

# 2016

## ANNUAL REPORT

Investec Bank Limited  
group and company  
annual financial statements

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*Out of the Ordinary®*

 **Investec**





## Corporate information

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### SECRETARY AND REGISTERED OFFICE

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**Niki van Wyk**

100 Grayston Drive  
Sandown Sandton 2196  
PO Box 785700 Sandton 2146  
Telephone (27 11) 286 7000  
Facsimile (27 11) 286 7966

### INTERNET ADDRESS

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[www.investec.com](http://www.investec.com)

### REGISTRATION NUMBER

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Reg. No. 1969/004763/06

### AUDITORS

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KPMG Inc.  
Ernst & Young Inc.

### TRANSFER SECRETARIES

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Computershare Investor Services (Pty) Ltd  
70 Marshall Street  
Johannesburg 2001  
PO Box 61051  
Marshalltown 2107  
Telephone (27 11) 370 5000

### DIRECTORATE

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Refer to page 90



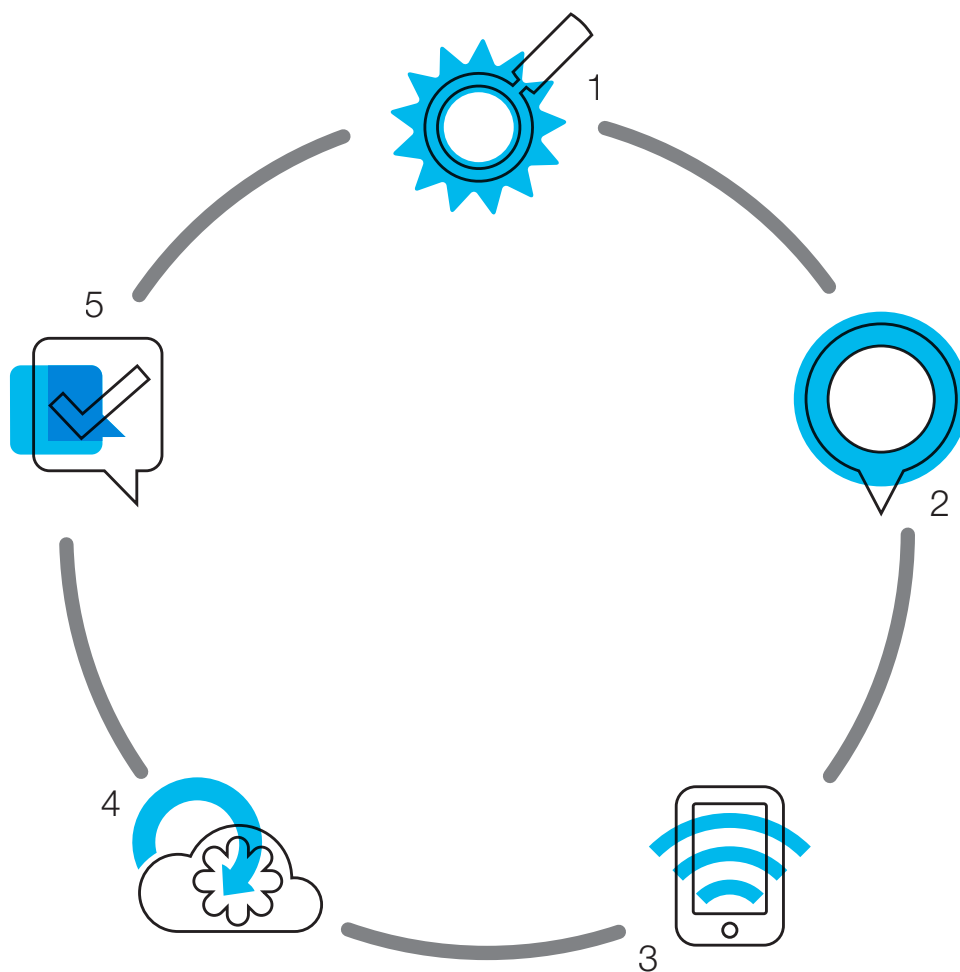
**For contact details for Investec offices refer to page 195.**

**For queries regarding information in this document**

### INVESTOR RELATIONS

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Telephone (27 11) 286 7070  
e-mail: [Investorrelations@investec.com](mailto:Investorrelations@investec.com)  
Internet address:  
[www.investec.com/en\\_za/#home/investor\\_relations.html](http://www.investec.com/en_za/#home/investor_relations.html)



## 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](http://www.investec.com)

### 4. Sustainability

Refers readers to further information in our sustainability report available on our website:  
[www.investec.com](http://www.investec.com)

### 5. Reporting standard

Denotes our consideration of a reporting standard

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# One

Investec Bank Limited  
in perspective



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



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

## Operating structure

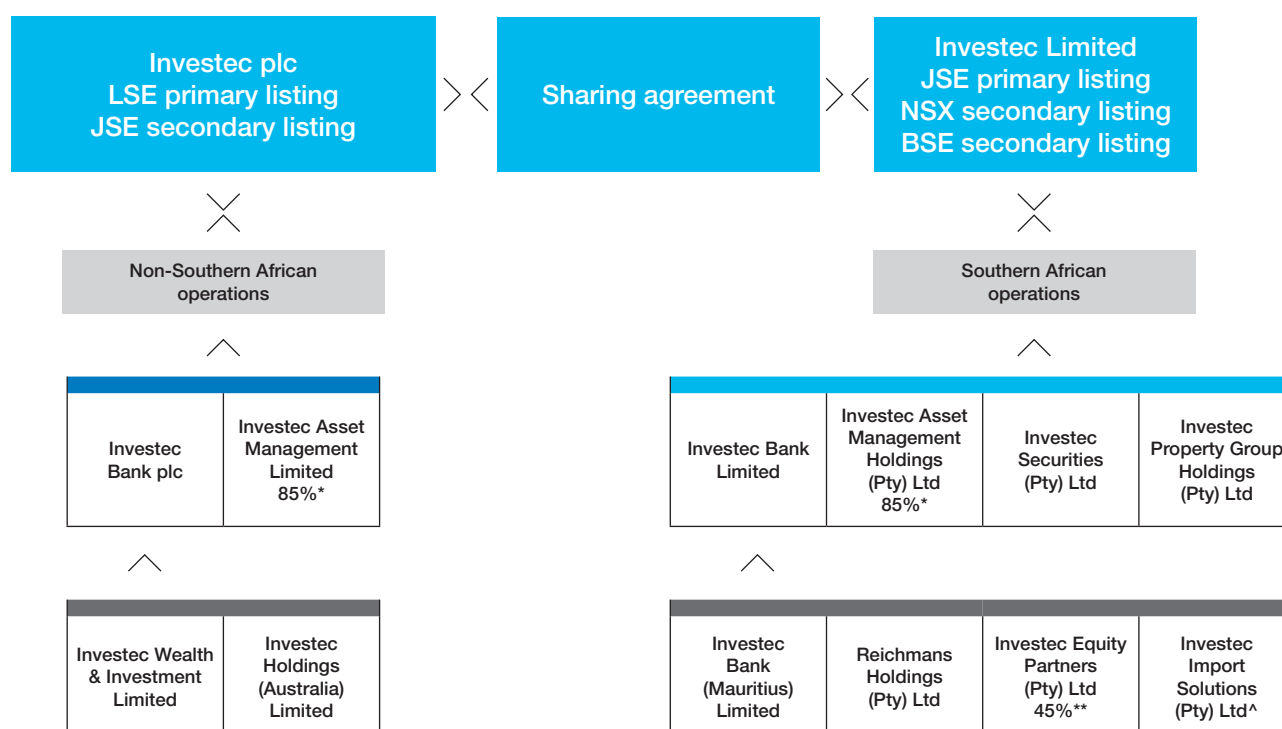
During July 2002 Investec Group Limited (since renamed Investec Limited) implemented a dual listed companies (DLC) structure and listed its offshore business on the London Stock Exchange.



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

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

## OUR DLC STRUCTURE AND MAIN OPERATING SUBSIDIARIES AS AT 31 MARCH 2016



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

\* 15% held by senior management in the company.

\*\* 55% held by third party investors in the company together with senior management of the business.

^ Previously Blue Strata Trading (Pty) Ltd.

## 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.



## What we do **SPECIALIST BANKING**

Investec Bank Limited operates as a specialist bank within Southern Africa. The bank is operationally managed as a single banking entity within Investec Limited.

| Corporates/government/institutional clients                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | High-income and high net worth private clients                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Investment activities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Corporate and Institutional Banking activities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Private Banking activities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <p><b>Principal Investments</b></p> <p>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.</p> <p>A material portion of the bank's principal investments have been transferred to a new vehicle, Investec Equity Partners (IEP). The bank holds a 45% stake in IEP alongside other strategic investors who hold the remaining 55% in IEP.</p> <p>Furthermore, our Central Funding division is the custodian of certain equity and property investments.</p> | <p><b>Treasury and trading services</b><br/> <b>Specialised lending, funds and debt capital markets</b><br/> <b>Advisory and equity capital markets</b></p> <p>Corporate and Institutional Banking activities provides a wide range of specialist products, services and solutions to select corporate clients, public sector bodies and institutions. The division undertakes the bulk of Investec's wholesale debt, structuring, proprietary trading, capital markets, advisory, trade finance, import solutions and derivatives business.</p> <p>Our institutional stockbroking activities are conducted outside of the bank in Investec Securities (Pty) Ltd.</p> | <p><b>Transactional banking and foreign exchange</b><br/> <b>Lending</b><br/> <b>Deposits</b><br/> <b>Investments</b></p> <p>Private Banking activities positions itself as the 'investment bank for private clients', offering both credit and investment services to our select clientele.</p> <p>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.</p> |
| Integrated systems and infrastructure                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |



# Specialist expertise delivered with dedication and energy

Business leader  
Richard Wainwright



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

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

## OUR value proposition

- High-quality specialist banking solution to corporate and private clients with leading positions in selected areas
- Provide high touch personalised service – 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
- Balanced business model with good business depth and breadth.

## WHERE we operate



### South Africa

Strong brand and positioning  
Fifth largest bank  
Leading in corporate institutional and private client banking activities

### Mauritius

Established 1997  
One of the leading international banks in Mauritius



## A DIVERSIFIED BUSINESS MODEL continues to support a large recurring revenue base, totalling 74.1% of operating income

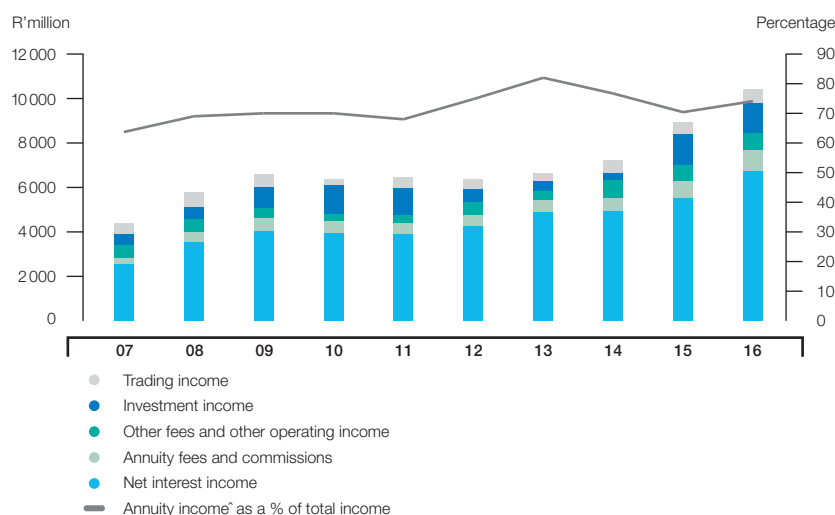
We have a strong franchise that supports a solid revenue base

Total operating income increased 16.1% to R10 388 million (2015: R8 946 million)

### Other financial features

| R'million                                                    | 31 March 2016 | 31 March 2015 | % change |
|--------------------------------------------------------------|---------------|---------------|----------|
| Headline earnings                                            | 3 449         | 3 014         | 14.4%    |
| Total capital resources (including subordinated liabilities) | 42 597        | 39 348        | 8.3%     |
| Total equity                                                 | 31 865        | 28 899        | 10.3%    |
| Total assets                                                 | 405 629       | 332 706       | 21.9%    |

### TOTAL OPERATING AND ANNUITY INCOME<sup>^</sup>



<sup>^</sup> Where annuity income is net interest income and annuity fees.

## FINANCIAL PERFORMANCE

Investec Bank Limited recorded a 16.9% increase in profit before taxation

| 2016     | 2015     |
|----------|----------|
| R4 295mn | R3 673mn |

Improving cost to income ratio

| 2016  | 2015  |
|-------|-------|
| 53.3% | 53.9% |

Improving credit loss ratio

| 2016  | 2015  |
|-------|-------|
| 0.26% | 0.29% |

Cash and near cash balances increased 40.8%

| 2016     | 2015    |
|----------|---------|
| R124.9bn | R88.7bn |

Core loans and advances increased 21.2%

| 2016     | 2015     |
|----------|----------|
| R215.2bn | R177.5bn |

Customer deposits increased 26.4%

| 2016     | 2015     |
|----------|----------|
| R279.7bn | R221.4bn |

Ratio of loans and advances to deposits remains strong

| 2016  | 2015  |
|-------|-------|
| 74.1% | 78.1% |

Low gearing ratios

| 2016       | 2015       |
|------------|------------|
| 12.6 times | 11.4 times |

## CREDIT QUALITY of core loans and advances has improved

Core loans and advances increased by 21.2% to R215.2 billion

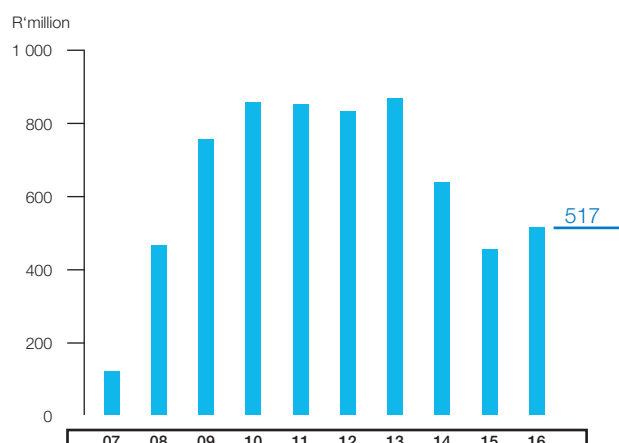
Default loans (net of impairments) as a percentage of core loans and advances decreased from 1.46% to 1.06%

The credit loss ratio improved from 0.29% to 0.26%, notwithstanding an increase in impairments

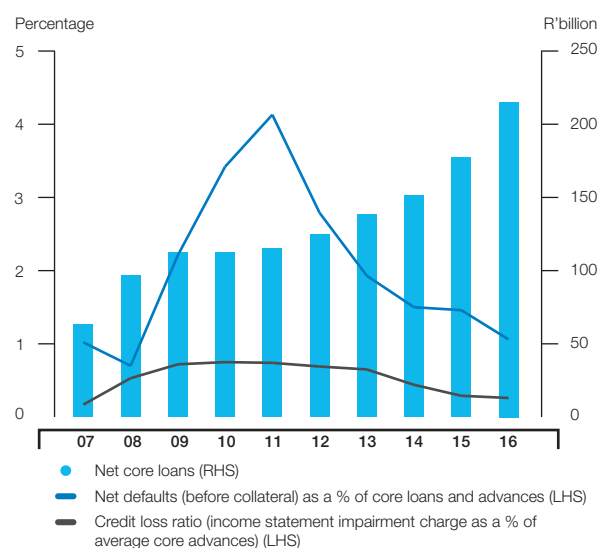
Net defaults (after impairments) remain adequately collateralised.

## IMPAIRMENT levels have normalised

### IMPAIRMENTS



### DEFAULT AND CORE LOANS





## SOUND CAPITAL AND LIQUIDITY principles maintained

### Continue to focus on:

- Maintaining a high level of readily available, high-quality liquid assets – approximately 37.6% of the bank's liability base
- Diversifying funding sources
- 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 74.1% (2015: 78.1%)

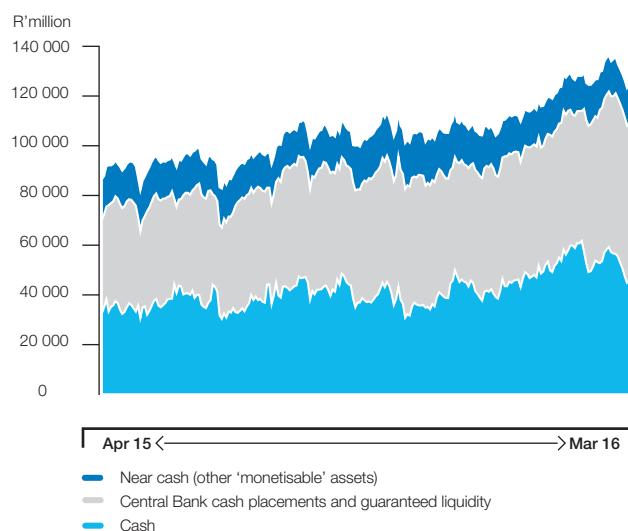
We ended the year with the three-month average of Investec Bank Limited's (solo basis) liquidity coverage ratio at 117.3% (2015: 100.3%) which is well ahead of the minimum regulatory level required.

