–	–	9	346
Funding and other net related (costs)/income	(68)	–	–	58	(10)
	332	**162**	**727**	**27**	**1 248**
Company					
Dividend income**	–	–	–	2 083	2 083
	–	**–**	**–**	**2 083**	**2 083**

* *Including embedded derivatives (warrants and profit shares).*
** *Dividends from investment in subsidiaries.*
^ *In a year of realisation, any prior period mark-to-market gains/(losses) recognised are reversed in the unrealised line.*

For the year to 31 March R'million	Asset portfolio Investment portfolio (listed and unlisted equities)*	Debt securities (sovereign, bank and other)	Investment properties	Other asset categories	Total
4. Investment income *(continued)*					
The following table analyses investment income generated by the asset portfolio shown on the balance sheet:					
2016					
Group					
Realised	5 251	63	186	20	5 520
Unrealised^	(3 707)	51	263	(6)	(3 399)
Dividend income	267	–	–	–	267
Funding and other net related (costs)/income	(290)	–	–	21	(269)
	1 521	**114**	**449**	**35**	**2 119**
Company					
Dividend income**	–	–	–	871	871
	–	**–**	**–**	**871**	**871**

* *Including embedded derivatives (warrants and profit shares).*
** *Dividends from investment in subsidiaries.*
^ *In a year of realisation, any prior period mark-to-market gains/losses recognised are reversed in the unrealised line.*

For the year to 31 March R'million	Group 2017	2016
5. Other operating income		
Rental income from properties	2	–
Unrealised gains on other investments	3	38
	5	**38**

For the year to 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
6. Operating costs				
Staff costs	6 412	6 074	46	145
– Salaries and wages (including directors' remuneration)^	5 292	5 054	46	145
– Training and other costs	161	144	–	–
– Share-based payment expense	622	582	–	–
– Social security costs	74	63	–	–
– Pensions and provident fund contributions	263	231	–	–
Premises (excluding depreciation)	495	471	–	–
Equipment (excluding depreciation)	627	548	–	–
Business expenses*	996	1 014	3	–
Marketing expenses	505	448	–	–
Depreciation, amortisation and impairment of property, equipment and intangibles	203	196	–	–
	9 238	**8 751**	**49**	**145**
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 in the group:				
Ernst & Young fees				
Fees payable to the companies' auditors for the audit of the companies' accounts	13	22	7	13
Fees payable to the companies' auditors and its associates for other services:				
– Audit of the company's subsidiaries pursuant to legislation	24	27	–	–
– Other	4	–	–	–
	41	**49**	**7**	**13**
KPMG fees				
Fees payable to the companies' auditors for the audit of the companies' accounts	24	24	1	2
Fees payable to the companies' auditors and its associates for other services:				
– Audit of the company's subsidiaries pursuant to legislation	7	6	–	–
– Other services	2	3	–	1
	33	**33**	**1**	**3**
Total	**74**	**82**	**8**	**16**

^ *Details of the directors' emoluments, pensions and their interests are disclosed in the remuneration report in volume one of Investec's 2017 integrated annual report.*

* *Business expenses mainly comprise insurance costs, consulting and professional fees, travel expenses and subscription costs.*

For the year to 31 March R'million	Group Asset Management	 Wealth & Investment	 Specialist Banking	 Group costs	 Total group

7. 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 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.

	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Total group
Share-based payments expense					
2017					
Equity-settled	**45**	**59**	**499**	**19**	**622**
2016					
Equity-settled	**43**	**72**	**441**	**26**	**582**

For the year to 31 March Number of share options	Group 2017	 2016
Details of options outstanding during the year		
Outstanding at the beginning of the year	37 773 545	41 633 973
Granted during the year	6 527 507	8 431 958
Exercised during the year^	(7 328 694)	(10 977 407)
Expired during the year	(1 027 427)	(1 314 979)
Outstanding at the end of the year	**35 944 931**	**37 773 545**
Vested and exercisable at the end of the year	**9 413**	**10 878**

^ *The weighted average share price for options exercised during the year and weighted average exercise price was R94.43 (2016: R108.32) and Rnil (2016: Rnil) respectively.*

For information on the share options granted to directors, refer to volume one of Investec's 2017 integrated annual report.

For the year to 31 March	Group 2017	Group 2016
7. Share-based payments *(continued)*		
Long-term incentive grants with no strike price		
Weighted average remaining contractual life	1.76 years	2.04 years
Weighted average fair value of options and long-term grants at measurement date	R98.30	R84.62
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 grant	R89.97 – R105.30	R109.98 – R120.88
– Exercise price	Rnil	Rnil
– Expected volatility	n/a	30%
– Option life	4.5 – 5 years	4 – 5 years
– Expected dividend yields	n/a	4.02% – 4.19%
– Risk-free rate	n/a	7.49% – 7.66%

Expected volatility was determined based on the implied volatility levels quoted by the equity derivatives trading desk. The expected volatility is based on the respective share price movement over the last six months, but also includes an element of forward expectation. The expected attrition rates used were determined based on historical group data with an adjustment to actual attrition on final vesting.

8. Taxation

For the year to 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
Current taxation				
Southern Africa				
Current taxation in respect of current year	1 825	1 654	51	3
in respect of current year	1 951	1 654	51	3
in respect of prior year adjustments	(126)	–	–	–
Deferred taxation	(431)	(243)	–	–
Total South African taxation	**1 394**	**1 411**	**51**	**3**
Foreign current taxation				
Mauritius	27	29	–	–
Botswana	5	5	–	–
Total foreign taxation	**32**	**34**	**–**	**–**
Total taxation charge as per the income statement	**1 426**	**1 445**	**51**	**3**
Taxation on operating profit before goodwill and intangible assets	1 440	1 456	51	3
Taxation on acquired intangibles	(14)	(11)	–	–
Tax rate reconciliation:				
Profit before taxation as per the income statement	7 685	7 365	2 072	701
Total taxation charge as per the income statement	1 426	1 445	51	3
Effective rate of taxation	**18.6%**	**19.6%**	**2.5%**	**0.4%**
The standard rate of South African normal taxation has been affected by:				
Dividend income	2.2%	4.6%	28.1%	34.8%
Qualifying distribution	5.3%	4.2%	–	–
Other Additional Tier 1 securities interest	0.2%	0.2%	0.9%	2.3%
Foreign earnings*	1.8%	1.5%	–	–
Impairment of goodwill	(0.1%)	(0.1%)	–	–
Prior year taxation adjustments	1.7%	–	–	–
Profits taxed at CGT	–	–	1.2%	–
Assessed losses	0.5%	–	–	–
Other non-taxable/non-deductible differences	(2.2%)	(2.0%)	(4.7%)	(9.5%)
	28.0%	**28.0%**	**28.0%**	**28.0%**

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

	Group 2017	Group 2016
Other comprehensive income taxation effects		
Fair value movements on cash flow hedge movements taken directly to other comprehensive income	943	(708)
– Pre-taxation	1 268	(1 147)
– Current taxation effect	(325)	439
Fair value movements on available-for-sale assets taken directly to other comprehensive income	580	(349)
– Pre-taxation	650	(383)
– Deferred taxation effect	(70)	34
Gain on realisation of available-for-sale assets recycled through the income statement	(61)	(13)
– Pre-taxation	(85)	(18)
– Deferred taxation effect	24	5

For the year to 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
9. Headline earnings				
Earnings attributable to shareholders	5 064	4 996	2 021	698
Dividends paid to perpetual preference shareholders	(451)	(411)	(320)	(290)
Earnings attributable to ordinary shareholders	**4 613**	**4 585**	**1 701**	**408**
Headline adjustments:	(263)	(70)	(86)	–
Impairment of goodwill	26	34	–	–
Revaluation of investment properties^	(260)	(198)	–	–
Gain on available-for-sale assets recycled to the income statement^	(61)	(13)	–	–
Loss on non-current assets held for sale^	32	107	–	–
Gain on partial disposal of subsidiary	–	–	(86)	–
Headline earnings attributable to ordinary shareholders	**4 350**	**4 515**	**1 615**	**408**

^ *Taxation on headline earnings adjustments amounted to R55.1 million (2016: R25.6 million) with a R425.9 million (2016: R206.4 million) impact on earnings attributable to non-controlling interests.*

For the year to 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
10. Dividends				
Ordinary dividend				
Final dividend-prior year*	1 473	1 032	1 535	1 075
Interim dividend-current year*	502	557	536	603
Total dividend attributable to ordinary shareholders recognised in current financial year	**1 975**	**1 589**	**2 071**	**1 678**
The directors have proposed a final dividend in respect of the financial year ended 31 March 2017 of 225 cents (2016: 266 cents) per ordinary share. The final dividend will be payable on Monday, 14 August 2017 to shareholders on the register at the close of business on Friday, 28 July 2017. The annual general meeting at which the proposed dividend will be considered for approval is scheduled to take place on Thursday, 10 August 2017.				
Perpetual preference dividend				
Final dividend-prior year	187	175	124	116
Interim dividend-current year	200	178	132	116
Total dividend attributable to perpetual preference shareholders recognised in current financial year	**387**	**353**	**256**	**232**
The directors have declared a final dividend in respect of the financial year ended 31 March 2017 of 407.17389 cents (2016: 384.9615) per Investec Limited perpetual preference share and 436.28392 cents (2016: 412.48350 cents) per Investec Bank Limited perpetual preference share. The final dividend will be payable to shareholders on the register at the close of business on Friday, 9 June 2017.				
Dividends attributable to Other Additional Tier 1 securities in issue	**64**	**58**	**64**	**58**
The R550 000 000 Other Additional Tier 1 floating rate notes pay dividends at a rate equal to the three-month JIBAR plus 4.25% on a quarterly basis as set out in note 46.				
Total dividends declared to other equity holders including other additional Tier 1 securities	**451**	**411**	**320**	**290**

* *This includes the dividend paid by Investec Limited on DAS share equivalent for South African resident shareholders of Investec plc.*

For the year to 31 March R'million	Group 2017	Group 2016
11. Operating lease disclosure		
Operating lease expenses recognised in operating costs:		
Minimum lease payments	**410**	**285**
Operating lease income recognised in income:		
Minimum lease payments	**1 742**	**958**

The majority of the operating lease expenses in the group relate to leases on property. Rental income from leasing properties is included in 'Fee and commission income'.

At 31 March R'million	Group 2017	Group 2016
Operating lease receivables		
Future minimum lease payments under non-cancellable operating leases:		
Less than one year	1 415	1 493
One to five years	3 470	4 098
Later than five years	1 003	1 552
	5 888	**7 143**

The group leases properties to third parties under operating lease arrangements. The leases typically run for a period of three years or longer. Lessees are entitled to the use of the properties leased to them for their own business purposes for the duration of the contracted lease period.

12. Analysis of income and impairments by category of financial instruments

For the year to 31 March R'million	At fair value through profit or loss Trading	 Designated at inception
Group		
2017		
Net interest income	847	1 377
Fee and commission income	248	(11)
Fee and commission expense	–	(7)
Investment income	(316)	763
Share of post tax operating profit of associates	–	–
Trading income arising from		
– customer flow	551	67
– balance sheet management and other trading activities	400	(338)
Other operating income	–	5
Total operating income before impairment losses on loans and advances	**1 730**	**1 856**
Impairment losses on loans and advances	–	–
Operating income	**1 730**	**1 856**
2016		
Net interest income	224	786
Fee and commission income	34	3
Fee and commission expense	–	–
Investment income	12	1 643
Share of post tax operating profit of associates	–	–
Trading income arising from		
– customer flow	339	7
– balance sheet management and other trading activities	(13)	296
Other operating income	–	36
Total operating income before impairment losses on loans and advances	**596**	**2 771**
Impairment losses on loans and advances	–	–
Operating income	**596**	**2 771**
Company		
2017		
Net interest income/(expense)	–	–
Investment income	–	–
Total operating income before impairment losses on loans and advances	**–**	**–**
2016		
Net interest income/(expense)	–	–
Fee and commission expense	–	–
Investment income	–	–
Total operating income before impairment losses on loans and advances	**–**	**–**

Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non-financial instruments	Other fee income	Total
663	22 062	2 125	(19 966)	(1)	–	7 107
–	1 170	–	1 536	372	5 673	8 988
–	(119)	–	(43)	(41)	(281)	(491)
–	–	90	590	121	–	1 248
–	–	–	–	306	–	306
–	–	–	(126)	–	–	492
–	–	(2)	(56)	–	–	4
–	–	–	–	–	–	5
663	**23 113**	**2 213**	**(18 065)**	**757**	**5 392**	**17 659**
–	(659)	–	–	–	–	(659)
663	**22 454**	**2 213**	**(18 065)**	**757**	**5 392**	**17 000**
613	18 317	1 644	(15 131)	33	–	6 486
–	1 113	3	25	1 314	5 257	7 749
–	(121)	(36)	(6)	(96)	(204)	(463)
–	20	1 023	10	(589)	–	2 119
–	–	–	–	(11)	–	(11)
–	–	–	7	–	–	353
–	139	71	(55)	–	–	438
–	–	1	–	1	–	38
613	**19 468**	**2 706**	**(15 150)**	**652**	**5 053**	**16 709**
–	(520)	–	–	–	–	(520)
613	**18 948**	**2 706**	**(15 150)**	**652**	**5 053**	**16 189**
–	84	–	(132)	–	–	(48)
–	–	–	–	2 083	–	2 083
–	**84**	**–**	**(132)**	**2 083**	**–**	**2 035**
–	31	–	(55)	–	–	(24)
–	–	–	–	–	(1)	(1)
–	–	–	–	871	–	871
–	**31**	**–**	**(55)**	**871**	**(1)**	**846**

At 31 March R'million	Trading	Designated at inception	Available-for-sale
	At fair value through profit or loss		
13. Analysis of financial assets and liabilities by category of financial instrument			
Group			
2017			
Assets			
Cash and balances at central banks	–	–	–
Loans and advances to banks	–	1 197	–
Non-sovereign and non-bank cash placements	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	18 383	–	–
Sovereign debt securities	–	38 542	5 949
Bank debt securities	–	–	5 498
Other debt securities	–	406	9 604
Derivative financial instruments*	9 842	–	–
Securities arising from trading activities	14 320	–	–
Investment portfolio	–	6 499	3
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	1 164	223	–
Property and equipment	–	–	–
Investment properties	–	–	–
Goodwill	–	–	–
Intangible assets	–	–	–
Non-current assets held for sale**	–	456	–
	43 709	**61 334**	**21 054**
Other financial instruments at fair value through profit or loss in respect of liabilities to customers	–	–	–
	43 709	**61 334**	**21 054**
Liabilities			
Deposits by banks	–	–	–
Derivative financial instruments*	12 558	–	–
Other trading liabilities	14 134	–	–
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	–	–
	28 445	**38 023**	**–**
Liabilities to customers under investment contracts	–	–	–
Insurance liabilities, including unit-linked liabilities	–	–	–
	28 445	**38 023**	**–**
Subordinated liabilities	–	–	–
	28 445	**38 023**	**–**

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

** *Non-current assets held for sale relate to an acquisition of a non-controlling interest in an entity. Management have entered into negotiations to dispose of this interest*

Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Financial assets linked to investment contract liabilities (refer to note 37)	Non-financial instruments or scoped out of IAS 39	Total
–	–	8 353	–	8 353	–	–	8 353
1 197	–	33 829	–	33 829	–	–	35 026
–	–	8 993	–	8 993	–	–	8 993
18 383	–	12 184	–	12 184	–	–	30 567
44 491	3 331	–	–	3 331	–	–	47 822
5 498	1 754	506	–	2 260	–	–	7 758
10 010	206	1 812	–	2 018	–	–	12 028
9 842	–	–	–	–	–	–	9 842
14 320	–	–	–	–	–	–	14 320
6 502	–	–	–	–	–	–	6 502
14 011	–	213 541	–	213 541	–	–	227 552
–	–	8 673	–	8 673	–	–	8 673
–	–	310	–	310	–	–	310
–	–	173	–	173	–	–	173
–	–	–	–	–	–	5 514	5 514
–	–	–	–	–	–	738	738
1 387	–	6 804	–	6 804	–	3 849	12 040
–	–	–	–	–	–	762	762
–	–	–	–	–	–	18 688	18 688
–	–	–	–	–	–	211	211
–	–	–	–	–	–	508	508
456	–	–	–	–	–	–	456
126 097	**5 291**	**295 178**	**–**	**300 469**	**–**	**30 270**	**456 836**
–	–	–	–	–	129 596	–	129 596
126 097	**5 291**	**295 178**	**–**	**300 469**	**129 596**	**30 270**	**586 432**
–	–	–	35 433	35 433	–	–	35 433
12 558	–	–	–	–	–	–	12 558
14 134	–	–	–	–	–	–	14 134
1 018	–	–	6 807	6 807	–	–	7 825
34 316	–	–	269 154	269 154	–	–	303 470
3 707	–	–	5 231	5 231	–	–	8 938
–	–	–	1 511	1 511	–	–	1 511
–	–	–	–	–	–	1 413	1 413
–	–	–	–	–	–	238	238
735	–	–	4 648	4 648	–	5 557	10 940
66 468	**–**	**–**	**322 784**	**322 784**	**–**	**7 208**	**396 460**
–	–	–	–	–	129 554	–	129 554
–	–	–	–	–	42	–	42
66 468	**–**	**–**	**322 784**	**322 784**	**129 596**	**7 208**	**526 056**
–	–	–	13 805	13 805	–	–	13 805
66 468	**–**	**–**	**336 589**	**336 589**	**129 596**	**7 208**	**539 861**

13. 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	 Available-for-sale
Group			
2016			
Assets			
Cash and balances at central banks	–	–	–
Loans and advances to banks	–	910	–
Non-sovereign and non-bank cash placements	3	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	27 058	–	–
Sovereign debt securities	–	28 920	8 687
Bank debt securities	–	2 263	4 990
Other debt securities	–	485	10 234
Derivative financial instruments*	15 839	–	–
Securities arising from trading activities	12 566	–	–
Investment portfolio	–	4 566	117
Loans and advances to customers	–	12 241	–
Own originated loans and advances to customers securitised	–	–	–
Other loans and advances	–	–	–
Other securitised assets	–	–	–
Interests in associated undertakings	–	–	–
Deferred taxation assets	–	–	–
Other assets	643	256	–
Property and equipment	–	–	–
Investment properties	–	–	–
Goodwill	–	–	–
Intangible assets	–	–	–
	56 109	**49 641**	**24 028**
Other financial instruments at fair value through profit or loss in respect of liabilities to customers	–	–	–
	56 109	**49 641**	**24 028**
Liabilities			
Deposits by banks	–	–	–
Derivative financial instruments*	13 424	–	–
Other trading liabilities	15 441	–	–
Repurchase agreements and cash collateral on securities lent	2 509	–	–
Customer accounts (deposits)	–	12 059	–
Debt securities in issue	–	5 080	–
Liabilities arising on securitisation of own originated loans and advances	–	–	–
Current taxation liabilities	–	–	–
Deferred taxation liabilities	–	–	–
Other liabilities	680	–	–
	32 054	**17 139**	**–**
Liabilities to customers under investment contracts	–	–	–
Insurance liabilities, including unit-linked liabilities	–	–	–
	32 054	**17 139**	**–**
Subordinated liabilities	–	–	–
	32 054	**17 139**	**–**

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

Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Financial assets linked to investment contract liabilities (refer to note 37)	Non-financial instruments or scoped out of IAS 39	Total
–	–	7 801	–	7 801	–	–	7 801
910	–	28 573	–	28 573	–	–	29 483
3	–	9 855	–	9 855	–	–	9 858
27 058	–	16 259	–	16 259	–	–	43 317
37 607	3 718	–	–	3 718	–	–	41 325
7 253	6 272	1 592	–	7 864	–	–	15 117
10 719	263	771	–	1 034	–	–	11 753
15 839	–	–	–	–	–	–	15 839
12 566	–	–	–	–	–	–	12 566
4 683	–	–	–	–	–	–	4 683
12 241	–	196 479	–	196 479	–	–	208 720
–	–	9 238	–	9 238	–	–	9 238
–	–	367	–	367	–	–	367
–	–	201	–	201	–	–	201
–	–	–	–	–	–	5 145	5 145
–	–	–	–	–	–	572	572
899	–	5 078	–	5 078	–	3 619	9 596
–	–	–	–	–	–	729	729
–	–	–	–	–	–	18 167	18 167
–	–	–	–	–	–	238	238
–	–	–	–	–	–	524	524
129 778	**10 253**	**276 214**	**–**	**286 467**	**–**	**28 994**	**445 239**
–	–	–	–	–	123 540	–	123 540
129 778	**10 253**	**276 214**	**–**	**286 467**	**123 540**	**28 994**	**568 779**
–	–	–	40 063	40 063	–	–	40 063
13 424	–	–	–	–	–	–	13 424
15 441	–	–	–	–	–	–	15 441
2 509	–	–	14 407	14 407	–	–	16 916
12 059	–	–	267 761	267 761	–	–	279 820
5 080	–	–	7 699	7 699	–	–	12 779
–	–	–	1 810	1 810	–	–	1 810
–	–	–	–	–	–	1 084	1 084
–	–	–	–	–	–	457	457
680	–	–	4 156	4 156	–	5 401	10 237
49 193	**–**	**–**	**335 896**	**335 896**	**–**	**6 942**	**392 031**
–	–	–	–	–	123 508	–	123 508
–	–	–	–	–	32	–	32
49 193	**–**	**–**	**335 896**	**335 896**	**123 540**	**6 942**	**515 571**
–	–	–	11 357	11 357	–	–	11 357
49 193	**–**	**–**	**347 253**	**347 253**	**123 540**	**6 942**	**526 928**

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

At 31 March R'million	Trading	Total instruments at fair value	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments or scoped out of IAS 39	Total
Company							
2017							
Assets							
Loans and advances to banks	–	–	37	–	37	–	37
Investment in subsidiaries	6	6	924	–	924	15 010	15 940
	6	**6**	**961**	**–**	**961**	**15 010**	**15 977**
Liabilities							
Debt securities in issue	–	–	–	582	582	–	582
Current taxation liabilities	–	–	–	–	–	144	144
Other liabilities	–	–	–	20	20	357	377
	–	**–**	**–**	**602**	**602**	**501**	**1 103**
Subordinated liabilities	–	–	–	625	625	–	625
	–	**–**	**–**	**1 227**	**1 227**	**501**	**1 728**
2016							
Assets							
Loans and advances to banks	–	–	35	–	35	–	35
Investment in subsidiaries	–	–	593	–	593	15 012	15 605
	–	**–**	**628**	**–**	**628**	**15 012**	**15 640**
Liabilities							
Debt securities in issue	–	–	–	916	916	–	916
Current taxation liabilities	–	–	–	–	–	103	103
Other liabilities	–	–	–	12	12	321	333
	–	**–**	**–**	**928**	**928**	**424**	**1 352**
Subordinated liabilities	–	–	–	625	625	–	625
	–	**–**	**–**	**1 553**	**1 553**	**424**	**1 977**

14. 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)

Assets and liabilities related to the long-term assurance business attributable to policyholders have been excluded from the analysis as the change in fair value of related assets is attributable to policyholders.

Fair value disclosures on investment properties are included in the 'Investment properties' note 32.