### CAPITAL ADEQUACY AND TIER 1 RATIOS

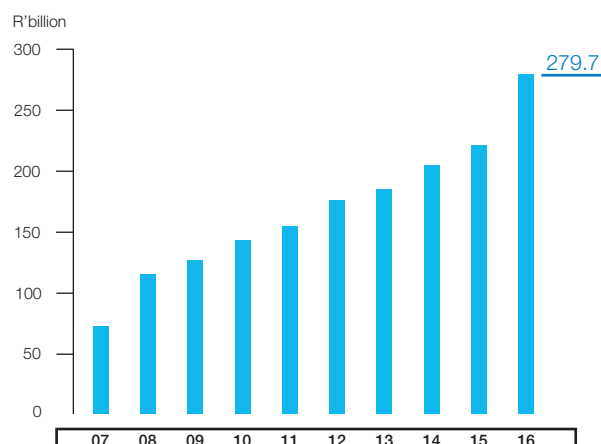
|                       | 31 March 2016 (Basel III) |              |                            | 31 March 2015 (Basel III) |              |                            |
|-----------------------|---------------------------|--------------|----------------------------|---------------------------|--------------|----------------------------|
|                       | Capital adequacy ratio    | Tier 1 ratio | Common equity tier 1 ratio | Capital adequacy ratio    | Tier 1 ratio | Common equity tier 1 ratio |
| Investec Bank Limited | 14.6%                     | 11.0%        | 10.6%                      | 15.4%                     | 11.4%        | 11.0%                      |
| Investec Limited      | 14.0%                     | 10.7%        | 9.6%                       | 14.7%                     | 11.3%        | 9.6%                       |

## BENEFITING from a growing retail deposit franchise

### CASH AND NEAR CASH TREND



### CUSTOMER ACCOUNTS (DEPOSITS)



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# Two

Financial  
review



## An overview of the operating environment impacting our business



### South Africa

#### OUR VIEWS

*South Africa remains institutionally sound, with solid ratings from the World Economic Forum's Global Competitiveness Survey, as the strength of its auditing and reporting standards are ranked first, and the regulation of its securities exchange (JSE) second, in the world*

South Africa faced another difficult year in 2015, as the slump in the commodity cycle intensified, along with the slower growth of key trading partners (notably China), while domestically the most severe drought in 25 years occurred. The commodity and manufacturing sectors saw an industrial sector recession, and GDP growth consequently slipped further to 1.3% year on year from last year's 1.5% year on year. GDP per capita fell for the first time since the 2009 recession, dropping to R56 169 in real terms from R56 198 and gross national income per capita continued its declining trend which began in 2013.

|                            |                            |
|----------------------------|----------------------------|
| 1.3%                       | 1.5%                       |
| 2015/16<br>Economic growth | 2014/15<br>Economic growth |
| 2016<br>R56 169            | 2015<br>R56 198            |

GDP per capita has fallen

Furthermore, South Africa is placed third in terms of the efficacy of its corporate boards, and has incubated a large number of companies to international level, with protection of minority shareholder interests also third globally. South Africa's banking sector is ranked eighth with deep, liquid, sophisticated markets and consistent, sound budgetary policies which allow South Africa to be a key contributor in the global bond market. The International Budget Partnership's latest Open Budget Index ranks South Africa third among 88 countries, after only New Zealand and Sweden. However, from 2011 South Africa has seen credit rating downgrades from S&P on the deterioration in economic growth, and some fiscal slippage as the ratios deteriorated, although very recently a more conservative Budget was presented under the new Finance Minister, Pravin Gordhan.

The financial market upheaval in mid-December 2015 impacted by the abrupt replacement of previous Finance Minister Nhlanhla Nene by temporary Finance Minister van Rooyen drove the domestic currency, JSE and bond yields to elevated risk-aversion levels. Despite the appointment soon thereafter of Pravin Gordhan to the Finance Minister role, the Rand went into the mid-January global debt, commodities and equities market rout severely weakened, reaching a historic low of close to R17.00/USD, with the JSE dropping to 45 493. The mid-January rout occurred on growing fears of global

recession as the commodity cycle, global trade volumes and world economic growth slumped lower. Foreigners have proved net sellers of South Africa's portfolio assets from mid-December to end March 2016 on domestic economic growth concerns, fears of credit rating downgrades and expectations of higher interest rates in the US. In particular, the credit rating agencies are reassessing South Africa's creditworthiness in terms of its downward economic growth trajectory and rising government debt ratios.

Indeed, the unsupportive global environment for a commodity exporter risks the South African economy stalling this year, if not entering a technical recession, along with the global economic slowdown. Besides the global headwinds, the domestic economy also faces some real constraints in terms of skills shortages, a restrictive labour market and infrastructure, although meaningful progress has begun on alleviating electricity supply constraints. South Africa has seen its World Bank ranking on the ease of doing business slip, but structural improvements could see an improved ability to reduce unemployment and inequality, and eliminate poverty. The advent of 2016 heralded a closer working relationship between government and business, which if successful will allow a more rapid progression of upward social mobility, as occurred in the earlier years of the country's democracy.

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



### Global stock markets

#### OUR VIEWS

Equity markets began the financial year in a buoyant mood, with the UK's FTSE 100 breaking through the significant 7 000 point milestone to set a new high during April 2015. These gains reflected the belief that global economic growth was set to accelerate and Europe and emerging economies were managing their challenges.

But that early optimism turned into a challenging year as a whole for financial markets, with the price of risky assets lower, in general, than when the year began. After a surge in the middle of 2015, the Shanghai share index in China was 20% lower by financial year end. In the Eurozone, the Euro Stoxx 50 index slid 19%. The UK's FTSE All Share declined 7%. In the US, the S&P 500 was more resilient, ending the year 0.4% lower. Commodity prices slid too, especially the oil price, where declines were driven partly by Saudi Arabia's continued bid to maintain market share by keeping output high and prices low.

This pattern of declines (oil supply issues notwithstanding) reflects two major global economic risks. The first relates to China, where issues came to a head last August. A depreciation of the Chinese Yuan triggered a sell-off in equity markets worldwide as investors fretted about a Chinese 'hard landing'. However, after a volatile few weeks, markets recovered as it turned out that global economic fundamentals appeared to remain relatively sound.

The second risk, of a broader, deflationary global slowdown, particularly in the Euro area, sharpened in January and February 2016. The immediate trigger for a downward lurch in global markets was a sell-off in Eurozone banking stocks. In part, this could have been driven by fears about the impact of the ECB's negative interest rate policy on banks' profitability. More generally, a worry emerged that central banks and other policymakers are running out of scope to combat economic stagnation and deflation.

Over and above these two global worries, the removal of Finance Minister Nene in South Africa in December 2015 caused the JSE All Share and Banking indices to fall by over 20% in a matter of days, with little recovery experienced over the month that followed, although the JSE All Share ended March 2016 in line with the prior year's level.

Partly as a result of last year's market gyrations, our view is that risks to the global outlook have become more tilted to the downside. Various organisations, such as the OECD, IMF and World Bank, appear to concur. But our view is that economic fundamentals remain on a steady, if unspectacular, footing – a view borne out by the 'hard' data, which have continued to point to sustained economic growth. Consistent with, and in part because of, the data remaining broadly on track, the last few weeks of the financial year saw equity markets recover most of their January and February losses.



(continued)

## Operating environment

THE TABLE BELOW PROVIDES AN OVERVIEW OF SOME KEY STATISTICS THAT SHOULD BE CONSIDERED WHEN REVIEWING OUR OPERATIONAL PERFORMANCE

|                                                                       | Year ended<br>31 March<br>2016 | Year ended<br>31 March<br>2015 | % change | Average over the<br>year 1 April<br>2015 to<br>31 March<br>2016 |
|-----------------------------------------------------------------------|--------------------------------|--------------------------------|----------|-----------------------------------------------------------------|
| <b>Market indicators</b>                                              |                                |                                |          |                                                                 |
| JSE All share                                                         | 52 250                         | 52 182                         | 0.1%     | 51 705                                                          |
| FTSE All share                                                        | 3 395                          | 3 664                          | (7.3%)   | 3 500                                                           |
| S&P                                                                   | 2 060                          | 2 068                          | (0.4%)   | 2 033                                                           |
| Nikkei                                                                | 16 759                         | 19 207                         | (12.7%)  | 18 844                                                          |
| Dow Jones                                                             | 17 685                         | 17 776                         | (0.5%)   | 17 306                                                          |
| <b>Rates</b>                                                          |                                |                                |          |                                                                 |
| SA R186                                                               | 9.10%                          | 7.80%                          |          | 8.17%                                                           |
| Rand overnight                                                        | 6.92%                          | 6.30%                          |          | 6.45%                                                           |
| SA prime overdraft rate                                               | 10.50%                         | 9.25%                          |          | 9.61%                                                           |
| JIBAR – three month                                                   | 7.23%                          | 6.11%                          |          | 6.43%                                                           |
| UK overnight                                                          | 0.41%                          | 0.42%                          |          | 0.46%                                                           |
| UK 10 year                                                            | 1.42%                          | 1.58%                          |          | 1.81%                                                           |
| UK clearing banks base rate                                           | 0.50%                          | 0.50%                          |          | 0.50%                                                           |
| LIBOR – three month                                                   | 0.59%                          | 0.57%                          |          | 0.59%                                                           |
| US 10 year                                                            | 1.79%                          | 1.93%                          |          | 2.12%                                                           |
| <b>Commodities</b>                                                    |                                |                                |          |                                                                 |
| Gold                                                                  | US\$1 233/oz                   | US\$1 188/oz                   | 3.8%     | US\$1 151/oz                                                    |
| Brent crude oil                                                       | US\$40/bbl                     | US\$56/bbl                     | (28.6%)  | US\$49/bbl                                                      |
| Platinum                                                              | US\$976/oz                     | US\$1 129/oz                   | (13.6%)  | US\$983/oz                                                      |
| <b>Macro-economic</b>                                                 |                                |                                |          |                                                                 |
| South Africa GDP (% change over the period)                           | 1.3%                           | 1.5%                           |          |                                                                 |
| South Africa per capita GDP (real value in Rands, historical revised) | 56 169                         | 56 198                         | (0.1%)   |                                                                 |

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



## Key income drivers

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

| Key income drivers                                                                                                                                                                                                            | Income impacted primarily by                                                                                                                                                                                                                                                       | Income statement – primarily reflected as                                                                                                           |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>– Lending activities</li> </ul>                                                                                                                                                        | <ul style="list-style-type: none"> <li>– Size of loan portfolio</li> <li>– Clients' capital and infrastructural investments</li> <li>– Funding requirements</li> <li>– Client activity</li> <li>– Credit spreads</li> <li>– Shape of yield curve.</li> </ul>                       | <ul style="list-style-type: none"> <li>– Net interest income</li> <li>– Fees and commissions</li> <li>– Investment income.</li> </ul>               |
| <ul style="list-style-type: none"> <li>– Cash and near cash balances</li> </ul>                                                                                                                                               | <ul style="list-style-type: none"> <li>– Capital employed in the business and capital adequacy targets</li> <li>– Asset and liability management policies and risk appetite</li> <li>– Regulatory requirements</li> <li>– Credit spreads.</li> </ul>                               | <ul style="list-style-type: none"> <li>– Net interest income</li> <li>– Trading income arising from balance sheet management activities.</li> </ul> |
| <ul style="list-style-type: none"> <li>– Deposit and product structuring and distribution</li> </ul>                                                                                                                          | <ul style="list-style-type: none"> <li>– Distribution channels</li> <li>– Ability to create innovative products</li> <li>– Regulatory requirements</li> <li>– Credit spreads.</li> </ul>                                                                                           | <ul style="list-style-type: none"> <li>– Net interest income</li> <li>– Fees and commissions.</li> </ul>                                            |
| <ul style="list-style-type: none"> <li>– Investments made (including listed and unlisted equities; debt securities; investment properties)</li> <li>– Gains or losses on investments</li> <li>– Dividends received</li> </ul> | <ul style="list-style-type: none"> <li>– Macro- and micro-economic market conditions</li> <li>– Availability of profitable exit routes</li> <li>– Whether appropriate market conditions exist to maximise gains on sale</li> <li>– Attractive investment opportunities.</li> </ul> | <ul style="list-style-type: none"> <li>– Net interest income</li> <li>– Investment income.</li> </ul>                                               |
| <ul style="list-style-type: none"> <li>– Advisory services</li> </ul>                                                                                                                                                         | <ul style="list-style-type: none"> <li>– The demand for our specialised advisory services, which, in turn, is affected by applicable tax, regulatory and other macro- and micro-economic fundamentals.</li> </ul>                                                                  | <ul style="list-style-type: none"> <li>– Fees and commissions.</li> </ul>                                                                           |
| <ul style="list-style-type: none"> <li>– Derivative sales, trading and hedging</li> </ul>                                                                                                                                     | <ul style="list-style-type: none"> <li>– Client activity</li> <li>– Market conditions/volatility</li> <li>– Asset and liability creation</li> <li>– Product innovation</li> <li>– Market risk factors, primarily volatility and liquidity.</li> </ul>                              | <ul style="list-style-type: none"> <li>– Fees and commissions</li> <li>– Trading income arising from customer flow.</li> </ul>                      |
| <ul style="list-style-type: none"> <li>– Transactional banking services</li> </ul>                                                                                                                                            | <ul style="list-style-type: none"> <li>– Levels of activity</li> <li>– Ability to create innovative products</li> <li>– Appropriate systems infrastructure.</li> </ul>                                                                                                             | <ul style="list-style-type: none"> <li>– Net interest income</li> <li>– Fees and commissions.</li> </ul>                                            |

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

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.

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.

|                                                                                                                                                               |                                                                                                                                                                                                                                              |                                                                                                                                                                                                                                          |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>12 – 14</b></p> <p>The <b>financial services industry</b> in which we operate is intensely competitive.</p>                                             | <p><b>12 – 14</b></p> <p><b>Market, business and general economic conditions</b> and fluctuations could adversely affect our businesses in a number of ways.</p>                                                                             | <p><b>27</b></p> <p>We may be exposed to <b>country risk</b> i.e. the risk inherent in sovereign exposure and events in other countries.</p>                                                                                             |
| <p><b>27 – 50</b></p> <p><b>Credit and counterparty risk</b> exposes us to losses caused by financial or other problems experienced by our clients.</p>       | <p><b>28</b></p> <p>Unintended <b>environmental, social and economic risks</b> could arise in our lending and investment activities.</p>                                                                                                     | <p><b>51 – 53</b></p> <p>We may be exposed to <b>investment risk</b> largely in our unlisted investment portfolio.</p>                                                                                                                   |
| <p><b>55 – 58</b></p> <p><b>Market risk</b> arising in our trading book could affect our operational performance.</p>                                         | <p><b>59 – 66</b></p> <p><b>Liquidity risk</b> may impair our ability to fund our operations.</p>                                                                                                                                            | <p><b>66 – 68</b></p> <p>Our net interest earnings and net asset value may be adversely affected by <b>interest rate risk</b>.</p>                                                                                                       |
| <p><b>71 – 74</b></p> <p><b>Operational risk</b> (including financial crime and process failure) may disrupt our business or result in regulatory action.</p> | <p><b>71 – 74</b></p> <p>We may be <b>vulnerable to the failure of our systems</b> and breaches of our security systems (including cyber and information security).</p>                                                                      | <p><b>71 – 74</b></p> <p><b>Employee misconduct</b> could cause harm that is difficult to detect.</p>                                                                                                                                    |
| <p><b>74 and 75</b></p> <p><b>Reputational, strategic and business risk</b> could impact our operational performance.</p>                                     | <p><b>74 and 75</b></p> <p><b>Compliance, legal and regulatory risks</b> may have an impact on our business.</p>                                                                                                                             | <p><b>75</b></p> <p><b>Retail conduct risk</b> is the risk that we treat our customers unfairly and deliver inappropriate outcomes. <b>Wholesale conduct risk</b> is the risk of conducting ourselves inappropriately in the market.</p> |
| <p><b>75 – 81</b></p> <p>We may have <b>insufficient capital</b> in the future and may be unable to secure additional financing when it is required.</p>      | <p>We may be unable to <b>recruit, retain and motivate key personnel</b>.</p> <p> <b>See Investec's 2016 integrated annual report on our website.</b></p> |                                                                                                                                                                                                                                          |

## Overview

The bank posted an increase in headline earnings attributable to ordinary shareholders of 14.4% to R3 449 million (2015: R3 014 million). The balance sheet remains sound with a capital adequacy ratio of 14.6% as calculated in terms of Basel III (2015: 15.4%).

Unless the context indicates otherwise, all income statement comparatives in the review below relate to the results for the year ended 31 March 2015.

## Income statement analysis

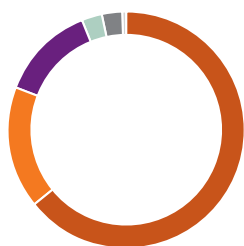
The overview that follows will highlight the main reasons for the variance in the major category line items on the face of the income statement during the year under review.

### TOTAL OPERATING INCOME

Total operating income before impairment losses on loans and advances increased by 16.1% to R10 388 million (2015: R8 946 million). The various components of total operating income are analysed below.

| R'million                                                                    | 31 March<br>2016 | % of total<br>income | 31 March<br>2015 | % of total<br>income | % change     |
|------------------------------------------------------------------------------|------------------|----------------------|------------------|----------------------|--------------|
| Net interest income                                                          | 6 712            | 64.6%                | 5 521            | 61.7%                | 21.6%        |
| Net fee and commission income                                                | 1 738            | 16.7%                | 1 454            | 16.3%                | 19.5%        |
| Investment income                                                            | 1 356            | 13.1%                | 1 420            | 15.9%                | (4.5%)       |
| Trading income arising from                                                  |                  |                      |                  |                      |              |
| – customer flow                                                              | 293              | 2.8%                 | 290              | 3.2%                 | 1.0%         |
| – balance sheet management and other trading activities                      | 298              | 2.9%                 | 260              | 2.9%                 | 14.6%        |
| Other operating (loss)/income                                                | (9)              | (0.1%)               | 1                | –                    | (> 100.0%)   |
| <b>Total operating income before impairment losses on loans and advances</b> | <b>10 388</b>    | <b>100.0%</b>        | <b>8 946</b>     | <b>100.0%</b>        | <b>16.1%</b> |

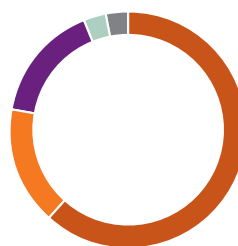
### % OF TOTAL OPERATING INCOME BEFORE IMPAIRMENT LOSSES ON LOANS AND ADVANCES



#### 31 March 2016

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

|        |                                                                                   |
|--------|-----------------------------------------------------------------------------------|
| 64.6%  | Net interest income                                                               |
| 16.7%  | Net fee and commission income                                                     |
| 13.1%  | Investment income                                                                 |
| 2.8%   | Trading income arising from customer flow                                         |
| 2.9%   | Trading income arising from balance sheet management and other trading activities |
| (0.1%) | Other operating loss                                                              |



#### 31 March 2015

R8 946 million total operating income before impairment losses on loans and advances

|       |                                                                                   |
|-------|-----------------------------------------------------------------------------------|
| 61.7% | Net interest income                                                               |
| 16.3% | Net fee and commission income                                                     |
| 15.9% | Investment income                                                                 |
| 3.2%  | Trading income arising from customer flow                                         |
| 2.9%  | Trading income arising from balance sheet management and other trading activities |
| 0.0%  | Other operating income                                                            |



## Financial review

(continued)

### Net interest income

Net interest income increased by 21.6% to R6 712 million (2015: R5 521 million) with the bank benefiting from a solid increase in its loan portfolio.