		Fair value category		
At 31 March R'million	**Total instruments at fair value**	**Level 1**	**Level 2**	**Level 3**
Group				
2017				
Assets				
Loans and advances to banks	1 197	1 197	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	18 383	2 955	15 428	–
Sovereign debt securities	44 491	44 491	–	–
Bank debt securities	5 498	4 108	1 390	–
Other debt securities	10 010	6 437	3 465	108
Derivative financial instruments	9 842	–	9 832	10
Securities arising from trading activities	14 320	14 245	75	–
Investment portfolio	6 502	2 687	575	3 240
Loans and advances to customers	14 011	–	14 011	–
Other assets	1 387	1 387	–	–
Non-current assets held for sale	456	–	–	456
	126 097	**77 507**	**44 776**	**3 814**
Liabilities				
Derivative financial instruments	12 558	–	12 558	–
Other trading liabilities	14 134	12 817	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	–
	66 468	**12 817**	**53 651**	**–**
Net financial assets/(liabilities) at fair value	**59 629**	**64 690**	**(8 875)**	**3 814**

Notes to the financial statements

(continued)

14. 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				
2016				
Assets				
Loans and advances to banks	910	910	–	–
Non-sovereign and non-bank cash placements	3	–	3	–
Reverse repurchase agreements and cash collateral on securities borrowed	27 058	2 903	24 155	–
Sovereign debt securities	37 607	37 607	–	–
Bank debt securities	7 253	4 429	2 824	–
Other debt securities	10 719	10 532	187	–
Derivative financial instruments	15 839	–	15 829	10
Securities arising from trading activities	12 566	12 566	–	–
Investment portfolio	4 683	1 527	369	2 787
Loans and advances to customers	12 241	–	12 241	–
Other assets	899	899	–	–
	129 778	**71 373**	**55 608**	**2 797**
Liabilities				
Derivative financial instruments	13 424	–	13 424	–
Other trading liabilities	15 441	14 612	829	–
Repurchase agreements and cash collateral on securities lent	2 509	–	2 509	–
Customer accounts (deposits)	12 059	–	12 059	–
Debt securities in issue	5 080	–	5 080	–
Other liabilities	680	–	680	–
	49 193	**14 612**	**34 581**	**–**
Net financial assets at fair value	**80 585**	**56 761**	**21 027**	**2 797**
Company				
Assets				
Investment in subsidiaries	**6**	**–**	**6**	**–**

14. 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 period in measuring financial instruments categorised as level 2 in the fair value hierarchy:

	Valuation basis/techniques	Main assumptions
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	Swap curves and discount rates
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

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

Transfers between level 1 and level 2

There were no transfers between level 1 and level 2 for the current year and prior year.

Level 3 instruments

The following table is a reconciliation of the opening balances to the closing balances for fair value measurements in level 3 of the fair value hierarchy. All instruments are at fair value through profit or loss:

For the year to 31 March R'million	Total level 3 financial instruments
Group	
Balance as at 1 April 2015	8 358
Total gains recognised in the income statement	586
Purchases	494
Sales	(6 873)
Issues	70
Settlements	(397)
Transfers into level 3	103
Transfers out of level 3	332
Foreign exchange adjustments	124
Balance as at 31 March 2016	**2 797**
Total gains recognised in the income statement	43
Purchases	1 226
Sales	(44)
Transfers into level 3	112
Transfers out of level 3	(297)
Foreign exchange adjustments	(23)
Balance as at 31 March 2017	**3 814**

During the year, a level 3 investment of R297.0 million has been transferred to level 2 due to the nature of the asset changing, resulting in a change in valuation method. In addition, R112.3 million has been transferred into level 3 due to inputs becoming unobservable in the market.

For the year ended 31 March 2016, R103.3 million has been transferred into level 3 from level 2 as a result of the inputs to the valuation methods becoming unobservable in the market. R331.9 million related to instruments transferred from level 3 to level 2 as a result of inputs to the valuation method become observable.

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

The following table quantifies the gains or (losses) included in the income statement recognised on level 3 financial instruments:

For the year to 31 March R'million	Total	Realised	Unrealised
Group			
2017			
Total gains or (losses) included in the income statement for the year			
Investment loss	(11)	8	(19)
Trading income arising from customer flow	54	–	54
	43	**8**	**35**

For the year to 31 March R'million	Total	Realised	Unrealised
Group			
2016			
Total gains or (losses) included in the income statement for the year			
Investment income/(loss)	564	3 445	(2 881)
Trading income arising from balance sheet management and other trading activities	22	22	–
	586	**3 467**	**(2 881)**

14. 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 reasonably possible alternative assumptions, determined at a transactional level:

At 31 March 2017	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
Assets						
Other debt securities	108	Price-earnings	Price-earnings multiple	(10%)/10%	16	(2)
Derivative financial instruments	10	Comparable sales	Property value	(10%)/10%	1	(1)
Investment portfolio	3 240				665	(740)
		Price-earnings	EBITDA	*	350	(294)
		Discounted cash flow	Precious and industrial metal prices	(10%)/10%	258	(289)
		Other	Various	**	57	(157)
Non-current assets held for sale	456	Price-earnings	Price-earnings multiple	(10%)/10%	65	(58)
Net level 3 assets	**3 814**				**747**	**(801)**

* *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.*

At 31 March 2016	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
Assets						
Derivative financial instruments	10	Price multiple	Net asset value	(10%)/10%	1	(1)
Investment portfolio					417	(439)
	2 787	Price-earnings	Change in Price-earnings multiple	*	108	(85)
		Other	Various	**	309	(354)
Net level 3 assets	**2 797**				**418**	**(440)**

* *The price-earnings multiple has been determined on an investment by investment basis in order to obtain favourable and unfavourable valuations.*

** *These valuation sensitivities have determined individually using varying scenario based techniques to obtain the favourable and unfavourable valuations.*

In determining the value of level 3 financial instruments, the following is a principal input that can require judgement:

Price-earnings multiple

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

EBITDA

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

Property value and precious and industrial metals

The price of precious and industrial metals is a key driver of future cash flows on these investments.

15. Fair value of financial instruments at amortised cost

At 31 March R'million	Carrying amount	Fair value	Fair value category Level 1	Level 2	Level 3
Group					
2017					
Assets					
Sovereign debt securities	3 331	3 248	3 248	–	–
Bank debt securities	2 260	2 301	1 795	506	–
Other debt securities	2 018	2 029	67	1 962	–
Loans and advances to customers	213 541	213 660	5 104	189 488	19 068
Liabilities					
Deposits by banks	35 433	35 790	3 278	32 512	–
Repurchase agreements and cash collateral on securities lent	6 807	6 843	4 250	2 593	–
Customer accounts (deposits)	269 154	269 974	125 368	144 606	–
Debt securities in issue	5 231	5 235	2 894	2 233	108
Subordinated liabilities	13 805	14 562	14 562	–	–

At 31 March R'million	Carrying amount	Fair value	Fair value category Level 1	Level 2	Level 3
Group					
2016					
Assets					
Sovereign debt securities	3 718	3 798	3 798	–	–
Bank debt securities	7 864	8 778	7 178	1 600	–
Other debt securities	1 034	1 053	69	984	–
Loans and advances to customers	196 479	196 606	2 100	174 971	19 535
Liabilities					
Deposits by banks	40 063	40 219	811	39 408	–
Repurchase agreements and cash collateral on securities lent	14 407	14 452	–	14 452	–
Customer accounts (deposits)	267 761	268 275	137 475	130 800	–
Subordinated liabilities	11 357	12 317	12 317	–	–

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 amount approximates 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 value	Fair value	Fair value category Level 1	Level 2	Level 3
15. Fair value of financial instruments at amortised cost *(continued)*					
Company					
2017					
Liabilities					
Subordinated liabilities	625	645	645	–	–
2016					
Liabilities					
Subordinated liabilities	625	626	626	–	–

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 amount approximates their fair value and therefore no additional disclosures are made. This assumption also applies to demand deposits and savings accounts without a specific maturity included in customer accounts (deposits) and variable rate financial instruments.

The table below sets out information about the valuation techniques used at the end of the reporting period in measuring financial instruments not held at fair value categorised as level 2 and level 3.

	Valuation basis/techniques	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

16. Designated at fair value: loans and receivables and financial liabilities

At 31 March R'million	Carrying value	Fair value adjustment Year to date	Fair value adjustment Cumulative	Maximum exposure to credit risk
Group				
Loans and receivables designated at fair value through profit or loss				
2017				
Loans and advances to customers	14 011	(96)	211	13 882
	14 011	**(96)**	**211**	**13 882**
2016				
Loans and advances to customers	12 241	(183)	(32)	12 027
	12 241	**(183)**	**(32)**	**12 027**

Year-to-date and cumulative fair value adjustments to loans and receivables attributable to credit risk were both Rnil (2016: Rnil).

At 31 March R'million	Carrying value	Remaining contractual amount to be repaid at maturity	Fair value adjustment Year to date	Fair value adjustment Cumulative
Group				
Financial liabilities designated at fair value through profit or loss				
2017				
Customer accounts (deposits)	34 316	34 227	252	89
Debt securities in issue	3 707	3 716	(3)	–
	38 023	**37 943**	**249**	**89**
2016				
Customer accounts (deposits)	12 059	12 222	56	163
Debt securities in issue	5 080	5 090	(7)	(3)
	17 139	**17 312**	**49**	**160**

Year-to-date and cumulative changes in fair value of financial liabilities attributable to credit risk were both Rnil (2016: Rnil).

Changes in fair value due to credit risk are determined as the change in the fair value of the financial instrument that is not attributable to changes in other market inputs.

At 31 March R'million	Group 2017	Group 2016
17. Cash and balances at central banks		
The country risk of cash and balances at central banks lies in the following geographies:		
South Africa	8 169	7 654
Other	184	147
	8 353	**7 801**

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
18. Loans and advances to banks				
The country risk of loans and advances to banks lies in the following geographies:				
South Africa	16 034	17 035	37	35
United Kingdom	4 735	1 533	–	–
Europe (excluding UK)	3 915	3 257	–	–
Australia	190	172	–	–
United States of America	6 297	4 769	–	–
Asia	983	1 839	–	–
Other	2 872	878	–	–
	35 026	**29 483**	**37**	**35**

At 31 March R'million	Group 2017	Group 2016
19. Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent		
Assets		
Reverse repurchase agreements	21 509	33 444
Cash collateral on securities borrowed	9 058	9 873
	30 567	**43 317**
As part of the reverse repurchase and securities borrowing agreements the group has received securities that it is allowed to sell or repledge. R9.3 billion (2016: R13.1 billion) has been resold or repledged to third parties in connection with financing activities or to comply with commitments under short sale transactions.		
Liabilities		
Repurchase agreements	7 825	16 916
	7 825	**16 916**
The assets transferred and not derecognised in the above repurchase agreements are fair valued at R5.9 billion (2016: R16.2 billion). They are pledged as security for the term of the underlying repurchase agreement.		

At 31 March R'million	Group 2017	Group 2016
20. Sovereign debt securities		
Bonds	17 403	21 212
Government securities	538	626
Treasury bills	29 881	19 487
	47 822	**41 325**
The country risk of the sovereign debt securities lies in the following geographies:		
South Africa	47 382	40 699
Other	440	626
	47 822	**41 325**

At 31 March R'million	Group 2017	Group 2016
21. Bank debt securities		
Bonds	5 180	11 388
Floating rate notes	2 072	3 729
Asset-based securities	506	–
	7 758	**15 117**
The country risk of the bank debt securities lies in the following geographies:		
South Africa	4 344	6 589
United Kingdom	2 202	5 012
United States of America	1 056	3 360
Other	156	156
	7 758	**15 117**

At 31 March R'million	Group 2017	Group 2016
22. Other debt securities		
Bonds	7 276	10 047
Floating rate notes	2 533	1 095
Liquid asset bills	298	298
Asset-based securities	1 831	187
Other investments	90	126
	12 028	**11 753**
The country risk of the other debt securities lies in the following geographies:		
South Africa	6 777	6 695
United Kingdom	1 209	1 140
Europe (excluding UK)	2 722	2 655
Australia	198	313
United States of America	215	–
Other	907	950
	12 028	**11 753**

23. Derivative financial instruments

The group enters into various contracts for derivatives both as principal for trading purposes and as customer for hedging foreign exchange and interest rate exposures. These include financial futures, options, swaps and forward rate agreements. The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations.

In the tables that follow notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair value of a derivative financial instrument represents the present value of 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.

	Group					
	2017			2016		
At 31 March R'million	**Notional principal amounts**	**Positive fair value**	**Negative fair value**	**Notional principal amounts**	**Positive fair value**	**Negative fair value**
Foreign exchange derivatives						
Forward foreign exchange contracts	124 866	2 289	1 782	171 801	5 616	6 711
Currency swaps	12 948	2 134	4 474	35 137	3 524	9 973
OTC options bought and sold	219 118	454	416	52 367	403	315
Other foreign exchange contracts	1	3	3	–	–	–
OTC derivatives	**356 933**	**4 880**	**6 675**	**259 305**	**9 543**	**16 999**
Interest rate derivatives						
Caps and floors	2 612	4	9	1 058	9	21
Swaps	206 832	1 288	2 318	238 343	2 171	3 737
Forward rate agreements	1 300	16	20	9 931	74	73
OTC options bought and sold	^	24	23	100	19	15
Other interest rate contracts	6 265	451	34	130	115	30
OTC derivatives	**217 009**	**1 783**	**2 404**	**249 562**	**2 388**	**3 876**
Equity and stock index derivatives						
OTC options bought and sold	311 919	3 199	1 961	44 464	4 666	703
Equity swaps and forwards	33 615	347	961	31 723	399	721
OTC derivatives	345 534	3 546	2 922	76 187	5 065	1 424
Exchange traded futures	138	1	–	1 473	1	–
Exchange traded options	27 021	8	–	7 006	3	–
Warrants	2 890	–	5 124	4 210	–	4 151
	375 583	**3 555**	**8 046**	**88 876**	**5 069**	**5 575**
Commodity derivatives						
OTC options bought and sold	1	1	1	4	^	^
Commodity swaps and forwards	111	22	24	997	101	132
OTC derivatives	**112**	**23**	**25**	**1 001**	**101**	**132**
Credit derivatives	**8 012**	**23**	**63**	**8 472**	**39**	**211**
Embedded derivatives*		**221**			**237**	
Cash collateral		**(643)**	**(4 655)**		**(1 538)**	**(13 369)**
Derivatives per balance sheet		**9 842**	**12 558**		**15 839**	**13 424**

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

At 31 March R'million	Group 2017	Group 2016
24. Securities arising from trading activities		
Bonds	448	688
Floating rate notes	6	–
Listed equities	13 791	11 878
Unlisted equities	75	–
	14 320	**12 566**

At 31 March R'million	Group 2017	Group 2016
25. Investment portfolio		
Listed equities	2 892	1 793
Unlisted equities*	3 610	2 890
	6 502	**4 683**

* *Unlisted equities include loan instruments that are convertible into equity. Refer to note 28 for unlisted equities now shown as interests in associated undertakings.*

At 31 March R'million	Group 2017	Group 2016
26. Loans and advances to customers and other loans and advances		
Gross loans and advances to customers	228 756	209 630
Impairments of loans and advances to customers	(1 204)	(910)
Net loans and advances to customers	**227 552**	**208 720**
Gross other loans and advances	334	398
Impairments of other loans and advances	(24)	(31)
Net other loans and advances to customers	**310**	**367**

For further analysis on loans and advances refer to pages 49 to 57 in the risk management section.

At 31 March R'million	Group 2017	Group 2016
26. Loans and advances to customers and other loans and advances *(continued)*		
Specific and portfolio impairments		
Reconciliation of movements in specific and portfolio impairments:		
Loans and advances to customers		
Specific impairment		
Balance at the beginning of the year	680	969
Charge to the income statement	718	832
Released in the income statement	(164)	(378)
Utilised	(358)	(743)
Transfers	7	–
Balance at the end of the year	**883**	**680**
Portfolio impairment		
Balance at the beginning of the year	230	170
Charge to the income statement	102	67
Transfers	(4)	(19)
Exchange adjustment	(7)	12
Balance at the end of the year	**321**	**230**
Other loans and advances		
Specific impairment		
Balance at the beginning of the year	10	16
Release to the income statement	(2)	(6)
Utilised	(2)	–
Balance at the end of the year	**6**	**10**
Portfolio impairment		
Balance at the beginning of the year	21	2
Transfers	(3)	19
Balance at the end of the year	**18**	**21**
Total specific impairments	889	690
Total portfolio impairments	339	251
Total impairments	**1 228**	**941**
Reconciliation of income statement charge:		
Loans and advances to customers	**656**	**521**
Specific impairment charge to income statement	554	454
Portfolio impairment charge to income statement	102	67
Securitised assets (refer to note 27)	**5**	**5**
Specific impairment charge to income statement	5	2
Portfolio impairment charge to income statement	–	3
Other loans and advances	**(2)**	**(6)**
Specific impairment release to income statement	(2)	(6)
Total income statement charge	**659**	**520**

At 31 March R'million	Group 2017	 2016
27. Securitised assets and liabilities arising on securitisation		
Gross own originated loans and advances to customers securitised	8 679	9 244
Impairments of own originated loans and advances to customers securitised	(6)	(6)
Net own originated loans and advances to customers securitised	**8 673**	**9 238**
Other securitised assets are made up of the following category of asset:		
– Cash and cash equivalents	173	201
Total other securitised assets	**173**	**201**
The associated liabilities are recorded on balance sheet in the following line item:		
Liabilities arising on securitisation of own originated loans and advances	**1 511**	**1 810**
Specific and portfolio impairments		
Reconciliation of movements in specific and portfolio impairments of own originated loans and advances to customers securitised		
Specific impairment		
Balance at the beginning of the year	1	3
Charge to the income statement	5	2
Utilised	(5)	(4)
Balance at the end of the year	**1**	**1**
Portfolio impairment		
Balance at the beginning of the year	5	2
Charge to the income statement	–	3
Balance at the end of the year	**5**	**5**
Total portfolio and specific impairments on balance sheet	**6**	**6**

At 31 March R'million	Group 2017	 2016
28. Interests in associated undertakings		
Associated undertakings comprise unlisted investments.		
Analysis of the movement in our share of net assets:		
Balance at the beginning of the year	5 145	60
Exchange adjustments	(6)	6
Transfer from investment portfolio	69	–
Acquisitions*	–	5 090
Share of post taxation operating profit/(loss) of associates	306	(11)
Balance at the end of the year	**5 514**	**5 145**

* *The group sold R7.6 billion of its unlisted equity portfolio to an investment vehicle, IEP Group (Pty) Ltd on the 11 January 2016 for R2.5 billion and a 45% stake in IEP to the value of R5.1 billion. Investec Bank holds 45% of the voting rights and representation on the board does not constitute control over the entity. As a result IEP has been accounted for as an equity accounted associate.*

Details of material associated companies

At 31 March R'million	2017
IEP Group (Pty) Ltd	
Carrying value of interest – equity method (R'million)	5 413
Net asset value	4 732
Goodwill	681
Effective interest in issued share capital	45%
Summarised financial information (R'million)	
Revenue	5 711
Profit after taxation	675
Total comprehensive income	675
Asset and liabilities (R'million)	
Non-current assets	19 912
Current assets	5 288
Non-current liabilities	7 695
Current liabilities	5 084
Net asset value	12 421
Non-controlling interest	1 905
Shareholders' equity	10 516

For the year ended 31 March 2016, summarised financial information of IEP is not available as the company was only incorporated during 20Δ16.

29. Deferred taxation

At 31 March R'million	Group 2017	Group 2016
Deferred taxation assets	738	572
Deferred taxation liabilities	(238)	(457)
Net deferred taxation assets	**500**	**115**
The net deferred taxation assets arise from:		
Income and expenditure accruals	541	254
Unrealised fair value adjustments on financial instruments	156	171
Losses carried forward	142	114
Acquired intangibles	(90)	(104)
Revaluation of property	(410)	(391)
Finance lease accounting	64	56
Other temporary differences	97	15
Net deferred taxation assets	**500**	**115**
Reconciliation of net deferred taxation assets		
At beginning of year	115	(69)
Recovery to income statement	431	243
(Change)/recovery directly in other comprehensive income	(46)	39
Acquisitions	–	(115)
Other	–	17
At year end	**500**	**115**

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.

30. Other assets

At 31 March R'million	Group 2017	Group 2016
Settlement debtors	2 737	1 790
Trading properties	2 530	2 322
Prepayments and accruals	535	504
Trading initial margin	776	643
Investec Import Solutions debtors	1 862	1 456
Fee debtors	36	33
Corporate tax assets	148	–
Other	3 416	2 848
	12 040	**9 596**

31. Property and equipment

At 31 March R'million	Freehold properties	Leasehold improvements	Furniture and vehicles	Equipment	Total
Group					
2017					
Cost					
At the beginning of the year	504	36	197	835	1 572
Additions	–	8	13	167	188
Disposals	–	–	(12)	(84)	(96)
At the end of the year	**504**	**44**	**198**	**918**	**1 664**
Accumulated depreciation					
At the beginning of the year	(47)	(25)	(133)	(638)	(843)
Disposals	–	–	10	58	68
Depreciation	(10)	(4)	(12)	(101)	(127)
At the end of the year	**(57)**	**(29)**	**(135)**	**(681)**	**(902)**
Net carrying value	**447**	**15**	**63**	**237**	**762**
2016					
Cost					
At the beginning of the year	504	34	192	788	1 518
Acquisition of a subsidiary undertaking	–	–	1	24	25
Additions	–	2	8	126	136
Disposals	–	–	(4)	(103)	(107)
At the end of the year	**504**	**36**	**197**	**835**	**1 572**
Accumulated depreciation					
At the beginning of the year	(37)	(22)	(126)	(627)	(812)
Disposals	–	–	3	90	93
Depreciation	(10)	(3)	(10)	(101)	(124)
At the end of the year	**(47)**	**(25)**	**(133)**	**(638)**	**(843)**
Net carrying value	**457**	**11**	**64**	**197**	**729**

At 31 March R'million	Group 2017	2016
32. Investment properties		
At the beginning of the year	18 167	9 925
Additions	614	8 142
Disposals	(447)	(163)
Fair value movement	354	263
At the end of the year	**18 688**	**18 167**

For total gains and losses on investment properties recognised in the income statement, refer to note 4.

All investment properties are classified as level 3 in the fair value hierarchy.

For all investment property that is measured at fair value, the current use of the property is considered the highest and best use. Properties are valued under the income capitalisation method and discounted cash flow method (DCF).

Under the income capitalisation method a property's fair value is estimated based on the normalised net operating income generated by the property, which is divided by the capitalisation rate.

Under the DCF method a property's fair value is estimated using explicit assumptions about the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This involves the projection of a series of cash flows and, to this, an appropriate market-derived discount rate is applied to establish the present value of the income stream.

Valuation techniques used to derive level 3 fair values

For all classes of investment property the significant unobservable inputs listed below are used in the income capitalisation method to determine the fair value measurement at the end of the reporting period.