For a further analysis of interest income and interest expense refer to page 126.

### Net fee and commission income

Net fee and commission income increased 19.5% to R1 738 million (2015: R1 454 million) as a result of a good performance from the private banking, corporate lending and corporate treasury businesses. In addition, the acquisition of the Blue Strata group (rebranded Investec Import Solutions) had a positive impact on net fee and commission income.



For a further analysis of net fee and commission income refer to page 127.

### Investment income

Investment income decreased 4.5% to R1 356 million (2015: R1 420 million). The bank's unlisted investments portfolio continued to perform well. Following the creation of Investec Equity Partners (IEP) (refer to page 51) the bank will equity account its 45% interest in the new vehicle which has a 31 December financial year end.



For a further analysis of investment income refer to pages 127 and 128.

### Trading income

Trading income arising from customer flow and balance sheet management and other trading activities increased 7.5% to R591 million (2015: R550 million) reflecting higher activity levels and foreign currency gains.

## IMPAIRMENT LOSSES ON LOANS AND ADVANCES

Impairments on loans and advances increased from R455 million to R517 million. However, the credit loss charge as a percentage of average gross core loans and advances has improved from 0.29% at 31 March 2015 to 0.26%. The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounts to 1.06% (2015: 1.46%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.61 times (2015: 1.44 times).



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

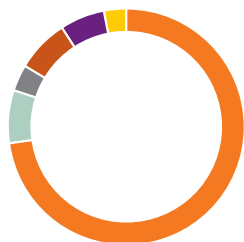
## TOTAL OPERATING COSTS

The ratio of total operating costs to total operating income amounts to 53.3% (2015: 53.9%). Total operating costs at R5 537 million were 14.9% higher than the prior year (2015: R4 818 million) largely as a result of: an increase in headcount and system infrastructure costs to support growth initiatives; the acquisition of the Blue Strata group (rebranded Investec Import Solutions); and an increase in variable remuneration given improved profitability.

The various components of total operating costs are analysed below.

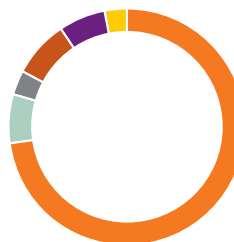
| R'million                                       | 31 March<br>2016 | % of total<br>operating<br>costs | 31 March<br>2015 | % of total<br>operating<br>costs | % change     |
|-------------------------------------------------|------------------|----------------------------------|------------------|----------------------------------|--------------|
| Staff costs (including directors' remuneration) | (4 033)          | 72.8%                            | (3 510)          | 72.9%                            | 14.9%        |
| Business expenses                               | (406)            | 7.3%                             | (329)            | 6.8%                             | 23.4%        |
| Equipment expenses (excluding depreciation)     | (202)            | 3.6%                             | (161)            | 3.3%                             | 25.5%        |
| Premises expenses (excluding depreciation)      | (394)            | 7.2%                             | (376)            | 7.8%                             | 4.8%         |
| Marketing expenses                              | (348)            | 6.3%                             | (304)            | 6.3%                             | 14.5%        |
| Depreciation                                    | (154)            | 2.8%                             | (138)            | 2.9%                             | 11.6%        |
| <b>Total operating costs</b>                    | <b>(5 537)</b>   | <b>100.0%</b>                    | <b>(4 818)</b>   | <b>100.0%</b>                    | <b>14.9%</b> |

## % OF TOTAL OPERATING COSTS



**31 March 2016**  
R5 537 million total operating costs

|       |                    |
|-------|--------------------|
| 72.8% | Staff costs        |
| 7.3%  | Business expenses  |
| 3.6%  | Equipment expenses |
| 7.2%  | Premises expenses  |
| 6.3%  | Marketing expenses |
| 2.8%  | Depreciation       |



**31 March 2015**  
R4 818 million total operating costs

|       |                    |
|-------|--------------------|
| 72.9% | Staff costs        |
| 6.8%  | Business expenses  |
| 3.3%  | Equipment expenses |
| 7.8%  | Premises expenses  |
| 6.3%  | Marketing expenses |
| 2.9%  | Depreciation       |

## Balance sheet analysis

### Since 31 March 2015:

- Total shareholders' equity increased by 10.3% to R31.9 billion (2015: R28.9 billion), largely as a result of retained earnings
- Total assets increased by 21.9% to R405.6 billion (2015: R332.7 billion), largely as a result of an increase in core loans and advances and cash and near cash balances.



## QUESTIONS and answers

### Richard Wainwright

#### BUSINESS LEADER

#### ● Can you give us an overview of the market environment in which you have operated over the past financial year?

The year ended 31 March 2016 was a challenging one for the global financial markets. 2015/16 was characterised by weak global growth, a declining oil price, inflationary and deflationary concerns, unpredictability around interest rate trajectories, and not least geopolitical uncertainty in our regions and the world.



Refer to pages 12 to 14 for further information.

#### ● What have been the key developments in your business over the past financial year?

The bank reported a positive performance with operating profit up 16.9%, driven by strong loan book growth in the corporate and private banking businesses. Good client activity supported the strong positive business momentum and franchise growth. The unlisted investment portfolio also performed well during the period.

We continue to benefit from the collaboration between the Private Bank and Wealth & Investment business, with international recognition from the *Financial Times* as the Best Private Bank and Wealth Manager in South Africa for the third year running. 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.

#### ● 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 Southern Africa remains the following:

- To continue to organically grow the transactional banking, property and private capital businesses
- To diversify our revenue streams in the corporate and institutional market
- Build sustainability through a diversified portfolio of businesses.

#### ● What is your outlook for the coming financial year?

Despite the current structural challenges in the South African economy, corporate activity continues to present opportunities. We have a strong financial sector and an active private sector, which will continue to support momentum in the specialist banking businesses.

#### ● How do you incorporate environmental, social and governance (ESG) considerations into your business?

We continue to focus on developing our people and investing in our communities and the environment, receiving a number of awards for our efforts in the past year. Our flagship educational initiative in South Africa, Promaths continues to outpace the national average for Mathematics and Science in the country. We continue to experience good momentum in our enterprise development programme (Young Treps) where selected entrepreneurs learn valuable skills in strategy, marketing and finance. Our employees remain vital in delivering on our promise to provide exceptional client experiences and hence we continue to focus on attracting, retaining and developing talent. In this regard, Investec was voted third most attractive employer in South Africa in the 2016 Universum Most Attractive Employer awards.

A teal graphic element consisting of a horizontal bar that curves upwards into a thick, curved line extending towards the top right corner of the page.

# Three

Risk management and  
corporate governance





## Group Risk Management objectives are to:

- Be the custodian of 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 23 to 82 with further disclosures provided within the annual financial statements section on pages 109 to 116.**

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

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

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



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

## Philosophy and approach to risk management

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

Risk awareness, control and compliance are embedded in all our day-to-day activities. A strong risk and capital management culture is embedded into our values.

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.

Notwithstanding a challenging and uncertain environment experienced, the group was able to maintain sound risk metrics throughout the year in review. The group remained within the majority of its risk appetite limits/targets across the various risk disciplines with any exceptions noted and approved by the board.



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

### Credit risk

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

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

Our core loan book remains well diversified with commercial rent producing property loans comprising approximately 15.8% of the book, other lending collateralised by property 3.2%, high net worth and private client lending 47.0% and corporate lending 34.0% (with most industry concentrations



well below 5.0%). 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 21.2% to R215 billion at 31 March 2016 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 0.26% and defaults (net of impairments but before collateral) are 1.06% of our book. The increase in interest rates has had little impact on the performance of our book to date, as our target market is less sensitive to the moderate interest rate moves incurred to date. We will, however, monitor our portfolio in light of the increasing interest rate environment. The group has minimal exposure to the agriculture sector in South Africa, and our overall on and off-balance sheet exposure to mining and resources amounts to 3.4% of our credit and counterparty exposures. Given the weaker growth outlook in South Africa, it is likely that defaults could increase, although we would still expect our credit loss ratio to remain within our long-term trend of 30bps to 40bps.

## Investment risk

Our investment portfolios delivered a sound performance. During the year we transferred a sizeable portion of our unlisted investments portfolio to an investment vehicle called Investec Equity Partners (IEP) in which we retain a 45% interest. With the backing of external strategic investors, we believe that IEP is better positioned to deliver value from, and grow this portfolio. Overall, we remain comfortable with the performance of our equity investment portfolios which comprise 2.92% 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 0.4% of total operating income.

We continue to manage a very low level of market risk with 95% one-day VaR at R4.2 million at 31 March 2016. Trading conditions have remained challenging. Markets have been very volatile while the lack of liquidity has continued. Investec remains focused on facilitating the near-term demand of our clients. The equity derivatives business has continued to grow their synthetic product offering to a diversified client base. All trading areas have kept market risk exposures at low levels throughout the year.

## Balance sheet and liquidity risk

Holding a high level of readily available, high quality liquid assets remains paramount in the management of our balance sheet. We continue to maintain a low reliance on interbank wholesale funding to fund core lending asset growth. Cash and near cash balances amounted to R125 billion at year end, representing 37.6% of our liability base.

Surplus cash balances increased significantly, as we remained conservative given the volatility in the markets. We ended the year with the three-month average of Investec Bank Limited's (solo) LCR at 117.3%, which is well ahead of the minimum levels required. We were successful in raising two to three year term USD funding at levels last witnessed over five years ago. The bank's long-term USD liquidity position is very positive and places us in a strong position ahead of any concern over South Africa's heightened risk of a credit rating downgrade. Our USD funding merely augments our surplus cash balances, and core loans and advances are fully funded from domestic deposits, with our loan to deposit ratio (excluding USD funding) at 74.1%.

Total customer deposits increased by 26.4% from 1 April 2015 to R280 billion at 31 March 2016.

## Capital management

Investec has continued to maintain a sound balance sheet with a low gearing ratio of 12.6 times and a core loans to equity ratio of 6.8 times. Our current leverage ratio is 7.3%.

We have always held capital in excess of regulatory requirements and we intend to perpetuate this philosophy. We meet our

current internal targets for total capital adequacy and for our common equity tier 1 ratio to be in excess of 10%. Our capital ratios did decline somewhat over the period as a result of solid growth in our credit risk-weighted assets during the year. Capital however, continued to grow and we are comfortable that credit growth is in line with our risk appetite framework and supported by sound risk metrics. We believe that a common equity tier 1 ratio in excess of 10% is appropriate for our business, given our high 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. During the year a customer and market conduct committee was established, with the objective of ensuring that Investec maintains a client-focused and fair outcomes-based culture.

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

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

(continued)

During the year, the bank continued to enhance its stress testing framework. Given the volatility and uncertainty in the market, a number of new stress scenarios were incorporated into our processes, these included for example, the events that unfolded in December 2015 (with the removal of Finance Minister Nene) and a sovereign rating downgrade of South Africa to below investment grade.

The board, through the group's various risk and capital committees, continued to assess the impact of its principal risks and the above mentioned stress scenarios on its 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 although business activity would be very subdued, the bank would continue to maintain adequate liquidity and capital balances to support the continued operation of the bank.

We were very pleased to receive a credit rating upgrade from Fitch during the period. We believe this rating upgrade is a reflection of the progress we have made over the past few years in simplifying and derisking our business, maintaining sound capital and high liquidity ratios, and managing credit risk metrics at tolerable levels.

## Salient features

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

| Year to 31 March                                                                      | 2016    | 2015    |
|---------------------------------------------------------------------------------------|---------|---------|
| Total assets (R'million)                                                              | 405 629 | 332 706 |
| Total risk-weighted assets (R'million)                                                | 295 752 | 257 931 |
| Total equity (R'million)                                                              | 31 865  | 28 899  |
| Net core loans and advances (R'million)                                               | 215 239 | 177 528 |
| Cash and near cash (R'million)                                                        | 124 907 | 88 691  |
| Customer accounts (deposits) (R'million)                                              | 279 736 | 221 377 |
| Gross defaults as a % of gross core loans and advances                                | 1.48%   | 2.09%   |
| Defaults (net of impairments) as a % of net core loans and advances                   | 1.06%   | 1.46%   |
| Net defaults (after collateral and impairments) as a % of net core loans and advances | –       | –       |
| Credit loss ratio*                                                                    | 0.26%   | 0.29%   |
| Structured credit as a % of total assets                                              | 0.19%   | 1.33%   |
| Banking book investment and equity risk exposures as a % of total assets              | 2.92%   | 3.39%   |
| Level 3 (fair value assets) as a % of total assets                                    | 0.63%   | 1.96%   |
| Traded market risk: one-day value at risk (R'million)                                 | 4.2     | 3.4     |
| Core loans to equity ratio                                                            | 6.8x    | 6.1x    |
| Total gearing ratio**                                                                 | 12.6x   | 11.4x   |
| Loans and advances to customers to customer deposits                                  | 74.1%   | 78.1%   |
| Capital adequacy ratio                                                                | 14.6%   | 15.4%   |
| Tier 1 ratio                                                                          | 11.0%   | 11.4%   |
| Common equity tier 1 ratio                                                            | 10.6%   | 11.0%   |
| Leverage ratio                                                                        | 7.3%    | 8.3%    |
| Return on average assets#                                                             | 0.92%   | 0.95%   |
| Return on average risk-weighted assets#                                               | 1.23%   | 1.21%   |

\* Income statement impairment change on core loans as a percentage of average gross core loans and advances.

\*\* Total assets excluding intergroup loans to total equity.

# Where return represents earnings attributable to shareholders after deduction of preference dividends but before amortisation of acquired intangibles. Average balances are calculated on a straight-line average.

## 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.

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 2016                                                                                                                                           |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>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</li> </ul>                                                                                                                                                                                                   | Capital light activities for Investec Limited contributed 44% to total operating income and capital intensive activities contributed 56%                               |
| <ul style="list-style-type: none"> <li>We have a solid recurring income base supported by diversified revenue streams, and target a recurring income ratio in excess of 65%</li> </ul>                                                                                                                                                                                                                                                                             | Recurring income amounted to 74.1% of total operating income. Refer to page 8 for further information                                                                  |
| <ul style="list-style-type: none"> <li>We seek to maintain strict control over fixed costs and target a group cost to income ratio of below 65%</li> </ul>                                                                                                                                                                                                                                                                                                         | The cost to income ratio amounted to 53.3%. Refer to page 8 for further information                                                                                    |
| <ul style="list-style-type: none"> <li>We aim to build a sustainable business generating sufficient return to shareholders over the longer-term, and target a long-term return on equity ratio range of between 12% and 16%, and a return on risk-weighted assets in excess of 1.2%</li> </ul>                                                                                                                                                                     | The return on equity for the Investec group amounted to 11.5% and our return on risk-weighted assets amounted to 1.34%                                                 |
| <ul style="list-style-type: none"> <li>We are a lowly leveraged firm and target a leverage ratio in all our banking subsidiaries in excess of 6%</li> </ul>                                                                                                                                                                                                                                                                                                        | We achieved this internal target; refer to page 80 for further information                                                                                             |
| <ul style="list-style-type: none"> <li>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% on a consolidated basis for Investec plc and Investec Limited and we target a minimum tier 1 ratio of 11.0% and a common equity tier 1 ratio above 10.0%</li> </ul>                                                                  | We meet our capital targets; refer to page 80 for further information                                                                                                  |
| <ul style="list-style-type: none"> <li>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</li> </ul>                                                                                      | We maintained this risk tolerance level in place throughout the year                                                                                                   |
| <ul style="list-style-type: none"> <li>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</li> </ul> |                                                                                                                                                                        |
| <ul style="list-style-type: none"> <li>The level of defaults and impairments continues to improve and 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)</li> </ul>                                    | The credit loss charge on core loans amounted to 0.26% and defaults net of impairments amounted to 1.06% of total core loans. Refer to page 42 for further information |
| <ul style="list-style-type: none"> <li>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%</li> </ul>                                                                                                                                                                                                                              | Total cash and near cash balances amounted to R125 billion representing 44.7% of customer deposits. Refer to page 62 for further information                           |
| <ul style="list-style-type: none"> <li>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</li> </ul>                                                                                                                                                                          | We meet these internal limits; refer to page 56 for further information                                                                                                |
| <ul style="list-style-type: none"> <li>We have moderate appetite for investment risk, and set a risk tolerance of less than 15% of tier 1 capital for our unlisted principal investment portfolio (excluding IEP)</li> </ul>                                                                                                                                                                                                                                       | Our unlisted investment portfolio is R2 803 million, representing 8.7% of total tier 1 capital. Refer to page 52 for further information                               |
| <ul style="list-style-type: none"> <li>Our operational risk management team focuses on improving business performance and compliance with regulatory requirements through review, challenge and escalation</li> </ul>                                                                                                                                                                                                                                              | Refer to pages 71 to 74 for further information                                                                                                                        |
| <ul style="list-style-type: none"> <li>We have a number of policies and practices in place to mitigate reputational, legal and conduct risks</li> </ul>                                                                                                                                                                                                                                                                                                            | Refer to pages 74 and 75 for further information                                                                                                                       |

## An overview of our principal risks

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



These principal risks have been highlighted on page 16.

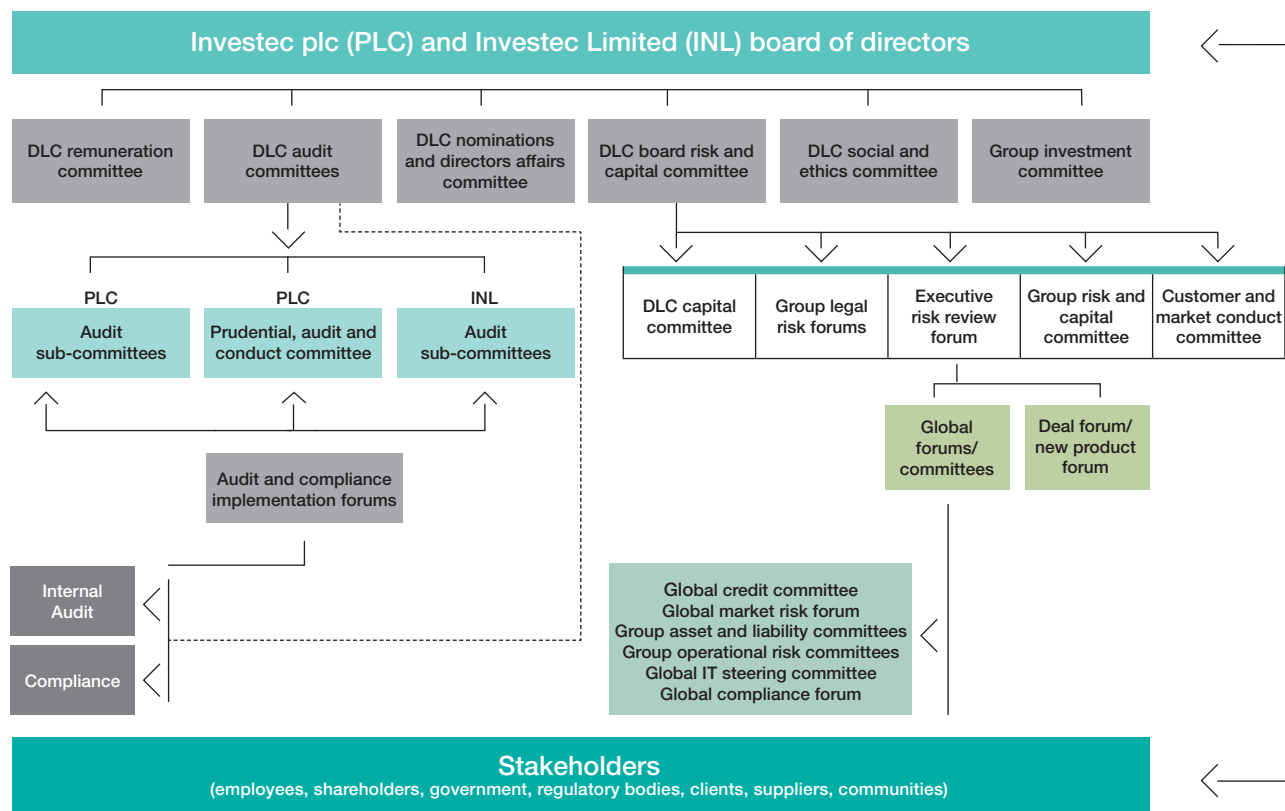
The sections that follow provide information on a number of these risk areas and how the group manages these risks.

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

## Risk management framework, committees and forums

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

### Governance framework



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

|      |                                        |      |                                  |
|------|----------------------------------------|------|----------------------------------|
| ALCO | Asset and liability committee          | BOE  | Bank of England                  |
| BCBS | Basel Committee of Banking Supervision | ERRF | Executive risk review forum      |
| BIS  | Bank for International Settlements     | FCA  | Financial Conduct Authority      |
| BOM  | Bank of Mauritius                      | GRCC | Group risk and capital committee |
| BRCC | Board risk and capital committee       | GRCC | Group risk and capital committee |
| ECB  | European Central Bank                  | 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 will 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. Our definition of a settlement debtor is a short-term receivable (i.e. less than five days) which is excluded from credit and counterparty risk due to market guaranteed settlement mechanisms
  - Replacement risk is the financial cost of having to enter into a replacement contract with an alternative market counterparty, following default by the original counterparty.

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 bank's main operating geographies. The bank 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 product 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 local and global credit committees as well as investment committees and ERRF will consider, analyse and assess the appropriate limits to be recorded when required, to assume exposure to foreign jurisdictions. The local group credit committee has the authority to approve country limits within mandate. The global credit committee, global investment committee or ERRF is responsible for approving country limits that are not within the mandate of local group credit committees.

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 forecast 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
- 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 geographies (i.e. South Africa and the UK). The Investec group will accept exposures where it has a branch or local banking subsidiary (as explained above).

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



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

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

We are client-centric in our approach and originate loans with the intent of holding these assets to maturity, thereby developing a 'hands-on' and long-standing relationship. Where we originate loans that are considered too large for our balance sheet, these may be sold down to mitigate our concentration risk.

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

## CONCENTRATION RISK

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

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

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

## 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.

## SUSTAINABILITY CONSIDERATIONS



Investec has a holistic approach to sustainability, 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, sustainability risk considerations are considered by the credit committee and investment committee when making lending or investment decisions. There is also oversight by the social and ethics committee (board committee) on social and environmental issues. In particular the following factors are taken into account when a transaction might be approved or declined based on the outcome of the sustainability considerations:

- Environmental considerations (including animal welfare and climate-related impacts)
- Social considerations (including human rights)
- Economic considerations.



**Refer to our sustainability 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.

Internal credit rating models continue to be developed to cover all material asset classes. The internal ratings are incorporated in the risk management and decision-making process and are used in credit assessment, monitoring and approval as well as pricing.

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.

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 Registrar, in the respective geographies in which the group operates.

## CREDIT AND COUNTERPARTY RISK – NATURE OF LENDING 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 value ratios.

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



**An analysis of the lending collateralised by property portfolio and asset quality information is provided on pages 48 and 49.**

### Private client activities

Our private banking activities target high net worth individuals, active wealthy entrepreneurs, high-income professionals, newly qualified professionals with high-income earning potential, self-employed entrepreneurs, owner managers in small to mid-cap corporates and sophisticated investors.

Lending products are tailored to meet the requirements of our clients. Central to our credit philosophy is ensuring the sustainability of cash flow and income throughout the cycle. As such, the client base has been grouped and 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 as well as vanilla mortgage products for professional target market clients
- **Specialised Lending** provides tailored credit facilities to high net worth individuals and their controlled entities.



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

### Corporate client activities

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

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

The Credit Risk Management functions approve specific credit and counterparty limits that govern the maximum credit exposure to each individual counterparty. In addition, further risk management limits exist through industry and country limits to manage concentration risk. The credit appetite for each counterparty is based on the financial strength of the principal borrower, 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.

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 service coverage from the robustness of the cash generation for the business based on historic and forecast information. We typically act as transaction lead or arranger, and have a close relationship with management and the sponsor
- **Corporate Debt Securities:** these are tradable corporate debt instruments, purchased 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, running small to mid-cap sized companies. Credit risk is assessed against debt service coverage from the

robustness of the cash generation of the business. This will be based on historic and forecast information. We typically lend on a bilateral basis and benefit from a close relationship with management

- **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, plant and machinery. In common with our corporate lending activities, strong emphasis is placed on backing companies with scale and relevance to their industry, stability of cash flow, and experienced management
- **Small Ticket Asset Finance:** provides highly diversified lending to small and medium-sized corporates to support asset purchases and other business requirements. These facilities are secured against the asset being financed and are 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 power projects and transport, against contracted

future cash flows of the project(s) from recognised utilities and power companies as well as the balance sheet of the corporate. There is a strong equity contribution from an experienced sponsor

- **Resource Finance:** debt arranging and underwriting together with structured hedging solutions mainly within the mining sectors. The underlying commodities are mainly precious and base metals and coal. Our clients in this sector are established mining companies which are typically domiciled and publicly listed in South Africa. All facilities are secured by the borrower's assets and repaid from mining cash flows
- **Structured Credit:** these are bonds secured against a pool of assets, typically UK residential mortgages or European. The bonds are mainly 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

high investment grade rated entities that occupy dominant and systemic positions in their domestic banking markets

- **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:** Our customer trading portfolio consists of derivative contracts in interest rates, foreign exchange, commodities, credit derivatives and equities that are entered to facilitate a client's hedging requirements. The counterparties to such transactions are typically corporates, in particular where they have a sizeable exposure to foreign exchange due to operating in sectors that include imports and exports of goods and services. These positions are marked to market, typically with daily margin calls to mitigate credit exposure in the event of counterparty default.



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



## ASSET QUALITY ANALYSIS – CREDIT RISK CLASSIFICATION AND PROVISIONING POLICY



It is a policy requirement overseen by Central Credit Management that each operating division makes provision for specific impairments and calculates the appropriate level of portfolio impairments. This is in accordance with established group guidelines and in conjunction with the watchlist committee process. In the annual financial statements, credit losses and impairments are reported in accordance with International Financial Reporting Standards (IFRS).

| Regulatory and economic capital classification | IFRS impairment treatment                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Arrears, default and recoveries classification category | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Performing assets                              | <p>For assets which form part of a homogeneous portfolio, a portfolio impairment is required which recognises asset impairments that have not been individually identified.</p> <p>The portfolio impairment takes into account past events and does not cover impairments to exposures arising out of uncertain future events.</p> <p>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.</p> | 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                                         | <p>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:</p> <ul style="list-style-type: none"> <li>• Covenant breaches</li> <li>• There is a slowdown in the counterparty's business activity</li> <li>• An adverse trend in operations that signals a potential weakness in the financial strength of the counterparty</li> <li>• Restructured credit exposures until appropriate watchlist committee decides otherwise.</li> </ul> <p>Ultimate loss is not expected, but may occur if adverse conditions persist.</p> <p>Reporting categories:</p> <ul style="list-style-type: none"> <li>• Credit exposures overdue 1 – 60 days</li> <li>• Credit exposures overdue 61 – 90 days.</li> </ul> |



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                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|--------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Assets in default (non-performing assets)</b> | 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: <ul style="list-style-type: none"> <li>• Capability of the client to generate sufficient cash flow to service debt obligations and the ongoing viability of the client's business</li> <li>• Likely dividend or amount recoverable on liquidation or bankruptcy or business rescue</li> <li>• Nature and extent of claims by other creditors</li> <li>• Amount and timing of expected cash flows</li> <li>• Realisable value of security held (or other credit mitigants)</li> <li>• Ability of the client to make payments in the foreign currency, for foreign currency denominated accounts.</li> </ul> | Sub-standard                                            | <p>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:</p> <ul style="list-style-type: none"> <li>• The risk that such credit exposure may become an impaired asset is probable</li> <li>• The bank is relying, to a large extent, on available collateral, or</li> <li>• 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.</li> </ul> <p>Credit exposures overdue for more than 90 days will at a minimum be included in 'sub-standard' (or a lower quality category).</p> |
|                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Doubtful                                                | <p>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.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Loss                                                    | <p>A counterparty is placed in the loss category when:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• 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.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                       |

## 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 pledge of security, 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.



**An analysis of collateral is provided on page 50.**

Where a transaction is supported by a mortgage or charge over property, the primary credit risk is still taken on the borrower. For property backed lending such as residential mortgages, the following characteristics of the property are considered: the type of property; its location; and the ease with which the property could be re-let and/or resold. Where the property is secured by lease agreements, the credit committee prefers not to lend for a term beyond the maximum 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.

Other common forms of collateral in the retail asset class are motor vehicles, cash and share portfolios. In addition, the relevant credit committee normally requires a suretyship or guarantee in support of a transaction in our private client business.

The second primary collateral in private client lending transactions is over a high net worth individual's 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 all market and trading counterparties in over-the-counter (OTC) derivatives, a Credit Support Annex (CSA) ensures that all market-to-market credit exposure is mitigated daily through the calculation and placement/receiving of cash collateral. Where netting agreements have been signed, the enforceability is supported by external legal opinion within the legal jurisdiction of the agreement.

Set-off has been applied between assets subject to credit risk and related liabilities in the annual financial statements where:

- A legally enforceable right to set-off exists
- There is the intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

In addition to the above accounting set-off criteria, banking regulators impose the following additional criteria:

- Debit and credit balances relate to the same obligor/counterparty
- Debit and credit balances are denominated in the same currency and have identical maturities
- Exposures subject to set-off are risk-managed on a net basis
- Market practice considerations.

For this reason there will be instances where credit and counterparty exposures are displayed on a net basis in these annual financial statements but reported on a gross basis to regulators.

Investec places minimal reliance on credit derivatives in its credit risk mitigation techniques.



**Further information on credit derivatives is provided on page 58.**

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

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

## CREDIT AND COUNTERPARTY RISK YEAR IN REVIEW

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



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

Core loans and advances grew by 21.2% to R215 billion with residential owner-occupied, private client lending, corporate and public sector portfolios representing the majority of the growth for the financial year in review.

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.

Default loans (net of impairments) as a percentage of core loans and advances improved from 1.46% to 1.06% as a result of write-offs and settlements.

Defaults for the lending collateralised by property portfolio declined year on year. These defaults are mostly related to historical residential land earmarked for developments and continue to be managed down. However, this process does take time as we continue to focus on maximising recoveries.

The credit loss ratio improved to 0.26% from 0.29% notwithstanding 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 grew by 10.2% during the year, in line with our risk appetite framework. Loans to values remain conservative and transactions are 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 28.6% over the year.

Growth in both of these areas has been achieved with strong adherence to our conservative lending appetite.

### Corporate client activities

The overall portfolio continues to perform well and increased mainly as a result of increased exposure to a mix of corporate clients (mid to large) and continued funding requests from SOEs (government guaranteed).

## Credit and counterparty risk information



Pages 22 to 34 describe where and how credit risk is assumed in our operations.

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

### AN ANALYSIS OF GROSS CREDIT AND COUNTERPARTY EXPOSURES

Credit and counterparty exposures increased by 18.8% to R445 billion largely due to growth in loans and advances to customers and cash and near cash balances. Cash and near cash balances amount to R125 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                                                                                        | 31 March<br>2016 | 31 March<br>2015 | % change     | Average*       |
|--------------------------------------------------------------------------------------------------|------------------|------------------|--------------|----------------|
| Cash and balances at central banks                                                               | 7 801            | 6 261            | 24.6%        | 7 031          |
| Loans and advances to banks                                                                      | 26 779           | 33 422           | (19.9%)      | 30 101         |
| Non-sovereign and non-bank cash placements                                                       | 9 858            | 10 540           | (6.5%)       | 10 199         |
| Reverse repurchase agreements and cash collateral on securities borrowed                         | 38 912           | 10 095           | > 100%       | 24 503         |
| Sovereign debt securities                                                                        | 41 325           | 31 378           | 31.7%        | 36 352         |
| Bank debt securities                                                                             | 13 968           | 17 332           | (19.4%)      | 15 650         |
| Other debt securities                                                                            | 12 761           | 12 749           | 0.1%         | 12 755         |
| Derivative financial instruments                                                                 | 10 756           | 14 879           | (27.7%)      | 12 818         |
| Securities arising from trading activities                                                       | 539              | 1 018            | (47.1%)      | 778            |
| Loans and advances to customers (gross)                                                          | 208 182          | 174 132          | 19.6%        | 191 157        |
| Own originated loans and advances to customers securitised (gross)                               | 7 973            | 4 537            | 75.7%        | 6 255          |
| Other loans and advances (gross)                                                                 | 398              | 490              | (18.8%)      | 444            |
| Other assets                                                                                     | 2 169            | 13               | > 100%       | 1 091          |
| <b>Total on-balance sheet exposures</b>                                                          | <b>381 421</b>   | <b>316 846</b>   | <b>20.4%</b> | <b>349 134</b> |
| Guarantees^                                                                                      | 17 767           | 14 551           | 22.1%        | 16 159         |
| Contingent liabilities, committed facilities and other                                           | 46 159           | 43 480           | 6.2%         | 44 820         |
| <b>Total off-balance sheet exposures</b>                                                         | <b>63 926</b>    | <b>58 031</b>    | <b>10.2%</b> | <b>60 979</b>  |
| <b>Total gross credit and counterparty exposures pre-collateral or other credit enhancements</b> | <b>445 347</b>   | <b>374 877</b>   | <b>18.8%</b> | <b>410 112</b> |

\* Where the average is based on a straight-line average for the period 1 April 2015 to 31 March 2016.