The following factors influence the equivalent yield applied by management when determining the fair value of a building:
- Vacancy rate
- Expected rental
- Lease term

The table below includes the following descriptions and definitions relating to key unobservable inputs made in determining fair value:

Significant unobservable inputs	Definition
Expected Rental Value (ERV)	The rent at which space could be let in the market conditions prevailing at the date of valuation.
Equivalent yield	The equivalent yield is defined as the internal rate of return of the cash flow from the property, assuming a rise to ERV at the next review, but with no further rental growth.
Long-term vacancy rate	The ERV of the expected long-term average structural vacant space divided by ERV of the whole property. Long-term vacancy rate can also be determined based on the percentage of estimated vacant space divided by the total lettable area.

There are interrelationships between ERV, the long-term vacancy rate and the equivalent yield. However, a lower/(higher) vacancy rate would increase/(decrease) the ERV for a property.

Significant unobservable inputs	Definition
Expected Rental Value (ERV)	Increases/(decreases) in ERV would increase/(decrease) estimated fair value.
Equivalent yield	Increases/(decreases) in the equivalent yield would result in decreases/(increases) in the estimated fair value.
Long-term vacancy rate	Increases/(decreases) in the long-term vacancy rate would result in decreases/(increases) in the estimated fair value.

Further analysis of investment properties is in the risk management section on pages 58 to 60.

At 31 March R'million	Group 2017	Group 2016
33. Goodwill		
Cost		
At the beginning of the year	1 454	1 283
Acquisitions	–	171
	1 454	**1 454**
Accumulated impairments		
At the beginning of the year	(1 216)	(1 182)
Impairment of goodwill	(26)	(34)
Other	(1)	–
At the end of the year	**(1 243)**	**(1 216)**
Net carrying value	**211**	**238**
Analysis of goodwill by line of business:		
Asset Management	–	26
Wealth & Investment	37	37
Specialist Banking	174	175
	211	**238**

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 to Investec Import Solutions group and Investec Asset Management. Goodwill from Investec Asset Management relates particularly to the businesses from the Fedsure acquisition, which has been identified as a separate cash-generating unit.

The goodwill has been tested for impairment, taking into account profitability, being the current year profits, the budgeted profits and funds under management. The valuation is based on management's assessment of appropriate profit forecast and a discount rate to estimate the fair value less cost to sell the business. The discount rate applied of 12.36% is determined using the South African risk-free rate adjusted for the risk-related to the cash generating unit.

The valuation would be level 3 in the fair value hierarchy.

34. Intangible assets

At 31 March R'million	Acquired software	Internally generated software	Client relationships	Total
Group				
2017				
Cost				
At the beginning of the year	601	110	412	1 123
Additions	106	8	–	114
Disposals	(10)	(1)	–	(11)
At the end of the year	**697**	**117**	**412**	**1 226**
Accumulated amortisation and impairments				
At the beginning of the year	(468)	(92)	(39)	(599)
Disposals	7	1	–	8
Amortisation	(71)	(5)	(51)	(127)
At the end of the year	**(532)**	**(96)**	**(90)**	**(718)**
Net carrying value	**165**	**21**	**322**	**508**
2016				
Cost				
At the beginning of the year	576	102	–	678
Acquisition of subsidiary undertaking	–	–	412	412
Additions	25	8	–	33
At the end of the year	**601**	**110**	**412**	**1 123**
Accumulated amortisation and impairments				
At the beginning of the year	(401)	(87)	–	(488)
Amortisation	(67)	(5)	(39)	(111)
At the end of the year	**(468)**	**(92)**	**(39)**	**(599)**
Net carrying value	**133**	**18**	**373**	**524**

35. Acquisitions or disposals

2017

There were no material acquisitions or disposals during the year.

2016

On 1 July 2015, Investec Bank Limited concluded transaction agreements with the management and shareholders of the Investec Import Solutions group, previously Blue Strata group, for the acquisition of the remaining 51.5% of the Blue Strata group, not already owned by it. Investec and Blue Strata have had a fruitful partnership over the past 13 years since Blue Strata's founding in 2002.

The assets and liabilities at the date of acquisition, goodwill arising and total consideration paid are shown below:

R'million	Fair value of assets and liabilities
Loans and advances to banks	70
Investment portfolio	43
Deferred taxation assets	6
Other assets	1 437
Property and equipment	25
Intangible assets	412
Assets	**1 993**
Deferred taxation liabilities	121
Other liabilities	256
Liabilities	**377**
Net fair value of assets acquired	**1 616**
Fair value of existing 48.5% equity interest held in Investec Import Solutions	370
Issue of Investec Limited Shares	367
Loan eliminated on consolidation	1 050
Fair value of consideration	**1 787**
Goodwill	**171**

For the post-acquisition period 1 July 2015 to 31 March 2016, the operating income of Investec Import Solutions was R204.9 million and the profit before taxation amounted to R68.2 million. If the acquisition of Investec Import Solutions had occurred at the beginning of the prior year, the increase in operating income and profit before taxation of the group would be R269.5 million and R93.1 million respectively.

At 31 March 2017, goodwill has not been impaired.

At 31 March	Nature of business	Holding %	Shares at book value R'million 2017	Shares at book value R'million 2016	Net indebtedness R'million 2017	Net indebtedness R'million 2016
36. Investment in subsidiaries						
Direct material subsidiaries of Investec Limited						
Investec Bank Limited#	Banking	100.0%	13 600	13 600	864	523
Investec Asset Management Holdings (Pty) Ltd #	Investment holding	84.0%	67	68	–	–
Investec Employee Benefits Holdings (Pty) Ltd #	Investment holding	100.0%	850	850	63	63
Investec International Holdings (Gibraltar) Limited§	Investment holding	100.0%	148	148	–	–
Investec Securities (Pty) Ltd #	Stockbroking	100.0%	157	157	(41)	(41)
Fedsure International Limited #	Investment holding	100.0%	200	200	(1)	–
Investec Property Group Holdings (Pty) Ltd#	Investment holding	100.0%	*	*	–	–
Investec Specialised Investments (RF) Limited#	Investment holding	100.0%	*	*	–	–
Other subsidiaries			(12)	(12)	45	49
			15 010	**15 011**	**930**	**594**

* Less than R1 million.
# South Africa.
§ Gibraltar.

Loans to/(from) subsidiaries are unsecured, interest-bearing, with no fixed terms of repayment.

Indirect material subsidiaries of Investec Limited	Nature of business	Effective holding %
Investec Assurance Limited#	Insurance company	84.0%
Investec Asset Management (Pty) Ltd#	Asset management	84.0%
Investec Fund Managers SA (RF) Limited#	Unit trust management	84.0%
Investec Bank (Mauritius) Limited**	Banking	100.0%
Investec Property (Pty) Ltd#	Property trading	100.0%
Reichmans Holdings (Pty) Ltd#	Trade and asset finance	100.0%
Investec Life Limited#	Long-term insurance	100.0%
Investec Property Fund Limited#	Engage in long-term immovable property investment	27.9%
Investec Import Solutions (Pty) Ltd	Import logistics and trade finance	100.0%

South Africa.
** Mauritius.

Details of subsidiaries which are not material to the financial position of the group are not stated above.

The group considers that it has control over Investec Property Fund Limited as a result of the common directors with the holding company and the impact this has on the beneficial returns. Any change in the holding in Investment Property Fund Limited would require a reassessment of the facts and circumstances.

36. Investment in subsidiaries *(continued)*

The following subsidiaries are not consolidated for regulatory purposes:

- Investec Assurance Limited
- Investec Employee Benefit Holdings (Pty) Ltd and its subsidiaries.

There are no subsidiaries which are consolidated for regulatory, but not for accounting purposes.

Consolidated structured entities

Investec Limited has residual economic interests 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 1 (RF) Limited	Securitised residential mortgages
Fox Street 2 (RF) Limited	Securitised residential mortgages
Fox Street 3 (RF) Limited	Securitised residential mortgages
Fox Street 4 (RF) Limited	Securitised residential mortgages
Fox Street 5 (RF) Limited	Securitised residential mortgages
Integer Home Loans (Pty) Ltd	Securitised third-party originated residential mortgages

Private Mortgages 1 (RF) (Pty) Ltd, Private Mortgages 2 (RF) (Pty) Ltd and Private Residential Mortgages (RF) Ltd have been wound up during the year.

For additional detail on the assets and liabilities arising on securitisation refer to note 27.

Further details of the risks to which the group is exposed through all of its securitisations are included in the risk management report on pages 60 to 61.

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. This 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.

Interest in Asset Management and Wealth & Investment Funds

Management has concluded that the investment funds in the Asset Management and Wealth & Investment businesses do not meet the definition of structured entities as the group does not hold material interests in these funds and currently does not provide financial support or other support. Support transactions with these funds are conventional customer-supply relationships.

At 31 March R'million	Group 2017	Group 2016

37. Long-term assurance business attributable to policyholders

At 31 March R'million	2017	2016
Liabilities to customers under investment contracts		
Investec Employee Benefits Limited (IEB)	551	581
Investec Assurance Limited	129 003	122 927
	129 554	123 508
Insurance liabilities, including unit-linked liabilities – (IEB)	42	32
	129 596	**123 540**
Investec Employee Benefits Limited		
The assets of the long-term assurance fund attributable to policyholders are detailed below:		
Investments	593	613
	593	**613**
Investments shown above comprise:		
Interest-bearing securities	144	191
Stocks, shares and unit trusts	183	219
Deposits	266	203
	593	**613**
Investec Assurance Limited		
The assets of the long-term assurance fund attributable to policyholders are detailed below:		
Investments	127 957	121 695
Debtors and prepayments	465	762
Other assets	581	470
	129 003	**122 927**
The linked assets are classed as level 1 financial instruments with the linked liabilities also classed as level 1.		
Assets of long-term assurance fund attributable to policyholders		
Investments shown above comprise:		
Interest-bearing securities	33 423	27 677
Stocks, shares and unit trusts	85 653	78 172
Deposits	8 881	15 846
	127 957	**121 695**

The business of Investec Assurance Limited is that of linked business with retirement funds. The retirement funds hold units in a pooled portfolio of assets via a linked policy issued by the company. The assets are beneficially held by Investec Assurance Limited. Due to the nature of the linked policy, Investec Assurance Limited's liability to the policyholders is equal to the market value of the assets underlying the policies.

At 31 March R'million	Group 2017	Group 2016
38. Other trading liabilities		
Deposits	1 317	829
Short positions		
– Equities	12 535	14 194
– Gilts	282	418
	14 134	**15 441**

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
39. Debt securities in issue				
Bonds and medium-term notes repayable:				
Less than three months	589	4 106	–	–
Three months to one year	4 459	741	–	–
One to five years	3 782	7 571	582	916
Greater than five years	108	361	–	–
	8 938	**12 779**	**582**	**916**

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
40. Other liabilities				
Settlement liabilities	3 610	3 303	7	–
Other non-interest-bearing liabilities	2 264	2 392	9	12
Other creditors and accruals	5 066	4 542	361	321
	10 940	**10 237**	**377**	**333**

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
41. Subordinated liabilities				
Issued by Investec Bank Limited				
IV08 13.735% subordinated unsecured callable upper tier 2 bonds	200	200	–	–
IV09 variable rate subordinated unsecured callable upper tier 2 bonds	200	200	–	–
IV015 variable rate subordinated unsecured callable bonds	601	601	–	–
IV016 variable rate subordinated unsecured callable bonds	–	325	–	–
IV017 indexed rate subordinated unsecured callable bonds	–	2 194	–	–
IV019 indexed rate subordinated unsecured callable bonds	103	92	–	–
IV019A indexed rate subordinated unsecured callable bonds	364	339	–	–
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	–	–
IV026 variable rate subordinated unsecured callable bonds	750	750	–	–
IV030 indexed rate subordinated unsecured callable bonds	398	365	–	–
IV030A indexed rate subordinated unsecured callable bonds	420	392	–	–
IV031 variable rate subordinated unsecured callable bonds	500	500	–	–
IV032 variable rate subordinated unsecured callable bonds	810	810	–	–
IV033 variable rate subordinated unsecured callable bonds	159	159	–	–
IV034 variable rate subordinated unsecured callable bonds	101	101	–	–
IV035 variable rate subordinated unsecured callable bonds	1 468	1 100	–	–
IV036 variable rate subordinated unsecured callable bonds	32	–	–	–
IV037 variable rate subordinated unsecured callable bonds	1 255	–	–	–
IV038 variable rate subordinated unsecured callable bonds	350	–	–	–
IV039 indexed rate subordinated unsecured callable bonds	154	–	–	–
IV040 variable rate subordinated unsecured callable bonds	589	–	–	–
IV041 fixed rate subordinated unsecured callable bonds	190	–	–	–
IV042 variable rate subordinated unsecured callable bonds	50	–	–	–
IV043 fixed rate subordinated unsecured callable bonds	150	–	–	–
IV044 fixed rate subordinated unsecured callable bonds	240	–	–	–
IV045 indexed rate subordinated unsecured callable bonds	1 492	–	–	–
Issued by Investec Limited				
INLV02 variable rate subordinated unsecured callable bonds	276	276	276	276
INLV03 variable rate subordinated unsecured callable bonds	94	94	94	94
INLV04 variable rate subordinated unsecured callable bonds	255	255	255	255
	13 805	**11 357**	**625**	**625**
All subordinated debt issued by Investec Limited and its subsidiaries is denominated in South African Rand				
Remaining maturity:				
In one year or less, or on demand	2 205	–	–	–
In more than one year, but not more than two years	400	–	–	–
In more than two years, but not more than five years	7 012	400	–	–
In more than five years	4 188	10 957	625	625
	13 805	**11 357**	**625**	**625**

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.