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



## Risk management

(continued)

### 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<br>and<br>counterparty<br>exposure | Assets that<br>we deem<br>to have no<br>legal credit<br>exposure | Note<br>refer-<br>ence | Total<br>balance<br>sheet |
|--------------------------------------------------------------------------|-------------------------------------------------|------------------------------------------------------------------|------------------------|---------------------------|
| <b>At 31 March 2016</b>                                                  |                                                 |                                                                  |                        |                           |
| Cash and balances at central banks                                       | 7 801                                           | –                                                                |                        | 7 801                     |
| Loans and advances to banks                                              | 26 779                                          | –                                                                |                        | 26 779                    |
| Non-sovereign and non-bank cash placements                               | 9 858                                           | –                                                                |                        | 9 858                     |
| Reverse repurchase agreements and cash collateral on securities borrowed | 38 912                                          | –                                                                |                        | 38 912                    |
| Sovereign debt securities                                                | 41 325                                          | –                                                                |                        | 41 325                    |
| Bank debt securities                                                     | 13 968                                          | –                                                                |                        | 13 968                    |
| Other debt securities                                                    | 12 761                                          | –                                                                |                        | 12 761                    |
| Derivative financial instruments                                         | 10 756                                          | 5 087                                                            |                        | 15 843                    |
| Securities arising from trading activities                               | 539                                             | 453                                                              |                        | 992                       |
| Investment portfolio                                                     | –                                               | 6 360                                                            | 1                      | 6 360                     |
| Loans and advances to customers                                          | 208 182                                         | (910)                                                            | 2                      | 207 272                   |
| Own originated loans and advances to customers securitised               | 7 973                                           | (6)                                                              | 2                      | 7 967                     |
| Other loans and advances                                                 | 398                                             | (31)                                                             | 2                      | 367                       |
| Other securitised assets                                                 | –                                               | 115                                                              | 3                      | 115                       |
| Interest in associated undertakings                                      | –                                               | 5 145                                                            | 1                      | 5 145                     |
| Deferred taxation assets                                                 | –                                               | 116                                                              |                        | 116                       |
| Other assets                                                             | 2 169                                           | 1 487                                                            | 4                      | 3 656                     |
| Property and equipment                                                   | –                                               | 236                                                              |                        | 236                       |
| Investment properties                                                    | –                                               | 1                                                                |                        | 1                         |
| Goodwill                                                                 | –                                               | 171                                                              |                        | 171                       |
| Intangible assets                                                        | –                                               | 524                                                              |                        | 524                       |
| Loans to group companies                                                 | –                                               | 5 460                                                            |                        | 5 460                     |
| Non-current assets classified as held for sale                           | –                                               | –                                                                |                        | –                         |
| <b>Total on-balance sheet exposures</b>                                  | <b>381 421</b>                                  | <b>24 208</b>                                                    |                        | <b>405 629</b>            |

1. Largely relates to exposures that are classified as equity 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 (continued)



R'million

|                                                                          | Total credit and counterparty exposure | Assets that we deem to have no legal credit exposure | Note reference | Total balance sheet |
|--------------------------------------------------------------------------|----------------------------------------|------------------------------------------------------|----------------|---------------------|
| <b>At 31 March 2015</b>                                                  |                                        |                                                      |                |                     |
| Cash and balances at central banks                                       | 6 261                                  | –                                                    |                | 6 261               |
| Loans and advances to banks                                              | 33 422                                 | –                                                    |                | 33 422              |
| Non-sovereign and non-bank cash placements                               | 10 540                                 | –                                                    |                | 10 540              |
| Reverse repurchase agreements and cash collateral on securities borrowed | 10 095                                 | –                                                    |                | 10 095              |
| Sovereign debt securities                                                | 31 378                                 | –                                                    |                | 31 378              |
| Bank debt securities                                                     | 17 332                                 | –                                                    |                | 17 332              |
| Other debt securities                                                    | 12 749                                 | –                                                    |                | 12 749              |
| Derivative financial instruments                                         | 14 879                                 | 299                                                  |                | 15 178              |
| Securities arising from trading activities                               | 1 018                                  | 271                                                  |                | 1 289               |
| Investment portfolio                                                     | –                                      | 9 972                                                | 1              | 9 972               |
| Loans and advances to customers                                          | 174 132                                | (1 139)                                              | 2              | 172 993             |
| Own originated loans and advances to customers securitised               | 4 537                                  | (2)                                                  | 2              | 4 535               |
| Other loans and advances                                                 | 490                                    | (18)                                                 | 2              | 472                 |
| Other securitised assets                                                 | –                                      | 618                                                  | 3              | 618                 |
| Interest in associated undertakings                                      | –                                      | 60                                                   |                | 60                  |
| Deferred taxation assets                                                 | –                                      | 88                                                   |                | 88                  |
| Other assets                                                             | 13                                     | 1 249                                                | 4              | 1 262               |
| Property and equipment                                                   | –                                      | 192                                                  |                | 192                 |
| Investment properties                                                    | –                                      | 80                                                   |                | 80                  |
| Intangible assets                                                        | –                                      | 190                                                  |                | 190                 |
| Loans to group companies                                                 | –                                      | 3 268                                                |                | 3 268               |
| Non-current assets (or disposal groups) classified as held for sale      | –                                      | 732                                                  |                | 732                 |
| <b>Total on-balance sheet exposures</b>                                  | <b>316 846</b>                         | <b>15 860</b>                                        |                | <b>332 706</b>      |

1. Largely relates to exposures that are classified as equity 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.





## Risk management

(continued)

### 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 |
|--------------------------------------------------------------------------------------------------|---------------------------------------------|-----------------------------------------------------------------|--------------|-----------------------------------------------|----------------------------------|-------------------|
| <b>At 31 March 2016</b>                                                                          |                                             |                                                                 |              |                                               |                                  |                   |
| Cash and balances at central banks                                                               | –                                           | –                                                               | –            | –                                             | 7 801                            | –                 |
| Loans and advances to banks                                                                      | –                                           | –                                                               | –            | –                                             | –                                | –                 |
| Non-sovereign and non-bank cash placements                                                       | –                                           | –                                                               | –            | –                                             | 102                              | 562               |
| Reverse repurchase agreements and cash collateral on securities borrowed                         | 623                                         | –                                                               | –            | –                                             | –                                | 151               |
| Sovereign debt securities                                                                        | –                                           | –                                                               | –            | –                                             | 41 325                           | –                 |
| Bank debt securities                                                                             | –                                           | –                                                               | –            | –                                             | –                                | –                 |
| Other debt securities                                                                            | –                                           | –                                                               | –            | 98                                            | 2 686                            | –                 |
| Derivative financial instruments                                                                 | –                                           | –                                                               | 36           | 205                                           | –                                | 156               |
| Securities arising from trading activities                                                       | –                                           | –                                                               | –            | 7                                             | 330                              | –                 |
| Loans and advances to customers (gross)                                                          | 93 596                                      | 41 077                                                          | 2 256        | 4 809                                         | 6 377                            | 8 908             |
| Own originated loans and advances to customers securitised (gross)                               | 7 973                                       | –                                                               | –            | –                                             | –                                | –                 |
| Other loans and advances (gross)                                                                 | –                                           | –                                                               | –            | –                                             | –                                | –                 |
| Other assets                                                                                     | –                                           | –                                                               | 1            | –                                             | –                                | 2                 |
| <b>Total on-balance sheet exposures</b>                                                          | <b>102 192</b>                              | <b>41 077</b>                                                   | <b>2 293</b> | <b>5 119</b>                                  | <b>58 621</b>                    | <b>9 779</b>      |
| Guarantees <sup>^</sup>                                                                          | 3 536                                       | 842                                                             | –            | 990                                           | 1 917                            | 30                |
| Contingent liabilities, committed facilities and other                                           | 24 845                                      | 2 265                                                           | 432          | 814                                           | 309                              | 782               |
| <b>Total off-balance sheet exposures</b>                                                         | <b>28 381</b>                               | <b>3 107</b>                                                    | <b>432</b>   | <b>1 804</b>                                  | <b>2 226</b>                     | <b>812</b>        |
| <b>Total gross credit and counterparty exposures pre-collateral or other credit enhancements</b> | <b>130 573</b>                              | <b>44 184</b>                                                   | <b>2 725</b> | <b>6 923</b>                                  | <b>60 847</b>                    | <b>10 591</b>     |
| <b>At 31 March 2015</b>                                                                          |                                             |                                                                 |              |                                               |                                  |                   |
| Cash and balances at central banks                                                               | –                                           | –                                                               | –            | –                                             | 6 261                            | –                 |
| Loans and advances to banks                                                                      | –                                           | –                                                               | –            | –                                             | –                                | –                 |
| Non-sovereign and non-bank cash placements                                                       | –                                           | –                                                               | –            | –                                             | –                                | 544               |
| Reverse repurchase agreements and cash collateral on securities borrowed                         | 579                                         | –                                                               | –            | 971                                           | –                                | 71                |
| Sovereign debt securities                                                                        | –                                           | –                                                               | –            | –                                             | 31 378                           | –                 |
| Bank debt securities                                                                             | –                                           | –                                                               | –            | –                                             | –                                | –                 |
| Other debt securities                                                                            | –                                           | –                                                               | –            | 1 097                                         | –                                | –                 |
| Derivative financial instruments                                                                 | 90                                          | –                                                               | 10           | 368                                           | –                                | 178               |
| Securities arising from trading activities                                                       | –                                           | –                                                               | –            | 6                                             | 270                              | 165               |
| Loans and advances to customers (gross)                                                          | 74 466                                      | 38 031                                                          | 869          | 4 794                                         | 1 004                            | 6 777             |
| Own originated loans and advances to customers securitised (gross)                               | 4 537                                       | –                                                               | –            | –                                             | –                                | –                 |
| Other loans and advances (gross)                                                                 | –                                           | –                                                               | –            | –                                             | –                                | –                 |
| Other assets                                                                                     | –                                           | –                                                               | –            | –                                             | –                                | –                 |
| <b>Total on-balance sheet exposures</b>                                                          | <b>79 672</b>                               | <b>38 031</b>                                                   | <b>879</b>   | <b>7 236</b>                                  | <b>38 913</b>                    | <b>7 735</b>      |
| Guarantees <sup>^</sup>                                                                          | 3 805                                       | 1 501                                                           | –            | 565                                           | 1 333                            | 109               |
| Contingent liabilities, committed facilities and other                                           | 25 594                                      | 5 388                                                           | 464          | 2 243                                         | 213                              | 656               |
| <b>Total off-balance sheet exposures</b>                                                         | <b>29 399</b>                               | <b>6 889</b>                                                    | <b>464</b>   | <b>2 808</b>                                  | <b>1 546</b>                     | <b>765</b>        |
| <b>Total gross credit and counterparty exposures pre-collateral or other credit enhancements</b> | <b>109 071</b>                              | <b>44 920</b>                                                   | <b>1 343</b> | <b>10 044</b>                                 | <b>40 459</b>                    | <b>8 500</b>      |

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

(continued)

| Finance and insurance | Retailers and wholesalers | Manufacturing and commerce | Construction | Corporate commercial real estate | Other residential mortgages | Mining and resources | Leisure, entertainment and tourism | Transport     | Communication | Total          |
|-----------------------|---------------------------|----------------------------|--------------|----------------------------------|-----------------------------|----------------------|------------------------------------|---------------|---------------|----------------|
| -                     | -                         | -                          | -            | -                                | -                           | -                    | -                                  | -             | -             | 7 801          |
| 26 779                | -                         | -                          | -            | -                                | -                           | -                    | -                                  | -             | -             | 26 779         |
| 3 337                 | 1 781                     | 1 469                      | 211          | -                                | -                           | 1 581                | -                                  | 312           | 503           | 9 858          |
| 37 389                | -                         | 675                        | -            | -                                | -                           | -                    | -                                  | 74            | -             | 38 912         |
| -                     | -                         | -                          | -            | -                                | -                           | -                    | -                                  | -             | -             | 41 325         |
| 13 968                | -                         | -                          | -            | -                                | -                           | -                    | -                                  | -             | -             | 13 968         |
| 3 137                 | -                         | 658                        | -            | -                                | -                           | 2 509                | -                                  | -             | 3 673         | 12 761         |
| 8 876                 | 252                       | 203                        | -            | 676                              | -                           | 159                  | 21                                 | 83            | 89            | 10 756         |
| 83                    | -                         | 16                         | -            | -                                | -                           | -                    | -                                  | 103           | -             | 539            |
| 11 977                | 2 378                     | 10 128                     | 3 424        | 6 251                            | -                           | 4 682                | 1 819                              | 4 071         | 6 429         | 208 182        |
| -                     | -                         | -                          | -            | -                                | -                           | -                    | -                                  | -             | -             | 7 973          |
| -                     | -                         | -                          | -            | -                                | 398                         | -                    | -                                  | -             | -             | 398            |
| 484                   | 1 556                     | 92                         | 3            | -                                | -                           | -                    | 20                                 | -             | 11            | 2 169          |
| <b>106 030</b>        | <b>5 967</b>              | <b>13 241</b>              | <b>3 638</b> | <b>6 927</b>                     | <b>398</b>                  | <b>8 931</b>         | <b>1 860</b>                       | <b>4 643</b>  | <b>10 705</b> | <b>381 421</b> |
| 8 168                 | 62                        | 136                        | -            | 11                               | -                           | 1 822                | -                                  | 65            | 188           | 17 767         |
| 5 924                 | 1 664                     | 1 142                      | 222          | 100                              | -                           | 4 514                | 3                                  | 2 208         | 935           | 46 159         |
| <b>14 092</b>         | <b>1 726</b>              | <b>1 278</b>               | <b>222</b>   | <b>111</b>                       | <b>-</b>                    | <b>6 336</b>         | <b>3</b>                           | <b>2 273</b>  | <b>1 123</b>  | <b>63 926</b>  |
| <b>120 122</b>        | <b>7 693</b>              | <b>14 519</b>              | <b>3 860</b> | <b>7 038</b>                     | <b>398</b>                  | <b>15 267</b>        | <b>1 863</b>                       | <b>6 916</b>  | <b>11 828</b> | <b>445 347</b> |
| -                     | -                         | -                          | -            | -                                | -                           | -                    | -                                  | -             | -             | 6 261          |
| 33 422                | -                         | -                          | -            | -                                | -                           | -                    | -                                  | -             | -             | 33 422         |
| 3 527                 | 1 769                     | 2 189                      | 350          | -                                | -                           | 479                  | -                                  | 1 209         | 473           | 10 540         |
| 7 521                 | -                         | 865                        | -            | -                                | -                           | -                    | -                                  | 88            | -             | 10 095         |
| -                     | -                         | -                          | -            | -                                | -                           | -                    | -                                  | -             | -             | 31 378         |
| 17 332                | -                         | -                          | -            | -                                | -                           | -                    | -                                  | -             | -             | 17 332         |
| 6 212                 | 1                         | -                          | -            | -                                | -                           | 2 268                | -                                  | 956           | 2 215         | 12 749         |
| 12 470                | 126                       | 575                        | 2            | 711                              | -                           | 276                  | 15                                 | 40            | 18            | 14 879         |
| 299                   | -                         | 165                        | -            | -                                | -                           | 26                   | -                                  | 87            | -             | 1 018          |
| 8 602                 | 2 140                     | 9 505                      | 2 749        | 6 441                            | -                           | 4 010                | 1 605                              | 7 088         | 6 051         | 174 132        |
| -                     | -                         | -                          | -            | -                                | -                           | -                    | -                                  | -             | -             | 4 537          |
| -                     | -                         | -                          | -            | -                                | 490                         | -                    | -                                  | -             | -             | 490            |
| 13                    | -                         | -                          | -            | -                                | -                           | -                    | -                                  | -             | -             | 13             |
| <b>89 398</b>         | <b>4 036</b>              | <b>13 299</b>              | <b>3 101</b> | <b>7 152</b>                     | <b>490</b>                  | <b>7 059</b>         | <b>1 620</b>                       | <b>9 468</b>  | <b>8 757</b>  | <b>316 846</b> |
| 3 906                 | 800                       | 843                        | -            | 1                                | -                           | 1 640                | -                                  | 16            | 32            | 14 551         |
| 3 569                 | 364                       | 392                        | 170          | 263                              | -                           | 1 800                | 65                                 | 1 553         | 746           | 43 480         |
| <b>7 475</b>          | <b>1 164</b>              | <b>1 235</b>               | <b>170</b>   | <b>264</b>                       | <b>-</b>                    | <b>3 440</b>         | <b>65</b>                          | <b>1 569</b>  | <b>778</b>    | <b>58 031</b>  |
| <b>96 873</b>         | <b>5 200</b>              | <b>14 534</b>              | <b>3 271</b> | <b>7 416</b>                     | <b>490</b>                  | <b>10 499</b>        | <b>1 685</b>                       | <b>11 037</b> | <b>9 535</b>  | <b>374 877</b> |

*Private client loans account for 66.0% of total gross core loans and advances, as represented by the industry classification 'high net worth and professional individuals and lending collateralised by property'*

**Summary analysis of gross credit and counterparty exposures by industry**



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

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

Other credit and counterparty exposures are largely reflective of cash and near cash

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



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

|                                                                 | Gross core loans and advances |                | Other credit and counterparty exposures |                | Total          |                |
|-----------------------------------------------------------------|-------------------------------|----------------|-----------------------------------------|----------------|----------------|----------------|
| At 31 March<br>R'million                                        | 2016                          | 2015           | 2016                                    | 2015           | 2016           | 2015           |
| High net worth and professional individuals                     | 101 569                       | 79 003         | 29 004                                  | 30 068         | 130 573        | 109 071        |
| Lending collateralised by property – largely to private clients | 41 077                        | 38 031         | 3 107                                   | 6 889          | 44 184         | 44 920         |
| Agriculture                                                     | 2 256                         | 869            | 469                                     | 474            | 2 725          | 1 343          |
| Electricity, gas and water (utility services)                   | 4 809                         | 4 794          | 2 114                                   | 5 250          | 6 923          | 10 044         |
| Public and non-business services                                | 6 377                         | 1 004          | 54 470                                  | 39 455         | 60 847         | 40 459         |
| Business services                                               | 8 908                         | 6 777          | 1 683                                   | 1 723          | 10 591         | 8 500          |
| Finance and insurance                                           | 11 977                        | 8 602          | 108 145                                 | 88 271         | 120 122        | 96 873         |
| Retailers and wholesalers                                       | 2 378                         | 2 140          | 5 315                                   | 3 060          | 7 693          | 5 200          |
| Manufacturing and commerce                                      | 10 128                        | 9 505          | 4 391                                   | 5 029          | 14 519         | 14 534         |
| Construction                                                    | 3 424                         | 2 749          | 436                                     | 522            | 3 860          | 3 271          |
| Corporate commercial real estate                                | 6 251                         | 6 441          | 787                                     | 975            | 7 038          | 7 416          |
| Other residential mortgages                                     | –                             | –              | 398                                     | 490            | 398            | 490            |
| Mining and resources                                            | 4 682                         | 4 010          | 10 585                                  | 6 489          | 15 267         | 10 499         |
| Leisure, entertainment and tourism                              | 1 819                         | 1 605          | 44                                      | 80             | 1 863          | 1 685          |
| Transport                                                       | 4 071                         | 7 088          | 2 845                                   | 3 949          | 6 916          | 11 037         |
| Communication                                                   | 6 429                         | 6 051          | 5 399                                   | 3 484          | 11 828         | 9 535          |
| <b>Total</b>                                                    | <b>216 155</b>                | <b>178 669</b> | <b>229 192</b>                          | <b>196 208</b> | <b>445 347</b> | <b>374 877</b> |

(continued)

## Gross credit counterparty exposures by residual contractual maturity at 31 March 2016

| R'million                                                                                                | Up<br>to three<br>months | Three<br>to six<br>months | Six<br>months<br>to one<br>year | One<br>to five<br>years | Five to<br>10 years | > 10 years    | Total          |
|----------------------------------------------------------------------------------------------------------|--------------------------|---------------------------|---------------------------------|-------------------------|---------------------|---------------|----------------|
| Cash and balances at central banks                                                                       | 7 801                    | –                         | –                               | –                       | –                   | –             | 7 801          |
| Loans and advances to banks                                                                              | 24 922                   | 147                       | 369                             | 1 341                   | –                   | –             | 26 779         |
| Non-sovereign and non-bank cash<br>placements                                                            | 9 858                    | –                         | –                               | –                       | –                   | –             | 9 858          |
| Reverse repurchase agreements and<br>cash collateral on securities borrowed                              | 26 865                   | 283                       | 7 484                           | 3 591                   | 689                 | –             | 38 912         |
| Sovereign debt securities                                                                                | 7 144                    | 10 446                    | 4 689                           | 5 832                   | 7 645               | 5 569         | 41 325         |
| Bank debt securities                                                                                     | 1 472                    | 1 834                     | 2 078                           | 6 898                   | 1 482               | 204           | 13 968         |
| Other debt securities                                                                                    | 1 073                    | –                         | –                               | 4 954                   | 6 608               | 126           | 12 761         |
| Derivative financial instruments                                                                         | 3 642                    | 1 453                     | 850                             | 2 711                   | 2 100               | –             | 10 756         |
| Securities arising from trading activities                                                               | 154                      | 2                         | –                               | 79                      | 304                 | –             | 539            |
| Loans and advances to customers<br>(gross)                                                               | 16 594                   | 8 844                     | 15 372                          | 102 216                 | 22 192              | 42 964        | 208 182        |
| Own originated loans and advances<br>to customers securitised (gross)                                    | 6                        | –                         | –                               | 40                      | 306                 | 7 621         | 7 973          |
| Other loans and advances (gross)                                                                         | –                        | –                         | –                               | 398                     | –                   | –             | 398            |
| Other assets                                                                                             | 2 169                    | –                         | –                               | –                       | –                   | –             | 2 169          |
| <b>Total on-balance sheet exposures</b>                                                                  | <b>101 700</b>           | <b>23 009</b>             | <b>30 842</b>                   | <b>128 060</b>          | <b>41 326</b>       | <b>56 484</b> | <b>381 421</b> |
| Guarantees <sup>^</sup>                                                                                  | 5 190                    | 537                       | 560                             | 9 699                   | 1 315               | 466           | 17 767         |
| Contingent liabilities, committed<br>facilities and other                                                | 12 943                   | 389                       | 2 804                           | 13 837                  | 2 215               | 13 971        | 46 159         |
| <b>Total off-balance sheet exposures</b>                                                                 | <b>18 133</b>            | <b>926</b>                | <b>3 364</b>                    | <b>23 536</b>           | <b>3 530</b>        | <b>14 437</b> | <b>63 926</b>  |
| <b>Total gross credit and counterparty<br/>exposures pre-collateral or other<br/>credit enhancements</b> | <b>119 833</b>           | <b>23 935</b>             | <b>34 206</b>                   | <b>151 596</b>          | <b>44 856</b>       | <b>70 921</b> | <b>445 347</b> |

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



## Risk management

(continued)

### 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.



At 31 March  
R'million

|                                                                                          | 2016           | 2015           |
|------------------------------------------------------------------------------------------|----------------|----------------|
| Loans and advances to customers as per the balance sheet                                 | 207 272        | 172 993        |
| Add: own originated loans and advances to customers securitised as per the balance sheet | 7 967          | 4 535          |
| <b>Net core loans and advances to customers</b>                                          | <b>215 239</b> | <b>177 528</b> |

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



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

At 31 March

R'million

|                                                                                                        | 2016           | 2015           |
|--------------------------------------------------------------------------------------------------------|----------------|----------------|
| <b>Gross core loans and advances to customers</b>                                                      | <b>216 155</b> | <b>178 669</b> |
| <b>Total impairments</b>                                                                               | <b>(916)</b>   | <b>(1 141)</b> |
| Specific impairments                                                                                   | (681)          | (971)          |
| Portfolio impairments                                                                                  | (235)          | (170)          |
| <b>Net core loans and advances to customers</b>                                                        | <b>215 239</b> | <b>177 528</b> |
| <b>Average gross core loans and advances to customers</b>                                              | <b>197 412</b> | <b>165 652</b> |
| Current loans and advances to customers                                                                | 211 807        | 173 775        |
| Past due loans and advances to customers (1 – 60 days)                                                 | 726            | 505            |
| Special mention loans and advances to customers                                                        | 415            | 660            |
| Default loans and advances to customers                                                                | 3 207          | 3 729          |
| <b>Gross core loans and advances to customers</b>                                                      | <b>216 155</b> | <b>178 669</b> |
| Current loans and advances to customers                                                                | 211 807        | 173 775        |
| Default loans that are current and not impaired                                                        | 867            | 787            |
| Gross core loans and advances to customers that are past due but not impaired                          | 1 653          | 1 720          |
| Gross core loans and advances to customers that are impaired                                           | 1 828          | 2 387          |
| <b>Gross core loans and advances to customers</b>                                                      | <b>216 155</b> | <b>178 669</b> |
| <b>Total income statement charge for impairments on core loans and advances</b>                        | <b>(523)</b>   | <b>(482)</b>   |
| Gross default loans and advances to customers                                                          | 3 207          | 3 729          |
| Specific impairments                                                                                   | (681)          | (971)          |
| Portfolio impairments                                                                                  | (235)          | (170)          |
| <b>Defaults net of impairments</b>                                                                     | <b>2 291</b>   | <b>2 588</b>   |
| Aggregate collateral and other credit enhancements on defaults                                         | 3 690          | 3 717          |
| <b>Net default loans and advances to customers (limited to zero)</b>                                   | <b>–</b>       | <b>–</b>       |
| <b>Ratios</b>                                                                                          |                |                |
| Total impairments as a % of gross core loans and advances to customers                                 | 0.42%          | 0.64%          |
| Total impairments as a % of gross default loans                                                        | 28.56%         | 30.60%         |
| Gross defaults as a % of gross core loans and advances to customers                                    | 1.48%          | 2.09%          |
| Defaults (net of impairments) as a % of net core loans and advances to customers                       | 1.06%          | 1.46%          |
| Net defaults as a % of net core loans and advances to customers                                        | –              | –              |
| Credit loss ratio (i.e. income statement impairment charge as a % of average gross loans and advances) | 0.26%          | 0.29%          |

(continued)

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



At 31 March

R'million

|                                                                                             | 2016         | 2015         |
|---------------------------------------------------------------------------------------------|--------------|--------------|
| Default loans that are current                                                              | 1 921        | 1 533        |
| 1 – 60 days                                                                                 | 1 273        | 1 448        |
| 61 – 90 days                                                                                | 94           | 144          |
| 91 – 180 days                                                                               | 301          | 253          |
| 181 – 365 days                                                                              | 110          | 194          |
| > 365 days                                                                                  | 649          | 1 322        |
| <b>Past due and default core loans and advances to customers (actual capital exposure)</b>  | <b>4 348</b> | <b>4 894</b> |
| 1 – 60 days                                                                                 | 258          | 543          |
| 61 – 90 days                                                                                | 12           | 36           |
| 91 – 180 days                                                                               | 125          | 130          |
| 181 – 365 days                                                                              | 30           | 147          |
| > 365 days                                                                                  | 337          | 962          |
| <b>Past due and default core loans and advances to customers (actual amount in arrears)</b> | <b>762</b>   | <b>1 818</b> |

## 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 |
|--------------------------------------------------------------------------------------|-------------------------|-------------|--------------|---------------|----------------|------------|-------|
| <b>At 31 March 2016</b>                                                              |                         |             |              |               |                |            |       |
| <b>Watchlist loans neither past due nor impaired</b>                                 |                         |             |              |               |                |            |       |
| Total capital exposure                                                               | 867                     | –           | –            | –             | –              | –          | 867   |
| <b>Gross core loans and advances to customers that are past due but not impaired</b> |                         |             |              |               |                |            |       |
| Total capital exposure                                                               | –                       | 1 117       | 70           | 213           | 68             | 185        | 1 653 |
| Amount in arrears                                                                    | –                       | 254         | 6            | 104           | 14             | 140        | 518   |
| <b>Gross core loans and advances to customers that are impaired</b>                  |                         |             |              |               |                |            |       |
| Total capital exposure                                                               | 1 054                   | 156         | 24           | 88            | 42             | 464        | 1 828 |
| Amount in arrears                                                                    | –                       | 4           | 6            | 21            | 16             | 197        | 244   |
| <b>At 31 March 2015</b>                                                              |                         |             |              |               |                |            |       |
| <b>Watchlist loans neither past due nor impaired</b>                                 |                         |             |              |               |                |            |       |
| Total capital exposure                                                               | 787                     | –           | –            | –             | –              | –          | 787   |
| <b>Gross core loans and advances to customers that are past due but not impaired</b> |                         |             |              |               |                |            |       |
| Total capital exposure                                                               | –                       | 1 030       | 104          | 173           | 128            | 285        | 1 720 |
| Amount in arrears                                                                    | –                       | 389         | 32           | 108           | 94             | 172        | 795   |
| <b>Gross core loans and advances to customers that are impaired</b>                  |                         |             |              |               |                |            |       |
| Total capital exposure                                                               | 746                     | 418         | 40           | 80            | 66             | 1 037      | 2 387 |
| Amount in arrears                                                                    | –                       | 154         | 4            | 22            | 53             | 790        | 1 023 |

## 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 |
|------------------------------------------------------|-------------------------|-------------|--------------|---------------|----------------|------------|-------|
| <b>Past due (1 – 60 days)</b>                        | –                       | 726         | –            | –             | –              | –          | 726   |
| <b>Special mention</b>                               | –                       | 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    |
| <b>Default</b>                                       | 1 921                   | 224         | 30           | 287           | 100            | 645        | 3 207 |
| Sub-standard                                         | 868                     | 66          | 6            | 200           | 58             | 181        | 1 379 |
| Doubtful                                             | 1 053                   | 158         | 24           | 87            | 42             | 464        | 1 828 |
| <b>Total</b>                                         | 1 921                   | 1 273       | 94           | 301           | 110            | 649        | 4 348 |

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



| R'million                                            | Current watchlist loans | 1 – 60 days | 61 – 90 days | 91 – 180 days | 181 – 365 days | > 365 days | Total |
|------------------------------------------------------|-------------------------|-------------|--------------|---------------|----------------|------------|-------|
| <b>Past due (1 – 60 days)</b>                        | –                       | 59          | –            | –             | –              | –          | 59    |
| <b>Special mention</b>                               | –                       | 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     |
| <b>Default</b>                                       | –                       | 42          | 7            | 124           | 29             | 336        | 538   |
| Sub-standard                                         | –                       | 38          | –            | 103           | 13             | 139        | 293   |
| Doubtful                                             | –                       | 4           | 7            | 21            | 16             | 197        | 245   |
| <b>Total</b>                                         | –                       | 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 age analysis of past due and default core loans and advances to customers at 31 March 2015 (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 |
|------------------------------------------------------|-------------------------|-------------|--------------|---------------|----------------|------------|-------|
| <b>Past due (1 – 60 days)</b>                        | –                       | 505         | –            | –             | –              | –          | 505   |
| <b>Special mention</b>                               | –                       | 490         | 76           | 19            | 34             | 41         | 660   |
| Special mention (1 – 90 days)                        | –                       | 490         | 2            | 19*           | 34*            | 41*        | 586   |
| Special mention (61 – 90 days and item well secured) | –                       | –           | 74           | –             | –              | –          | 74    |
| <b>Default</b>                                       | 1 533                   | 453         | 68           | 234           | 160            | 1 281      | 3 729 |
| Sub-standard                                         | 787                     | 36          | 28           | 155           | 94             | 244        | 1 344 |
| Doubtful                                             | 746                     | 417         | 40           | 79            | 66             | 1 037      | 2 385 |
| <b>Total</b>                                         | 1 533                   | 1 448       | 144          | 253           | 194            | 1 322      | 4 894 |

An age analysis of past due and default core loans and advances to customers at 31 March 2015 (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 |
|------------------------------------------------------|-------------------------|-------------|--------------|---------------|----------------|------------|-------|
| <b>Past due (1 – 60 days)</b>                        | –                       | 49          | –            | –             | –              | –          | 49    |
| <b>Special mention</b>                               | –                       | 340         | 19           | 6             | 26             | 26         | 417   |
| Special mention (1 – 90 days)                        | –                       | 340         | –            | 6*            | 26*            | 26*        | 398   |
| Special mention (61 – 90 days and item well secured) | –                       | –           | 19           | –             | –              | –          | 19    |
| <b>Default</b>                                       | –                       | 154         | 17           | 124           | 121            | 936        | 1 352 |
| Sub-standard                                         | –                       | 1           | 12           | 102           | 68             | 146        | 329   |
| Doubtful                                             | –                       | 153         | 5            | 22            | 53             | 790        | 1 023 |
| <b>Total</b>                                         | –                       | 543         | 36           | 130           | 147            | 962        | 1 818 |

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

## An analysis of core loans and advances to customers

| R'million                                            | Gross core loans and advances neither past due nor impaired | Gross core loans and advances that are past due but not impaired | Gross core loans and advances that are impaired | Total gross core loans and advances (actual capital exposure) | Specific impairments | Portfolio impairments | Total net core loans and advances (actual capital exposure) | Actual amount in arrears |
|------------------------------------------------------|-------------------------------------------------------------|------------------------------------------------------------------|-------------------------------------------------|---------------------------------------------------------------|----------------------|-----------------------|-------------------------------------------------------------|--------------------------|
| <b>At 31 March 2016</b>                              |                                                             |                                                                  |                                                 |                                                               |                      |                       |                                                             |                          |
| Current core loans and advances                      | 211 807                                                     | –                                                                | –                                               | 211 807                                                       | –                    | (231)                 | 211 576                                                     | –                        |
| Past due (1 – 60 days)                               | –                                                           | 726                                                              | –                                               | 726                                                           | –                    | (3)                   | 723                                                         | 59                       |
| Special mention                                      | –                                                           | 415                                                              | –                                               | 415                                                           | –                    | (1)                   | 414                                                         | 165                      |
| Special mention (1 – 90 days)                        | –                                                           | 360                                                              | –                                               | 360                                                           | –                    | (1)                   | 359                                                         | 160                      |
| Special mention (61 – 90 days and item well secured) | –                                                           | 55                                                               | –                                               | 55                                                            | –                    | –                     | 55                                                          | 5                        |
| <b>Default</b>                                       | <b>867</b>                                                  | <b>512</b>                                                       | <b>1 828</b>                                    | <b>3 207</b>                                                  | <b>(681)</b>         | <b>–</b>              | <b>2 526</b>                                                | <b>538</b>               |
| Sub-standard                                         | 867                                                         | 512                                                              | –                                               | 1 379                                                         | –                    | –                     | 1 379                                                       | 293                      |
| Doubtful                                             | –                                                           | –                                                                | 1 828                                           | 1 828                                                         | (681)                | –                     | 1 147                                                       | 245                      |
| <b>Total</b>                                         | <b>212 674</b>                                              | <b>1 653</b>                                                     | <b>1 828</b>                                    | <b>216 155</b>                                                | <b>(681)</b>         | <b>(235)</b>          | <b>215 239</b>                                              | <b>762</b>               |
| <b>At 31 March 2015</b>                              |                                                             |                                                                  |                                                 |                                                               |                      |                       |                                                             |                          |
| Current core loans and advances                      | 173 775                                                     | –                                                                | –                                               | 173 775                                                       | –                    | (159)                 | 173 616                                                     | –                        |
| Past due (1 – 60 days)                               | –                                                           | 505                                                              | –                                               | 505                                                           | –                    | (3)                   | 502                                                         | 49                       |
| Special mention                                      | –                                                           | 660                                                              | –                                               | 660                                                           | –                    | (8)                   | 652                                                         | 417                      |
| Special mention (1 – 90 days)                        | –                                                           | 586                                                              | –                                               | 586                                                           | –                    | (7)                   | 579                                                         | 398                      |
| Special mention (61 – 90 days and item well secured) | –                                                           | 74                                                               | –                                               | 74                                                            | –                    | (1)                   | 73                                                          | 19                       |
| <b>Default</b>                                       | <b>787</b>                                                  | <b>555</b>                                                       | <b>2 387</b>                                    | <b>3 729</b>                                                  | <b>(971)</b>         | <b>–</b>              | <b>2 758</b>                                                | <b>1 352</b>             |
| Sub-standard                                         | 787                                                         | 555                                                              | 2                                               | 1 344                                                         | –                    | –                     | 1 344                                                       | 329                      |
| Doubtful                                             | –                                                           | –                                                                | 2 385                                           | 2 385                                                         | (971)                | –                     | 1 414                                                       | 1 023                    |
| <b>Total</b>                                         | <b>174 562</b>                                              | <b>1 720</b>                                                     | <b>2 387</b>                                    | <b>178 669</b>                                                | <b>(971)</b>         | <b>(170)</b>          | <b>177 528</b>                                              | <b>1 818</b>             |