41. Subordinated liabilities *(continued)*

IV08 13.735% subordinated unsecured callable upper tier 2 bonds

R200 million Investec Bank Limited IV08 locally registered subordinated unsecured callable bonds without a maturity date. Interest is paid six monthly in arrears on 31 October and 30 April at a rate of 13.735% per annum until 30 April 2018. The company has the option to call the bonds from 30 April 2013 or on any interest payment date falling after 30 April 2018. If not called by 30 April 2018, the bonds will pay interest of 5.625% above JIBAR payable quarterly in arrears until called.

IV09 variable rate subordinated unsecured callable upper tier 2 bonds

R200 million Investec Bank Limited IV09 locally registered subordinated unsecured callable bonds without a maturity date. Interest is paid quarterly in arrears on 31 July, 31 October, 31 January and 30 April at a rate equal to three-month JIBAR plus 3.75% until 30 April 2018. The company has the option to call the bonds from 30 April 2013 or on any interest payment date falling after 30 April 2018. If not called by 30 April 2018, the bonds will pay interest of 5.625% above JIBAR payable quarterly in arrears until called.

IV015 variable rate subordinated unsecured callable bonds

R601 million Investec Bank Limited IV015 locally registered subordinated unsecured callable bonds are due in September 2022. Interest is payable quarterly in arrears on 20 December, 20 March, 20 June and 20 September at a rate equal to three-month JIBAR plus 2.65% basis points until 20 September 2017. From and including 20 September 2017 up to and excluding 20 September 2022 interest is paid at a rate equal to three-month JIBAR plus 4.00%. The maturity date is 20 September 2022, but the company has the option to call the bonds upon regulatory capital disqualification or from 20 September 2017.

IV016 variable rate subordinated unsecured callable bonds

Rnil (2016: R325 million) Investec Bank Limited IV016 locally registered subordinated unsecured callable bonds are due in December 2021. Interest is payable quarterly in arrears on 6 December, 6 March, 6 June and 6 September at a rate equal to three-month JIBAR plus 2.75% up to and excluding 6 December 2021. The maturity date is 6 December 2021, but the company has the option to call the bonds upon regulatory disqualification or from 6 December 2016. The bonds were called on 6 December 2016.

IV017 indexed rate subordinated unsecured callable bonds

Rnil (2016: R2 194 million) Investec Bank Limited IV017 locally registered subordinated unsecured callable bonds are due in January 2022. Interest on these inflation-linked bonds is payable semi-annually on 31 January and 31 July at a rate of 2.75%. The IV017 is a replica of the R212 South African government bond. The maturity date is 31 January 2022, but the company has the option to call the bonds upon regulatory capital disqualification or from 31 January 2017. The bonds were called on 31 January 2017.

IV019 indexed rate subordinated unsecured callable bonds

R103 million (2016: R92 million) Investec Bank Limited IV019 locally registered subordinated unsecured callable bonds are due in March 2028. Interest on these inflation-linked bonds is payable semi-annually on 31 March and 30 September at a rate of 2.60%. The IV019 is a replica of the R210 South African government bond. The maturity date is 31 March 2028, but the company has the option to call the bonds upon regulatory capital disqualification from 3 April 2023.

IV019A indexed rate subordinated unsecured callable bonds

R364 million (2016: R339 million) Investec Bank Limited IV019A locally registered subordinated unsecured callable bonds are due in March 2028. Interest on these inflation-linked bonds is payable semi-annually on 31 March and 30 September at a rate of 2.60%. The IV019A is a replica of the R210 South African government bond. The maturity date is 31 March 2028, but the company has the option to call the bonds upon regulatory capital disqualification or from 3 April 2023.

IV022 variable rate subordinated unsecured callable bonds

R638 million Investec Bank Limited IV022 locally registered subordinated unsecured callable bonds are due in April 2022. Interest is payable quarterly on 2 January, 2 April, 2 July and 2 October at a rate equal to the three-month JIBAR plus 2.50% up to and excluding 2 April 2022. The maturity date is 2 April 2022, but the company has the option to call the bonds upon regulatory capital disqualification or from 2 April 2017.

IV023 variable rate subordinated unsecured callable bonds

R860 million Investec Bank Limited IV023 locally registered subordinated unsecured callable bonds are due in July 2022. Interest is payable quarterly on 11 January, 11 April, 11 July and 11 October at a rate equal to the three-month JIBAR plus 2.50% up to and excluding 11 July 2022. The maturity date is 11 July 2022, but the company has the option to call the bonds upon regulatory capital disqualification or from 11 July 2017.

IV024 variable rate subordinated unsecured callable bonds

R106 million Investec Bank Limited IV024 locally registered subordinated unsecured callable bonds are due in July 2022. Interest is payable quarterly on 27 January, 27 April, 27 July and 27 October at a rate equal to the three-month JIBAR plus 2.70% up to and excluding 27 July 2022. The maturity date is 27 July 2022, but the company has the option to call the bonds upon regulatory capital disqualification or from 27 July 2017.

41. Subordinated liabilities *(continued)*

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 from 27 September 2019.

IV030 indexed rate subordinated unsecured callable bonds

R398 million (2016: R365 million) Investec Bank Limited IV030 locally registered subordinated unsecured callable bonds are due in January 2025. Interest on these inflation-linked bonds is payable semi-annually on 31 January and 31 July at a rate of 2.00%. The IV030 is a replica of the I2025 South African government bond. The maturity date is 31 January 2025, but the company has the option to call the bonds upon regulatory capital disqualification from 31 January 2020.

IV030A indexed rate subordinated unsecured callable bonds

R420 million (2016: R392 million) Investec Bank Limited IV030A locally registered subordinated unsecured callable bonds are due in January 2025. Interest on these inflation-linked bonds is payable semi-annually on 31 January and 31 July at a rate of 2.00%. The IV030A is a replica of the I2025 South African government bond. The maturity date is 31 January 2025, but the company has the option to call the bonds upon regulatory capital disqualification 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 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 from 14 August 2018.

IV033 variable rate subordinated unsecured callable bonds

R159 million Investec Bank Limited IV033 locally registered subordinated unsecured callable bonds are due in February 2026. Interest is payable quarterly on 11 May, 11 August, 11 November and 11 February at a rate equal to the three-month JIBAR plus 4.25% up to and excluding 11 February 2026. The maturity date is 11 February 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 11 February 2021.

IV034 fixed rate subordinated unsecured callable bonds

R101 million Investec Bank Limited IV034 locally registered subordinated unsecured callable bonds are due in February 2026. Interest is payable semi-annually on 11 February and 11 August at a rate equal to 12.47% up to and excluding 11 February 2026. The maturity date is 11 February 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 11 February 2021.

IV035 variable rate subordinated unsecured callable bonds

R1 468 million (2016: R1 100 million) Investec Bank Limited IV035 locally registered subordinated unsecured callable bonds are due in April 2027. Interest is payable quarterly on 7 April, 7 July, 7 October and 7 January at a rate equal to the three-month JIBAR plus 4.65% up to and excluding 7 April 2027. The maturity date is 7 April 2027, but the company has the option to call the bonds upon regulatory capital disqualification or from 7 April 2022.

IV036 variable rate subordinated unsecured callable bonds

R32 million (2016: Rnil) Investec Bank Limited IV036 locally registered subordinated unsecured callable bonds are due in April 2026. Interest is payable quarterly on 22 April, 22 July, 22 October and 22 January at a rate equal to the three-month JIBAR plus 4.25% up to and excluding 22 July 2026. The maturity date is 22 July 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 22 July 2021.

41. Subordinated liabilities *(continued)*

IV037 variable rate subordinated unsecured callable bonds

$125 million (2016: $nil) Investec Bank Limited IV037 locally registered subordinated unsecured Tier II callable bonds are due in October 2026 and were issued at an issue price of $91 million. The notes will automatically convert from zero coupon notes to floating rate notes on the first optional redemption date, being the 19 October 2021. The implied zero coupon yield is 6.29961713% nacq (ACT/360) up until the 19 October 2021. If the Issuer does not exercise the option to redeem the notes on 19 October 2021, then interest on the floating rate notes shall commence on 19 October 2021 and is payable quarterly on 19 January, 19 July, 19 April and 19 October at a rate equal to the three-month USD Libor plus 5.5% up to and excluding 19 October 2026. The maturity date is 19 October 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 19 October 2021.

IV038 variable rate subordinated unsecured callable bonds

R350 million (2016: Rnil) Investec Bank Limited IV038 locally registered subordinated unsecured callable bonds are due in September 2026. Interest is payable quarterly on 23 March, 23 June, 23 September and 23 December at a rate equal to the three-month JIBAR plus 4.25% up to and excluding 23 September 2026. The maturity date is 23 September 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 23 September 2021.

IV039 indexed rate subordinated unsecured callable bonds

R154 million (2016: Rnil) Investec Bank Limited IV039 locally registered subordinated unsecured callable bonds are due in January 2027. Interest on these inflation-linked bonds is payable quarterly on 31 January, 30 April, 31 July and 31 October at a rate of 2.75%. The IV039 is a replica of the R212 South African government bond. The maturity date is 31 January 2027, but the company has the option to call the bonds upon regulatory capital disqualification or from 31 January 2022.

IV040 variable rate subordinated unsecured callable bonds

R589 million (2016: Rnil) Investec Bank Limited IV040 locally registered subordinated unsecured callable bonds are due in September 2026. Interest is payable quarterly on 29 March, 29 June, 29 September and 29 December at a rate equal to the three-month JIBAR plus 4.25% up to and excluding 29 September 2026. The maturity date is 29 September 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 29 September 2021.

IV041 fixed rate subordinated unsecured callable bonds

R190 million (2016: Rnil) Investec Bank Limited IV040 locally registered subordinated unsecured callable bonds are due in September 2026. Interest is payable quarterly on 29 March, 29 June, 29 September and 29 December at a rate of 11.97% up to and excluding 29 September 2026. The maturity date is 29 September 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 29 September 2021.

IV042 variable rate subordinated unsecured callable bonds

R50 million (2016: Rnil) Investec Bank Limited IV042 locally registered subordinated unsecured callable bonds are due in November 2026. Interest is payable quarterly on 18 February, 18 May, 18 August and 18 November at a rate equal to the three-month JIBAR plus 4.25% up to and excluding 18 November 2026. The maturity date is 18 November 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 18 November 2021.