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

| R'million                                                   | Private client,<br>professional<br>and high<br>net worth<br>individuals | Corporate<br>sector | Insurance,<br>financial<br>services<br>(excluding<br>sovereign) | Public and<br>government<br>sector<br>(including<br>central banks) | Trade<br>finance<br>and other | Total core<br>loans and<br>advances to<br>customers |
|-------------------------------------------------------------|-------------------------------------------------------------------------|---------------------|-----------------------------------------------------------------|--------------------------------------------------------------------|-------------------------------|-----------------------------------------------------|
| <b>At 31 March 2016</b>                                     |                                                                         |                     |                                                                 |                                                                    |                               |                                                     |
| Current core loans and advances                             | 139 227                                                                 | 49 350              | 11 925                                                          | 6 363                                                              | 4 942                         | 211 807                                             |
| Past due (1 – 60 days)                                      | 546                                                                     | 100                 | –                                                               | –                                                                  | 80                            | 726                                                 |
| Special mention                                             | 402                                                                     | –                   | –                                                               | –                                                                  | 13                            | 415                                                 |
| Special mention (1 – 90 days)                               | 360                                                                     | –                   | –                                                               | –                                                                  | –                             | 360                                                 |
| Special mention (61 – 90 days<br>and item well secured)     | 42                                                                      | –                   | –                                                               | –                                                                  | 13                            | 55                                                  |
| <b>Default</b>                                              | <b>2 471</b>                                                            | <b>505</b>          | <b>52</b>                                                       | <b>14</b>                                                          | <b>165</b>                    | <b>3 207</b>                                        |
| Sub-standard                                                | 1 310                                                                   | –                   | 52                                                              | 14                                                                 | 3                             | 1 379                                               |
| Doubtful                                                    | 1 161                                                                   | 505                 | –                                                               | –                                                                  | 162                           | 1 828                                               |
| <b>Total gross core loans and<br/>advances to customers</b> | <b>142 646</b>                                                          | <b>49 955</b>       | <b>11 977</b>                                                   | <b>6 377</b>                                                       | <b>5 200</b>                  | <b>216 155</b>                                      |
| <b>Total impairments</b>                                    | <b>(495)</b>                                                            | <b>(270)</b>        | <b>(4)</b>                                                      | <b>(4)</b>                                                         | <b>(143)</b>                  | <b>(916)</b>                                        |
| Specific impairments                                        | (306)                                                                   | (232)               | –                                                               | –                                                                  | (143)                         | (681)                                               |
| Portfolio impairments                                       | (189)                                                                   | (38)                | (4)                                                             | (4)                                                                | –                             | (235)                                               |
| <b>Net core loans and<br/>advances to customers</b>         | <b>142 151</b>                                                          | <b>49 685</b>       | <b>11 973</b>                                                   | <b>6 373</b>                                                       | <b>5 057</b>                  | <b>215 239</b>                                      |
| <b>At 31 March 2015</b>                                     |                                                                         |                     |                                                                 |                                                                    |                               |                                                     |
| Current core loans and advances                             | 113 153                                                                 | 47 598              | 8 602                                                           | 933                                                                | 3 489                         | 173 775                                             |
| Past due (1 – 60 days)                                      | 453                                                                     | –                   | –                                                               | –                                                                  | 52                            | 505                                                 |
| Special mention                                             | 633                                                                     | 24                  | –                                                               | –                                                                  | 3                             | 660                                                 |
| Special mention (1 – 90 days)                               | 562                                                                     | 24                  | –                                                               | –                                                                  | –                             | 586                                                 |
| Special mention (61 – 90 days<br>and item well secured)     | 71                                                                      | –                   | –                                                               | –                                                                  | 3                             | 74                                                  |
| <b>Default</b>                                              | <b>2 795</b>                                                            | <b>692</b>          | <b>–</b>                                                        | <b>71</b>                                                          | <b>171</b>                    | <b>3 729</b>                                        |
| Sub-standard                                                | 1 277                                                                   | 64                  | –                                                               | –                                                                  | 3                             | 1 344                                               |
| Doubtful                                                    | 1 518                                                                   | 628                 | –                                                               | 71                                                                 | 168                           | 2 385                                               |
| <b>Total gross core loans and<br/>advances to customers</b> | <b>117 034</b>                                                          | <b>48 314</b>       | <b>8 602</b>                                                    | <b>1 004</b>                                                       | <b>3 715</b>                  | <b>178 669</b>                                      |
| <b>Total impairments</b>                                    | <b>(652)</b>                                                            | <b>(363)</b>        | <b>(4)</b>                                                      | <b>(7)</b>                                                         | <b>(115)</b>                  | <b>(1 141)</b>                                      |
| Specific impairments                                        | (519)                                                                   | (331)               | –                                                               | (6)                                                                | (115)                         | (971)                                               |
| Portfolio impairments                                       | (133)                                                                   | (32)                | (4)                                                             | (1)                                                                | –                             | (170)                                               |
| <b>Net core loans and advances<br/>to customers</b>         | <b>116 382</b>                                                          | <b>47 951</b>       | <b>8 598</b>                                                    | <b>997</b>                                                         | <b>3 600</b>                  | <b>177 528</b>                                      |



## Risk management

(continued)

### 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 <sup>^</sup> |
|------------------------------------------------------------|------------------|----------------|----------------------------------------------------------------|---------------------------|-------------------------------------------|
| <b>Lending collateralised by property</b>                  | <b>41 077</b>    | <b>971</b>     | <b>1 156</b>                                                   | <b>(205)</b>              | <b>(80)</b>                               |
| <b>Commercial real estate</b>                              | <b>37 677</b>    | <b>501</b>     | <b>666</b>                                                     | <b>(140)</b>              | <b>(70)</b>                               |
| Commercial real estate – investment                        | 34 179           | 366            | 482                                                            | (97)                      | (40)                                      |
| Commercial real estate – development                       | 2 385            | 31             | 24                                                             | (19)                      | (8)                                       |
| Commercial vacant land and planning                        | 1 113            | 104            | 160                                                            | (24)                      | (22)                                      |
| <b>Residential real estate</b>                             | <b>3 400</b>     | <b>470</b>     | <b>490</b>                                                     | <b>(65)</b>               | <b>(10)</b>                               |
| Residential real estate – development                      | 1 668            | 194            | 217                                                            | (14)                      | (71)                                      |
| Residential vacant land and planning                       | 1 732            | 276            | 273                                                            | (51)                      | 61                                        |
| <b>High net worth and other private client lending</b>     | <b>101 569</b>   | <b>1 500</b>   | <b>2 167</b>                                                   | <b>(290)</b>              | <b>(283)</b>                              |
| Mortgages                                                  | 54 493           | 495            | 839                                                            | (80)                      | (45)                                      |
| High net worth and specialised lending                     | 47 076           | 1 005          | 1 328                                                          | (210)                     | (238)                                     |
| <b>Corporate and other lending</b>                         | <b>73 509</b>    | <b>736</b>     | <b>367</b>                                                     | <b>(421)</b>              | <b>(160)</b>                              |
| Acquisition finance                                        | 14 664           | 329            | 286                                                            | (70)                      | (98)                                      |
| Asset-based lending                                        | 5 211            | 165            | 56                                                             | (143)                     | (51)                                      |
| Other corporate and financial institutions and governments | 42 622           | 106            | 25                                                             | (60)                      | (19)                                      |
| Asset finance                                              | 4 081            | –              | –                                                              | (12)                      | 21                                        |
| Small ticket asset finance                                 | 1 421            | –              | –                                                              | –                         | 13                                        |
| Large ticket asset finance                                 | 2 660            | –              | –                                                              | (12)                      | 8                                         |
| Project finance                                            | 6 424            | –              | –                                                              | –                         | 123                                       |
| Resource finance                                           | 507              | 136            | –                                                              | (136)                     | (136)                                     |
| <b>Total</b>                                               | <b>216 155</b>   | <b>3 207</b>   | <b>3 690</b>                                                   | <b>(916)</b>              | <b>(523)</b>                              |

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

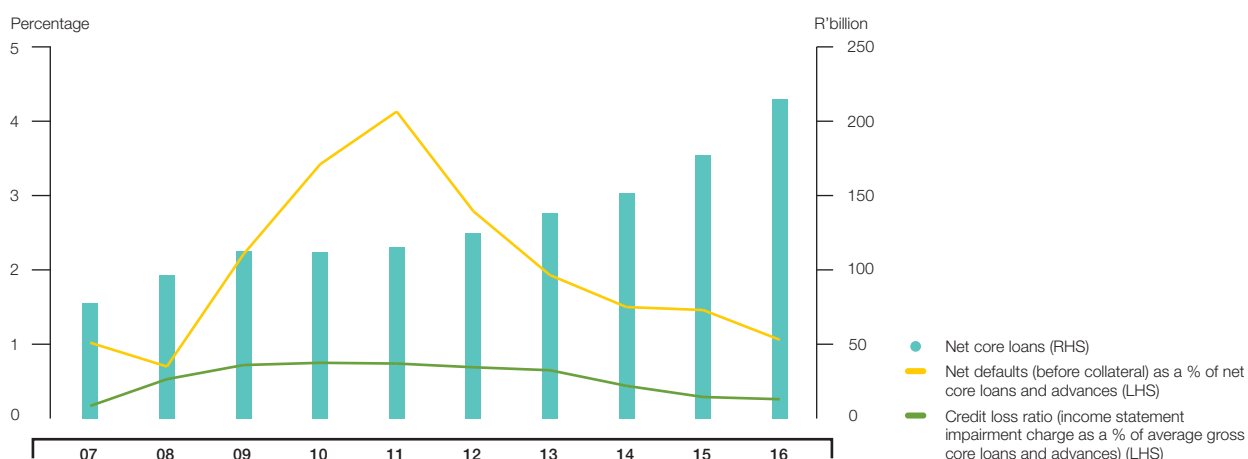
(continued)

### An analysis of core loans and advances by risk category at 31 March 2015

| R'million                                                  | Gross core loans | Gross defaults | Aggregate collateral and other credit enhancements on defaults | Balance sheet impairments | Income statement impairments <sup>^</sup> |
|------------------------------------------------------------|------------------|----------------|----------------------------------------------------------------|---------------------------|-------------------------------------------|
| <b>Lending collateralised by property</b>                  | <b>38 031</b>    | <b>1 311</b>   | <b>1 303</b>                                                   | <b>(430)</b>              | <b>(179)</b>                              |
| <b>Commercial real estate</b>                              | <b>34 924</b>    | <b>651</b>     | <b>741</b>                                                     | <b>(251)</b>              | <b>(144)</b>                              |
| Commercial real estate – investment                        | 31 030           | 276            | 443                                                            | (93)                      | (38)                                      |
| Commercial real estate – development                       | 2 372            | 72             | 76                                                             | (7)                       | (4)                                       |
| Commercial vacant land and planning                        | 1 522            | 303            | 222                                                            | (151)                     | (102)                                     |
| <b>Residential real estate</b>                             | <b>3 107</b>     | <b>660</b>     | <b>562</b>                                                     | <b>(179)</b>              | <b>(35)</b>                               |
| Residential development                                    | 1 590            | 346            | 333                                                            | (52)                      | (1)                                       |
| Residential vacant land and planning                       | 1 517            | 314            | 229                                                            | (127)                     | (34)                                      |
| <b>High net worth and other private client lending</b>     | <b>79 003</b>    | <b>1 484</b>   | <b>1 897</b>                                                   | <b>(222)</b>              | <b>(29)</b>                               |
| Mortgages                                                  | 46 155           | 448            | 739                                                            | (71)                      | (6)                                       |
| High net worth and specialised lending                     | 32 848           | 1 036          | 1 158                                                          | (151)                     | (23)                                      |
| <b>Corporate other lending</b>                             | <b>61 635</b>    | <b>934</b>     | <b>517</b>                                                     | <b>(489)</b>              | <b>(274)</b>                              |
| Acquisition finance                                        | 16 303           | 481            | 313                                                            | (198)                     | (186)                                     |
| Asset-based lending                                        | 3 717            | 170            | 117                                                            | (115)                     | (36)                                      |
| Other corporate and financial institutions and governments | 31 067           | 265            | 86                                                             | (127)                     | (56)                                      |
| Asset finance                                              | 4 434            | –              | 1                                                              | (31)                      | (21)                                      |
| Small ticket asset finance                                 | 1 228            | –              | 1                                                              | 1                         | (16)                                      |
| Large ticket asset finance                                 | 3 206            | –              | –                                                              | (32)                      | (5)                                       |
| Project finance                                            | 5 597            | 18             | –                                                              | (18)                      | 25                                        |
| Resource finance                                           | 517              | –              | –                                                              | –                         | –                                         |
| <b>Total</b>                                               | <b>178 669</b>   | <b>3 729</b>   | <b>3 717</b>                                                   | <b>(1 141)</b>            | <b>(482)</b>                              |

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

### ASSET QUALITY TRENDS





## Risk management

(continued)

### COLLATERAL

A summary of total collateral is provided in the table below

| R'million                                 | Collateral held against |                                          |
|-------------------------------------------|-------------------------|------------------------------------------|
|                                           | Core loans and advances | Other credit and counterparty exposures* |
|                                           |                         | Total                                    |
| <b>At 31 March 2016</b>                   |                         |                                          |
| <b>Eligible financial collateral</b>      | <b>33 841</b>           | <b>24 555</b>                            |
| Listed shares                             | 32 862                  | 7 905                                    |
| Cash                                      | 979                     | 22                                       |
| Debt securities issued by sovereigns      | –                       | 16 628                                   |
| <b>Property charge</b>                    | <b>281 274</b>          | <b>587</b>                               |
| Residential property                      | 141 202                 | 482                                      |
| Commercial property developments          | 12 078                  | 105                                      |
| Commercial property investments           | 127 994                 | –                                        |
| <b>Other collateral</b>                   | <b>54 733</b>           | <b>1 354</b>                             |
| Unlisted shares                           | 8 093                   | –                                        |
| Charges other than property               | 10 940                  | –                                        |
| Debtors, stock and other corporate assets | 5 703                   | –                                        |
| Guarantees                                | 20 737                  | 35                                       |
| Other                                     | 9 260                   | 1 319                                    |
| <b>Total collateral</b>                   | <b>369 848</b>          | <b>26 496</b>                            |
| <b>At 31 March 2015</b>                   |                         |                                          |
| <b>Eligible financial collateral</b>      | <b>28 458</b>           | <b>24 925</b>                            |
| Listed shares                             | 25 567                  | 12 288                                   |
| Cash                                      | 713                     | 8 242                                    |
| Debt securities issued by sovereigns      | 2 178                   | 4 395                                    |
| <b>Property charge</b>                    | <b>218 022</b>          | <b>760</b>                               |
| Residential property                      | 106 774                 | 666                                      |
| Commercial property developments          | 7 245                   | 94                                       |
| Commercial property investments           | 104 003                 | –                                        |
| <b>Other collateral</b>                   | <b>51 727</b>           | <b>494</b>                               |
| Unlisted shares                           | 8 155                   | –                                        |
| Charges other than property               | 9 464                   | –                                        |
| Debtors, stock and other corporate assets | 3 796                   | –                                        |
| Guarantees                                | 13 355                  | 15                                       |
| Other                                     | 16 957                  | 479                                      |
| <b>Total collateral</b>                   | <b>298 207</b>          | <b>26 179</b>                            |

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

## Investment risk in the banking book

### INVESTMENT RISK DESCRIPTION

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

- **Principal Investments:** investments are selected based on the track record of management, the attractiveness of the industry and the ability to build value for the existing business by implementing an agreed strategy. Investments in listed shares may arise on the IPO of one of our investments. Additionally listed investments may be considered where we believe that the market is mispricing the value of the underlying security or where there is the opportunity to stimulate corporate activity. A material portion of the principal investments have
- **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.

been transferred to a new vehicle, Investec Equity Partners (IEP) on 11 January 2016. Investec Bank Limited holds a 45% stake alongside other strategic investors who hold the remaining 55% in IEP. The investment in IEP will be reflected as an investment in an associate. We continue to pursue opportunities to help create and grow black-owned and controlled companies.

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

### MANAGEMENT OF INVESTMENT RISK

As investment risk arises from a variety of activities conducted by us, the monitoring and measurement thereof varies across transactions and/or type of activity.

| Nature of investment risk                                                             | Management of risk                                                          |
|---------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|
| Listed equities                                                                       | Investment committee, market risk management and ERRF                       |
| Investment Banking principal investments                                              | Investment committee and ERRF                                               |
| Embedded derivatives, profit shares and investments arising from lending transactions | Credit risk management committees and ERRF                                  |
| Investment and trading properties                                                     | Investment committee, Investec Property group investment committee and ERRF |
| IEP                                                                                   | Our executive are on the board of IEP                                       |
| Central Funding investments                                                           | Investment committee and ERRF                                               |

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. 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 146 to 158 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 0.63% of total assets.



Refer to page 146 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<br>R'million                  | Income/(loss) (pre-funding costs) |              |            |              | Fair value<br>through<br>equity |
|--------------------------------------------------------|-----------------------------------|--------------|------------|--------------|---------------------------------|
|                                                        | Unrealised**                      | Realised**   | Dividends  | Total        |                                 |
| <b>2016</b>                                            |                                   |              |            |              |                                 |
| Unlisted investments                                   | (2 699)                           | 3 597        | 185        | 1 083        | (2)                             |
| Listed equities                                        | 91                                | (2)          | 200        | 289          | 207                             |
| Investment and trading properties                      | (60)                              | 75           | –          | 15           | –                               |
| Warrants, profit shares and other embedded derivatives | (56)                              | 274          | –          | 218          | –                               |
| <b>Total</b>                                           | <b>(2 724)</b>                    | <b>3 944</b> | <b>385</b> | <b>1 605</b> | <b>205</b>                      |
| <b>2015</b>                                            |                                   |              |            |              |                                 |
| Unlisted investments                                   | 451                               | 456          | 308        | 1 215        | –                               |
| Listed equities                                        | 50                                | (105)        | 203        | 148          | (176)                           |
| Investments and trading properties                     | 4                                 | 27           | –          | 31           | –                               |
| Warrants, profit shares and other embedded derivatives | (107)                             | 318          | –          | 211          | –                               |
| <b>Total</b>                                           | <b>398</b>                        | <b>696</b>   | <b>511</b> | <b>1 605</b> | <b>(176)</b>                    |

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

Unrealised revaluation gains through profit and loss are included in tier 1 capital. The bank excludes revaluation gains posted directly to equity from its capital position.

## SUMMARY OF INVESTMENTS HELD AND STRESS TESTING ANALYSES

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

| R'million                                              | On-balance<br>sheet<br>value of<br>investments<br>2016 | Valuation<br>change<br>stress test<br>2016* | On-balance<br>sheet<br>value of<br>investments<br>2015 | Valuation<br>change<br>stress test<br>2015* |
|--------------------------------------------------------|--------------------------------------------------------|---------------------------------------------|--------------------------------------------------------|---------------------------------------------|
|                                                        |                                                        |                                             |                                                        |                                             |
| Unlisted investments <sup>^</sup>                      | 2 803                                                  | 420                                         | 7 791                                                  | 1 169                                       |
| Listed equities                                        | 3 557                                                  | 889                                         | 2 913                                                  | 728                                         |
| Investment and trading properties                      | 177                                                    | 35                                          | 289                                                    | 50                                          |
| Warrants, profit shares and other embedded derivatives | 237                                                    | 83                                          | 299                                                    | 105                                         |
| Investment in associate (IEP) <sup>^^</sup>            | 5 063                                                  | 760                                         | –                                                      | –                                           |
| <b>Total</b>                                           | <b>11 837</b>                                          | <b>2 187</b>                                | <b>11 292</b>                                          | <b>2 052</b>                                |

<sup>^</sup> Includes the investment portfolio and non-current assets classified as held for sale as per the balance sheet.

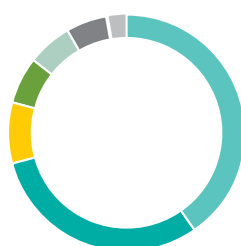
<sup>^^</sup> As explained on page 51.