IV043 fixed rate subordinated unsecured callable bonds

R150 million (2016: Rnil) Investec Bank Limited IV042 locally registered subordinated unsecured callable bonds are due in November 2026. Interest is payable quarterly on 21 February, 21 May, 21 August and 21 November at a rate of 12.50% up to and excluding 21 November 2026. The maturity date is 21 November 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 21 November 2021.

IV044 variable rate subordinated unsecured callable bonds

R240 million (2016: Rnil) Investec Bank Limited IV044 locally registered subordinated unsecured callable bonds are due in January 2027. Interest is payable quarterly on 31 January, 30 April, 31 July and 31 October at a rate equal to the three-month JIBAR plus 4.15% up to and excluding 31 January 2027. The maturity date is 31 January 2027, but the company has the option to call the bonds upon regulatory capital disqualification or from 31 January 2022.

IV045 indexed rate subordinated unsecured callable bonds

R1492 million (2016: Rnil) Investec Bank Limited IV045 locally registered subordinated unsecured callable bonds are due in January 2027. Interest on these inflation-linked bonds is payable quarterly on 31 January, 30 April, 31 July and 31 October at a rate of 2.75%. The IV045 is a replica of the R212 South African government bond. The maturity date is 31 January 2027, but the company has the option to call the bonds upon regulatory capital disqualification or from 31 January 2022.

INLV02 variable rate subordinated unsecured callable bonds

R276 million Investec Limited INVL02 locally registered subordinated unsecured callable bonds are due in October 2025. Interest is payable quarterly on 20 January, 20 April, 20 July and 20 October at a rate equal to the three-month JIBAR plus 3.7% up to and excluding 20 October 2025. The maturity date is 20 October 2025, but the company has the option to call the bonds upon regulatory capital disqualification or from 20 October 2020.

41. Subordinated liabilities *(continued)*

INVL03 variable rate subordinated unsecured callable bonds

R94 million Investec Limited INVL03 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 4.35% 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.

INVL04 fixed rate subordinated unsecured callable bonds

R255 million Investec Limited INVL04 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 12.77% up to and excluding 7 April 2027. 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.

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
42. Ordinary share capital				
Authorised				
450 000 000 (2016: 450 000 000) ordinary shares of R0.0002 each				
Issued				
301 165 174 (2016: 291 363 706) ordinary shares of R0.0002 each, fully paid	1	1	1	1

In terms of the dual listed companies structure, shareholders have common economic and voting rights as if Investec Limited and Investec plc were a single company. These include equivalent dividends on a per share basis, joint electorate and class right variations. The UK DAS share, UK DAN share and the special converting shares have been issued to achieve this.

The unissued shares are under the control of the directors until the next annual general meeting.

Details of the share capital are set out in Investec's 2017 integrated annual report.

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
43. Perpetual preference shares of holding company				
Authorised				
100 000 000 (2016:1 00 000 000) non-redeemable, non-cumulative, non-participating preference shares of one cent each				
Issued				
32 214 499 (2016: 32 214 499) non-redeemable, non-cumulative, non-participating preference shares of one cent each, issued at various premiums	3 183	3 183	3 183	3 183
– Perpetual preference share capital	*	*	*	*
– Perpetual preference share premium	3 183	3 183	3183	3 183

* *Less than R1 million.*

Preference shareholders will be entitled to receive dividends, if declared, at a rate limited to 77.7% of prime 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 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 Limited pays its ordinary dividends, if any, but shall be payable no later than 120 business days after 31 March and 30 September respectively.

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
44. Share premium				
Share premium on ordinary shares	8 712	7 726	8 762	7 775
Share premium on perpetual preference shares (refer to note 43)	3 183	3 183	3 183	3 183
	11 895	**10 909**	**11 945**	**10 958**

At 31 March	2017	2016
45. Treasury shares		
	R'million	**R'million**
Treasury shares held by subsidiaries of Investec limited		
Premium paid on options held to acquire Investec Limited shares	(279)	(279)
Investec Limited ordinary shares	1 468	1 528
	1 189	**1 249**
Number of Investec Limited ordinary shares held by subsidiaries	31 354 669	24 158 289
	Number	**Number**
Reconciliation of treasury shares		
At the beginning of the year	24 158 289	21 162 694
Purchase of own shares by subsidiary companies	15 050 643	5 933 826
Shares disposed of by subsidiaries	(7 854 263)	(2 938 231)
At the end of the year	**31 354 669**	**24 158 289**
	R'million	**R'million**
Market value of treasury shares	2 914	2 655

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
46. Other Additional Tier 1 securities in issue				
INLV01 variable rate subordinated unsecured callable bonds	**550**	**550**	**550**	**550**

Investec Limited issued R550 million Other Additional Tier 1 floating rate notes on 14 August 2014. Interest is payable quarterly on 12 August, 12 November, 12 February and 12 May at a rate equal to the three-month JIBAR plus 4.25%. There is no maturity date but the issuer has the option to redeem on 12 August 2024 and on every interest payment date thereafter.

At 31 March R'million	Group 2017	Group 2016
47. Non-controlling interests		
Perpetual preference shares issued by Investec Bank Limited	1 534	1 534
Non-controlling interests in partially held subsidiaries	8 987	8 140
	10 521	**9 674**

Perpetual preference shares issued by Investec Bank Limited

Authorised

70 000 0000 (2016: 70 000 000) non-redeemable, non-cumulative, non-participating preference shares of one cent each.

Issued

15 447 630 (2016: 15 447 630) non-redeemable, non-cumulative, non-participating preference shares of one cent each issued at various premiums.

Preference shareholders will be entitled to receive dividends if declared, at a rate of 83.33% of prime on R100 being the deemed value of the issue price of the preference share 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.

The following table summarises the information relating to the group's partially held subsidiaries which have material non-controlling interests:

	Investec Asset Management Holdings (Pty) Ltd 2017	Investec Asset Management Holdings (Pty) Ltd 2016	Investec Property Fund Limited (IPF) 2017	Investec Property Fund Limited (IPF) 2016
Non-controlling interests (NCI) (%)	16.0%	15.0%	72.1%	71.4%
Summarised financial information (R'million)				
Total assets	132 057	126 114	19 084	17 245
Total liabilities	130 801	124 590	6 918	6 150
Revenue	3 315	3 006	1 477	1 125
Profit before taxation	1 351	1 193	1 465	1 116
Carrying amount of NCI	248	235	8 739	7 905
Profit allocated to NCI	156	129	1 039	795

During the year the group sold an additional 1% of its Asset Management business to senior management of the business, on the exercise of the option granted in July 2013 as part of the sale of the original 15% stake.

The reduction in the shareholding of IPF is as a result of rights issues made to fund investment properly acquisitions which increased the net asset value of the business.

At 31 March R'million	Group 2017 Total future minimum payments	Group 2017 Present value	Group 2016 Total future minimum payments	Group 2016 Present value
48. Finance lease disclosures				
Finance lease receivables included in loans and advances to customers				
Lease receivables due in:				
Less than one year	974	803	731	590
One to five years	925	795	717	616
Later than five years	76	65	–	–
	1 975	**1 663**	**1 448**	**1 206**
Unearned finance income	**312**		**242**	

At 31 March 2017 there were no unguaranteed residual values (31 March 2016: Rnil).

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
49. Notes to the cash flow statement				
Profit before taxation adjusted for non-cash items:				
Profit before taxation	7 685	7 365	2 072	701
Adjustment for non-cash items:				
Impairment of goodwill	26	34	–	–
Depreciation, amortisation and impairment of property, equipment and intangibles	203	196	–	–
Amortisation of acquired intangibles	51	39	–	
Impairment losses on loans and advances	659	520	–	–
Operating (income)/loss from associates	(306)	11	–	
Gain on partial disposal of subsidiary	–	–	(86)	–
Write down of non-current assets held for sale	41	131	–	–
Share-based payment charges	622	582	(31)	(365)
Revaluation of investment properties	(354)	(263)	–	–
	8 627	**8 615**	**1 955**	**336**
Increase in operating assets				
Loans and advances to banks	(1 261)	8 497	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	12 750	(32 560)	–	–
Sovereign debt securities	(6 484)	(10 000)	–	–
Bank debt securities	7 925	2 980	–	–
Other debt securities	(385)	(2 532)	–	–
Derivative financial instruments	6 861	(1 335)	–	–
Securities arising from trading activities	(1 754)	(5 088)	–	–
Investment portfolio	(1 743)	(26)	–	–
Loans and advances to customers	(20 610)	(32 858)	–	–
Own originated loans and advances to customers securitised	565	(1 174)	–	–
Other loans and advances	57	105	–	–
Other securitised assets	28	1 088	–	–
Other assets	(2 515)	(353)	–	–
Investment properties	(167)	(7 979)	–	–
Assurance assets	(6 056)	(9 635)	–	–
Non-current assets held for sale	(497)	601	–	–
	(13 286)	**(90 269)**	**–**	**–**
Increase/(decrease) in operating liabilities				
Deposits by banks	(4 630)	9 501	–	–
Derivative financial instruments	(866)	1 023	–	–
Other trading liabilities	(1 307)	4 061	–	–
Repurchase agreements and cash collateral on securities lent	(8 955)	77	–	–
Customer accounts (deposits)	25 097	56 182	–	–
Debt securities in issue	(3 841)	3 353	(334)	3
Liabilities arising in securitisation of own originated loans and advances	(299)	(166)	–	–
Other liabilities	761	2 136	44	163
Assurance liabilities	6 056	9 635	–	–
	12 016	**85 802**	**(290)**	**166**

50. Related-party transactions

For the year to 31 March R'million	Group 2017	Group 2016
Compensation to the board of directors and other key management personnel		
Short-term employee benefits	570	582
Share-based payments	142	97
For information on overall compensation to key management personnel, refer to the remuneration report in volume one of Investec's 2017 integrated annual report.		
Transactions, arrangements and agreements involving directors and others		
Particulars of transactions, arrangements and agreements entered into by the group 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	720	669
Increase in loans	117	71
Repayment of loans	(188)	(131)
Exchange adjustments	(201)	111
At the end of the year	**448**	**720**
Guarantees		
At the beginning of the year	239	153
Guarantees cancelled	(118)	78
Additional guarantees granted	1	(9)
Exchange adjustments	(20)	17
At the end of the year	**102**	**239**
Deposits		
At the beginning of the year	(543)	(639)
Increase in deposits	(389)	(254)
Utilisation of deposits	221	442
Exchange adjustments	103	(92)
At the end of the year	**(608)**	**(543)**

The above transactions were made in the ordinary course of business and are on the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or where applicable, with other employees.
The transactions did not involve more than the normal risk of repayment. None of these loans have been impaired.

For the year to 31 March R'million	Group 2017	2016
50. Related-party transactions *(continued)*		
Transactions with Investec plc and its subsidiaries		
Assets		
Loans and advances to banks	1 134	907
Loans and advances to customers	147	176
Other debt securities	1 578	2 677
Derivative financial instruments	592	356
Other assets	176	226
Liabilities		
Deposits from banks	480	195
Repurchase agreements and cash collateral on securities lent	–	2 326
Derivative financial instruments	87	132
Debt securities in issue	135	149
Other liabilities	299	463
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.		
Transactions with Investec plc and its subsidiaries		
Income statement		
Interest income	71	137
Interest expense	23	58
In the normal course of business, services are rendered between Investec plc and Investec Limited entities. In the year to 31 March 2017, this resulted in a net receipt from Investec plc group of R401.7 million (2016: R331.6 million).		
Transactions with other related parties		
Loan from Investec Bank (Mauritius) Limited to Forty Two Point Two	552	676
The loan arises from Investec's portion of funding in relation to the 15% acquisition of Investec Asset Management by senior management of the business.		
Transactions with associates		
Amounts due from associates and its subsidiaries	4 597	–
Interest income from associates	89	–
The above outstanding balances arose from the ordinary course of business and are on the same terms, including interest rates and security, as for comparable transactions with third party counterparties		

For related party transactions within the company, refer to note 36.

At 31 March R'million	Group 2017	Group 2016

51. Commitments

	2017	2016
Undrawn facilities	44 425	44 985
	44 425	**44 985**

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.

	2017	2016
Operating lease commitments		
Future minimum lease payments under non-cancellable operating leases:		
Less than one year	407	386
One to five years	2 059	1 893
Greater than five years	361	749
	2 827	**3 028**

At 31 March 2017, the group 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.

At 31 March R'million	2017 Carrying amount of pledged asset	2017 Carrying value of related liability repurchase agreements and cash collateral on securities lent	2016 Carrying amount of pledged asset	2016 Carrying value of related liability repurchase agreements and cash collateral on securities lent
Group				
Sovereign debt securities	4 393	4 350	–	–
Bank debt securities	561	450	6 947	6 317
Other debt securities	805	644	9 178	7 455
Securities arising from trading activities	108	108	49	1 553
	5 867	**5 552**	**16 174**	**15 325**

The assets pledged by the group are strictly for the purpose of providing collateral for the counterparty. To the extent that the counterparty is permitted to sell and/or repledge the assets, they are classified on the balance sheet as repurchase agreements and cash collateral on securities borrowed.

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
52. Contingent liabilities				
Guarantees and assets pledged as collateral security:				
– Guarantees and irrevocable letters of credit	21 167	20 068	–	833
	21 167	**20 068**	**–**	**833**

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 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 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.

53. Hedges

Group

The group uses derivatives for 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. Once aggregated and netted, Treasury, as the sole interface to the wholesale market for cash and derivative transactions, actively manages the liquidity mismatch and non-trading interest rate risk from our asset and liability portfolios. In this regard, Central Treasury is required to exercise tight control of funding, liquidity, concentration and non-trading interest rate risk within defined parameters.

The accounting treatment of accounting hedges is 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 the hedging instrument. This relationship is established in limited circumstances based on the manner in which the group manages its risk exposure. Below is a description of each category of accounting hedges achieved by the group:

Fair value hedges

Fair value hedges were 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/(losses) on hedging instrument	Current year gains/(losses) on hedging instrument	Cumulative gains/(losses) on hedged item	Current year gains/(losses) on hedged item
Group						
2017						
Interest rate swaps	Bonds	(358)	(197)	14	120	27
2016						
Interest rate swaps	Bonds	(831)	(459)	(266)	405	206
Company						
2017						
Interest rate swaps	Bonds	6	6	7	(7)	(8)

As at year end the hedges were both retrospectively and prospectively effective. There were no hedges in company in the prior year.

53. Hedges *(continued)*

Cash flow hedges

The group is exposed to variability in cash flows 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 effects the income statement.

At 31 March R'million	Description of financial instrument being hedged	Fair value of hedging instrument	Period in which the hedged cash flows are expected to occur and affect income statement
Group			
2017			
Cross-currency swaps	Bonds	(1 189)	Three months
2016			
Cross-currency swaps	Bonds	4 997	Three months

There are cash flow hedges during the year to mitigate interest rate and currency risk. A reconciliation of the cash flow hedge reserve can be found in the statement of changes in equity.

Releases to the income statement for cash flow hedges of R3.2 billion (2016: R231 million) are included in net interest income.

There was no ineffective portion recognised in the income statement in the current year.

Hedges of net investments in foreign operations

Investec Bank Limited has entered into foreign exchange contracts to hedge its balance sheet exposure to its net investment, in US Dollars, in Investec Bank (Mauritius) Limited.

Group R'million	Hedging instrument fair value
2017	(149)
2016	(958)

There was no ineffective portion recognised in the income statement in the current year.

54. Liquidity analysis of financial liabilities based on undiscounted cash flows

The balances in the table below 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 71.

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	3 346	1 817	1 396	6 664	21 318	698	35 755
Derivative financial instruments	12 558	–	–	–	–	–	–	12 558
Held for trading	12 514	–	–	–	–	–	–	12 514
Held for hedging risk	44	–	–	–	–	–	–	44
Other trading liabilities	14 134	–	–	–	–	–	–	14 134
Repurchase agreements and cash collateral on securities lent	1 018	4 251	3	142	964	1 389	100	7 867
Customer accounts (deposits)	127 841	37 317	53 821	25 396	28 892	28 494	4 439	306 200
Debt securities in issue	1	540	52	4 149	377	3 784	108	9 011
Liabilities arising on securitisation of own originated loans and advances	–	–	9	–	–	–	1 502	1 511
Other liabilities	5 100	1 716	1 680	458	310	878	807	10 949
Subordinated liabilities	–	758	137	1 847	443	10 123	4 693	18 001
Total on balance sheet liabilities	**161 168**	**47 928**	**57 519**	**33 388**	**37 650**	**65 986**	**12 347**	**415 986**
Contingent liabilities	1 213	6	6 685	1 728	783	10 184	1 495	22 094
Commitments	5 958	11	6 192	1 089	2 058	11 526	17 591	44 425
Total liabilities	**168 339**	**47 945**	**70 396**	**36 205**	**40 491**	**87 696**	**31 433**	**482 505**

54. Liquidity analysis of financial liabilities based on undiscounted cash flows

(continued)

At 31 March R'million	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	> Five years	Total
Group								
2016								
Liabilities								
Deposits by banks	736	5 550	1 886	2 331	9 417	19 441	908	40 269
Derivative financial instruments	13 110	–	1	3	1	92	218	13 425
– held-for-trading	12 899	–	1	3	1	92	218	13 214
– held for hedging risk	211	–	–	–	–	–	–	211
Other trading liabilities	15 598	–	–	–	–	–	–	15 598
Repurchase agreements and cash collateral on securities lent	1 553	3 316	1 256	4	6 135	4 791	–	17 055
Customer accounts (deposits)	120 833	31 106	53 092	21 879	24 027	29 500	2 617	283 054
Debt securities in issue	–	1 567	2 539	170	573	7 738	361	12 948
Liabilities arising on securitisation of own originated loans and advances	–	9	38	38	76	761	1 800	2 722
Other liabilities	3 177	2 619	2 491	104	215	768	865	10 239
Subordinated liabilities	–	87	116	233	1 292	11 057	1 130	13 915
Total on balance sheet liabilities	**155 007**	**44 254**	**61 419**	**24 762**	**41 736**	**74 148**	**7 899**	**409 225**
Contingent liabilities	1 210	156	8 334	272	1 497	11 832	1 955	25 256
Commitments	6 217	750	5 494	1 815	4 209	10 130	16 528	45 143
Total liabilities	**162 434**	**45 160**	**75 247**	**26 849**	**47 442**	**96 110**	**26 382**	**479 624**

54. 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								
Debt securities in issue	–	4	–	4	8	582	–	598
Other liabilities	–	25	40	–	–	–	312	377
Subordinated liabilities	–	8	3	27	37	299	892	1 266
Total on balance sheet liabilities	**–**	**37**	**43**	**31**	**45**	**881**	**1 204**	**2 241**
2016								
Liabilities								
Debt securities in issue	–	8	–	8	16	980	–	1 012
Other liabilities	–	10	40	–	–	–	284	334
Subordinated liabilities	–	–	18	18	36	888	–	960
Total on balance sheet liabilities	**–**	**18**	**58**	**26**	**52**	**1 868**	**284**	**2 306**
Contingent liabilities	–	–	101	172	562	11	–	846
Total liabilities	**–**	**18**	**159**	**198**	**614**	**1 879**	**284**	**3 152**

55. 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
	Amounts subject to enforceable netting arrangements				
	Effects of offsetting on balance sheet			Related amounts not offset	
Group					
2017					
Assets					
Cash and balances at central b anks	8 353	–	8 353	–	8 353
Loans and advances to banks	39 681	(4 655)	35 026	–	35 026
Non-sovereign and non-bank cash placements	8 993	–	8 993	–	8 993
Reverse repurchase agreements and cash collateral on securities borrowed	30 567	–	30 567	(892)	29 675
Sovereign debt securities	47 822	–	47 822	(4 393)	43 429
Bank debt securities	7 758	–	7 758	(561)	7 197
Other debt securities	12 028	–	12 028	(805)	11 223
Derivative financial instruments	13 126	(3 284)	9 842	(3 495)	6 347
Securities arising from trading activities	14 320	–	14 320	(108)	14 212
Investment portfolio	6 502	–	6 502	–	6 502
Loans and advances to customers	229 240	(1 688)	227 552	–	227 552
Own originated loans and advances to customers securitised	8 673	–	8 673	–	8 673
Other loans and advances	310	–	310	–	310
Other securitised assets	173	–	173	–	173
Other assets	12 040	–	12 040	–	12 040
	439 586	**(9 627)**	**429 959**	**(10 254)**	**419 705**
Liabilities					
Deposits by banks	36 076	(643)	35 433	–	35 433
Derivative financial instruments	19 854	(7 296)	12 558	(3 495)	9 063
Other trading liabilities	14 134	–	14 134	–	14 134
Repurchase agreements and cash collateral on securities lent	7 825	–	7 825	(5 552)	2 273
Customer accounts (deposits)	305 158	(1 688)	303 470	–	303 470
Debt securities in issue	8 938	–	8 938	–	8 938
Liabilities arising on securitisation of own originated loans and advances	1 511	–	1 511	–	1 511
Other liabilities	10 940	–	10 940	–	10 940
Subordinated liabilities	13 805	–	13 805	–	13 805
	418 241	**(9 627)**	**408 614**	**(9 047)**	**399 567**

55. Offsetting *(continued)*

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	
Group					
2016					
Assets					
Cash and balances at central banks	7 801	–	7 801	–	7 801
Loans and advances to banks	42 852	(13 369)	29 483	–	29 483
Non-sovereign and non-bank cash placements	9 858	–	9 858	–	9 858
Reverse repurchase agreements and cash collateral on securities borrowed	43 317	–	43 317	(1 275)	42 042
Sovereign debt securities	41 325	–	41 325	–	41 325
Bank debt securities	15 117	–	15 117	(6 947)	8 170
Other debt securities	11 753	–	11 753	(9 178)	2 575
Derivative financial instruments	19 643	(3 804)	15 839	(7 540)	8 299
Securities arising from trading activities	12 566	–	12 566	(325)	12 241
Investment portfolio	4 683	–	4 683	–	4 683
Loans and advances to customers	210 127	(1 407)	208 720	–	208 720
Own originated loans and advances to customers securitised	9 238	–	9 238	–	9 238
Other loans and advances	367	–	367	–	367
Other securitised assets	201	–	201	–	201
Other assets	9 596	–	9 596	(234)	9 362
	438 444	**(18 580)**	**419 864**	**(25 499)**	**394 365**
Liabilities					
Deposits by banks	41 601	(1 538)	40 063	–	40 063
Derivative financial instruments	29 059	(15 635)	13 424	(7 540)	5 884
Other trading liabilities	15 441	–	15 441	–	15 441
Repurchase agreements and cash collateral on securities lent	16 916	–	16 916	(16 174)	742
Customer accounts (deposits)	281 227	(1 407)	279 820	–	279 820
Debt securities in issue	12 779	–	12 779	–	12 779
Liabilities arising on securitisation of own originated loans and advances	1 810	–	1 810	–	1 810
Other liabilities	10 237	–	10 237	(1 785)	8 452
Subordinated liabilities	11 357	–	11 357	–	11 357
	420 427	**(18 580)**	**401 847**	**(25 499)**	**376 348**

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