\* In order to assess our earnings sensitivity to a movement in the valuation of these investments the following stress testing parameters are applied:

| Stress test values applied                             |     |
|--------------------------------------------------------|-----|
| Unlisted investments and IEP                           | 15% |
| Listed equities                                        | 25% |
| Trading properties                                     | 20% |
| Investment properties                                  | 10% |
| Warrants, profit shares and other embedded derivatives | 35% |

### Additional information

AN ANALYSIS OF THE INVESTMENT PORTFOLIO, WARRANTS, PROFIT SHARES AND OTHER EMBEDDED DERIVATIVES AND INVESTMENT IN ASSOCIATE (IEP) BY INDUSTRY OF EXPOSURE



31 March 2016 (R11.7 billion)

|       |                            |
|-------|----------------------------|
| 40.3% | Finance and insurance      |
| 30.7% | Manufacturing and commerce |
| 8.3%  | Mining and resources       |
| 6.3%  | Real estate                |
| 6.1%  | Other                      |
| 5.6%  | Business services          |
| 2.7%  | Communication              |

## STRESS TESTING SUMMARY

Based on the information at 31 March 2016, as reflected above, we could have a R2.2 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 in all geographies in which we operate being negatively impacted at the same time is very low, although the probability of listed equities being negatively impacted at the same time is very high.

## CAPITAL REQUIREMENTS

In terms of Basel III capital requirements for Investec Bank Limited, unlisted and listed equities within the banking book are represented under the category of 'equity risk' and investment properties, profit shares and embedded derivatives are considered in the calculation of capital required for credit risk.



*Refer to page 79 for further detail.*

## Securitisation/ structured credit activities exposures

### OVERVIEW

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



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

The bank applies the standardised approach in the assessment of regulatory capital for securitisation exposures within its banking book and trading book. The trading book exposures at 31 March 2016 are not material, and therefore no further information is disclosed for these positions.

The information below sets out the initiatives we have focused on over the past few years, albeit that most of these business lines have been curtailed given the changes in the securitisation market and given the strategic divestments Investec has undertaken last year.

Our securitisation business was established over 15 years ago. Over this time, we have arranged a number of residential and commercial mortgage-backed programmes, asset-backed commercial paper conduits (ABCP), and third party securitisations.

Historically, we have also assisted in the development of select securitisation platforms with external third party originating intermediaries. Our exposure to these platforms has reduced and been sold down over the last few years and at present we have a single limited warehouse funding line to one platform.

Furthermore, we are sponsor to and provide a standby liquidity facility to Private Mortgages 1 (RF) (Pty) Ltd. This facility, which totalled R15 million at 31 March 2016 (31 March 2015: R200 million), has not been drawn on and is reflected as off-balance sheet contingent exposures in terms of our credit analysis.



*Refer to page 54.*

This exposure is risk weighted for regulatory capital purposes. The liquidity risk associated with this facility is included in the stress testing for the group and is managed in accordance with our overall liquidity position.

We have also sought out select opportunities in the credit/debt markets and traded and purchased in structured credit. These have largely been rated instruments within the UK and Europe, totalling R0.8 billion at 31 March 2016 (31 March 2015: R1.4 billion). We sold a number of these investments during the year. These investments are risk weighted for regulatory capital purposes.

In addition, we have own originated, securitised assets in our Private Client business in South Africa. The primary motivations for the securitisation of assets within our Private Client division 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.

Total assets that have been originated and securitised by the Private Client division amount to R8.0 billion at 31 March 2016 (31 March 2015: R4.5 billion) and consist of residential mortgages (R8.0 billion). Within these securitisation vehicles loans greater than 90 days in arrears amounted to R14.5 million.

SARB approval has been obtained to close our historical transactions, namely Private Residential Mortgages (PRM) Limited – Series 1 (PRM1), Private Residential Mortgages (PRM) Limited – Series 2 (PRM2), as well as Private Mortgages 1 (PM1) and Private Mortgages 2 (PM2). During the year we arranged one new Investec Private Client originated residential mortgage securitisation transaction namely, Fox Street 5 (RF) Limited (FS5) for R2.85 billion (R1.76 billion at year end). This RMBS transaction was structured as an amortising transaction and the notes are held internally by Investec in order to make use of the SARB's committed liquidity facility (CLF). FS1 to FS5 are rated by Global Credit Ratings. The group has acted as sole originator and sponsor in these securitisation transactions, which are considered to be traditional securitisations and in which a complete transfer of risk has deemed to have occurred for regulatory capital purposes. The group has retained an investment in all of these transactions. In terms of current securitisation rules, the group cannot act as liquidity provider to these transactions, and thus for these Fox Street structures, the special purpose entity has an internal liquidity reserve that has been funded. Credit mitigants have not been used in these transactions. An exemption notice in terms of securitisation rules has been applied for in relation to the FS1 and FS2 transactions. The FS3 to FS5 CLF transactions are within scope of the Bank's Act.

For regulatory capital purposes, the equity tranche held in the FS1 and FS2 transaction, is treated as a deduction against capital. The group has no resecuritisation exposures in South Africa.

## ACCOUNTING POLICIES



*Refer to pages 119 and 120.*



(continued)

## 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 group's global credit committee. The analysis looks through to the historical and expected future performance of the underlying assets, the position of the relevant tranche in the capital structure as well as analysis of the cash flow waterfall under a variety of stress scenarios. External ratings are presented, but only for information purposes since the bank principally relies on its own internal risk assessment. Overarching these transaction level principles is the board-approved risk

appetite policy, which details the group's appetite for such exposures, and each exposure is considered relative to the group's overall risk appetite. We can use explicit credit risk mitigation techniques where required, however, the group prefers to address and manage these risks by only approving exposures to which the group has explicit appetite through the constant and consistent application of the risk appetite policy.



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

## CREDIT ANALYSIS

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

In addition, 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.

| At 31 March<br>Nature of exposure/activity                                                                                                                | Exposure<br>2016<br>R'million | Exposure<br>2015<br>R'million | Balance sheet and<br>credit risk classification                                                                                     | Asset quality – relevant<br>comments                                                   |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|-------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|
| Structured credit (gross exposure)*                                                                                                                       | 772                           | 4 419                         | Other debt securities and other<br>loans and advances                                                                               |                                                                                        |
| Rated                                                                                                                                                     | 772                           | 1 420                         |                                                                                                                                     |                                                                                        |
| Unrated                                                                                                                                                   | –                             | 36                            |                                                                                                                                     |                                                                                        |
| Other (internally held)                                                                                                                                   | –                             | 2 963                         |                                                                                                                                     |                                                                                        |
| Loans and advances to customers<br>and third party intermediary<br>platforms (mortgage loans) (with<br>the potential to be securitised) (net<br>exposure) | 367                           | 472                           | Other loans and advances                                                                                                            |                                                                                        |
| Private Client division assets<br>which have been securitised                                                                                             | 7 967                         | 4 535                         | Own originated loans and<br>advances to customers securitised                                                                       | Analysed as part of the group's<br>overall asset quality on core loans<br>and advances |
| Liquidity facilities provided to third<br>party corporate securitisation<br>vehicles                                                                      | 15                            | 200                           | Off-balance sheet credit exposure<br>as these facilities have remained<br>undrawn and reflect a contingent<br>liability on the bank |                                                                                        |

## \*Analysis of rated and unrated structured credit

| At 31 March<br>R'million           | 2016       |          |                                           |            | 2015         |           |                                         |              |
|------------------------------------|------------|----------|-------------------------------------------|------------|--------------|-----------|-----------------------------------------|--------------|
|                                    | Rated**    | Unrated  | Other<br>(internally<br>held,<br>unrated) | Total      | Rated**      | Unrated   | Other<br>(internally<br>held,<br>rated) | Total        |
| US corporate loans                 | –          | –        | –                                         | –          | 35           | –         | –                                       | 35           |
| UK and European RMBS               | 646        | –        | –                                         | 646        | 1 251        | –         | –                                       | 1 251        |
| UK and European corporate<br>loans | –          | –        | –                                         | –          | –            | 36        | –                                       | 36           |
| Australian RMBS                    | 126        | –        | –                                         | 126        | 134          | –         | –                                       | 134          |
| South African RMBS                 | –          | –        | –                                         | –          | –            | –         | 2 963                                   | 2 963        |
| <b>Total</b>                       | <b>772</b> | <b>–</b> | <b>–</b>                                  | <b>772</b> | <b>1 420</b> | <b>36</b> | <b>2 963</b>                            | <b>4 419</b> |

## \*\*A further analysis of rated structured credit investments

| R'million                     | AAA      | AA         | A          | BBB        | BB         | B          | C and<br>below | Total        |
|-------------------------------|----------|------------|------------|------------|------------|------------|----------------|--------------|
| UK and European RMBS          | –        | –          | 458        | –          | –          | 188        | –              | 646          |
| Australian RMBS               | –        | 126        | –          | –          | –          | –          | –              | 126          |
| <b>Total at 31 March 2016</b> | <b>–</b> | <b>126</b> | <b>458</b> | <b>–</b>   | <b>–</b>   | <b>188</b> | <b>–</b>       | <b>772</b>   |
| <b>Total at 31 March 2015</b> | <b>–</b> | <b>457</b> | <b>482</b> | <b>303</b> | <b>178</b> | <b>–</b>   | <b>–</b>       | <b>1 420</b> |

## 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 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 tail loss (ETL) 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. ETLs 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. We consider the impact of extreme yet plausible future economic events on the trading portfolio as well as possible worst case scenarios that are not necessarily as plausible. Scenario analysis is done at least once a week and is included in the data presented to 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.

In South Africa, 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 page 56, 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.



## Risk management

(continued)

### VaR

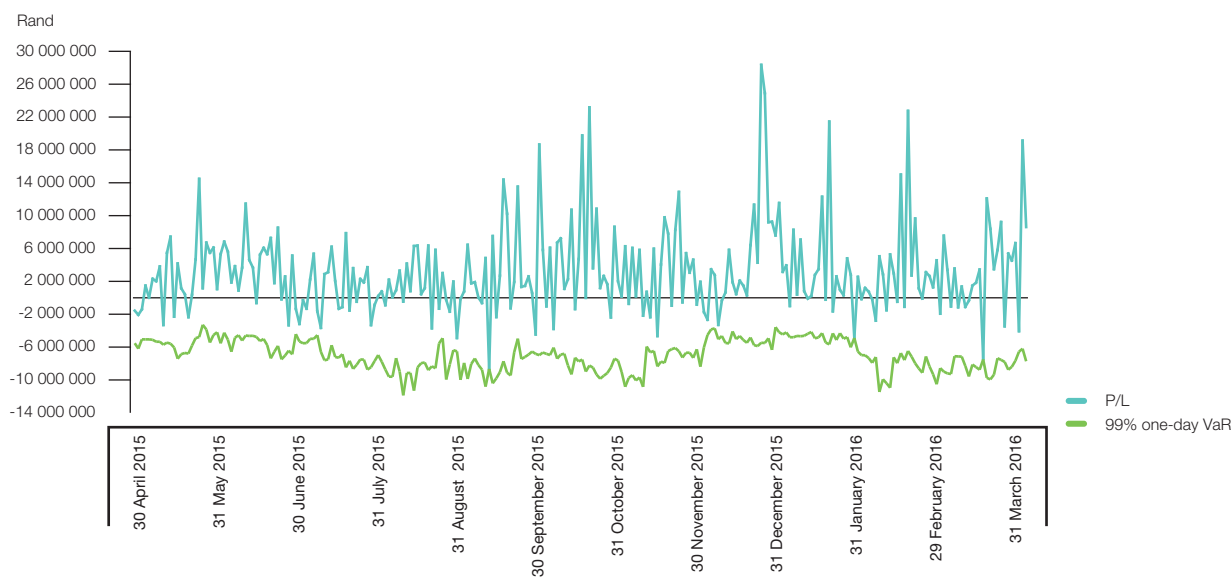


|                      | 31 March 2016 |            |            |            | 31 March 2015 |            |            |            |
|----------------------|---------------|------------|------------|------------|---------------|------------|------------|------------|
| R'million            | Year end      | Average    | High       | Low        | Year end      | Average    | High       | Low        |
| <b>95% (one-day)</b> |               |            |            |            |               |            |            |            |
| Commodities          | 0.1           | 0.1        | 0.2        | –          | –             | 0.1        | 0.5        | –          |
| Equities             | 2.1           | 2.1        | 4.5        | 1.2        | 1.8           | 2.7        | 6.4        | 1.0        |
| Foreign exchange     | 3.0           | 2.6        | 6.4        | 1.2        | 3.0           | 3.1        | 5.9        | 1.1        |
| Interest rates       | 1.1           | 1.2        | 3.0        | 0.5        | 2.7           | 1.6        | 3.5        | 0.9        |
| <b>Consolidated*</b> | <b>4.2</b>    | <b>3.8</b> | <b>8.4</b> | <b>2.0</b> | <b>3.4</b>    | <b>4.3</b> | <b>7.6</b> | <b>2.0</b> |

\* 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 2016 in the South African trading book, was lower than the previous year due to lower VaR utilisation across the main 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



## ETL 95% (ONE-DAY)



For the year to 31 March  
R'million

|                      | 2016       | 2015       |
|----------------------|------------|------------|
| Commodities          | 0.2        | –          |
| Equities             | 5.0        | 2.5        |
| Foreign exchange     | 4.5        | 4.4        |
| Interest rates       | 1.8        | 3.8        |
| <b>Consolidated*</b> | <b>7.6</b> | <b>5.0</b> |

\* The consolidated ETL for each desk is lower than the sum of the individual ETLs. 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 fitting a distribution to the tails of the distribution. EVT numbers for the year are notably higher than the previous year due to increased volatility observed during the year.

| R'million                  | 31 March 2016 |             |             |            | 31 March 2015<br>Year end |
|----------------------------|---------------|-------------|-------------|------------|---------------------------|
|                            | Year end      | Average     | High        | Low        |                           |
| <b>99% (using 99% EVT)</b> |               |             |             |            |                           |
| Commodities                | 0.4           | 0.2         | 1.9         | –          | 0.1                       |
| Equities                   | 30.9          | 14.6        | 32.4        | 2.8        | 9.7                       |
| Foreign exchange           | 11.7          | 13.3        | 72.2        | 4.4        | 16.2                      |
| Interest rates             | 7.6           | 5.5         | 12.9        | 3.0        | 7.7                       |
| <b>Consolidated*</b>       | <b>39.3</b>   | <b>19.9</b> | <b>53.0</b> | <b>5.1</b> | <b>13.4</b>               |

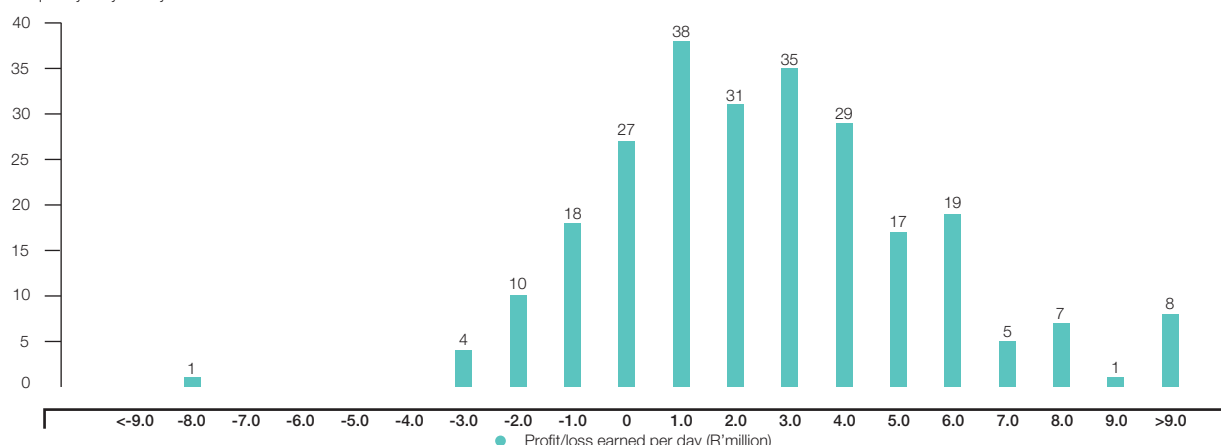
\* The consolidated ETL for each desk is lower than the sum of the individual ETLs. This arises from the correlation offset between various asset classes (diversification).

## PROFIT AND LOSS HISTOGRAMS

The histogram below illustrates the distribution of daily revenue during the financial year for our trading businesses. The distribution is skewed to the profit side and the graph shows that positive trading revenue was realised on 190 days out of a total of 250 days in the trading business. The average daily trading revenue generated for the year to 31 March 2016 was R2.1 million (2015: R1.5 million)

## PROFIT AND LOSS

Frequency: Days in a year





## 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 ETL. 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 monthly at a minimum, or more frequently if necessary. Stressed VaR is calculated in the same way based on a one-year historical period of extreme volatility. The sVaR period used is mid-2008 to mid-2009, which relates to high levels of volatility in all markets in which the business holds trading position, during the financial crisis.

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.

## TRADED MARKET RISK YEAR IN REVIEW

Risk software was changed to be fully integrated with trading systems, while independence is maintained through independent validation of all valuation models.

Trading conditions have remained challenging. Markets have been very volatile while the lack of liquidity has continued. Investec remains focused on facilitating the near-term demand of our clients. The equity derivatives business has continued to grow their synthetic product offering to a diversified client base. All trading areas have

kept market risk exposures at low levels throughout the year.

## MARKET RISK – DERIVATIVES



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



**Information showing our derivative trading portfolio over the reporting period on the basis of the notional principal and the fair value of all derivatives can be found on pages 164 and 165.**

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, non-trading interest rate and foreign exchange, encumbrance and leverage risks on balance sheet.

### 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, the head of risk 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 and 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 wholesale funds with the appropriate tenor and pricing characteristics, and manages liquid securities and collateral, thus providing prudential management and a flexible response to volatile market conditions. The Central Treasury functions are the sole interface to the wholesale 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 normal 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) 'liquidity risk measurement standards and monitoring' and is compliant with the 'principles of sound liquidity risk management and supervision' as well as 'guidelines for the management 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.

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, ERRF, GRCC, BRCC and the board.

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

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



## LIQUIDITY RISK

### Liquidity risk description

Liquidity risk is the risk 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:** which 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:** which 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
- The group has committed itself to implementation of the updated BCBS guidelines for liquidity risk measurement, standards and monitoring as phased in from 2015
- 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
- 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
- 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
- Daily liquidity stress tests are carried out to measure and manage the liquidity position such that payment obligations can be met under a wide range of normal and unlikely but plausible stressed scenarios, in which 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 objective is to have sufficient liquidity, in an acute stress, to continue to operate for a minimum period as detailed in the board-approved risk appetite
- Our liquidity risk parameters reflect a collection of liquidity stress assumptions which are reviewed regularly and updated as needed. These stress factors go well beyond our experience during the height of the recent financial crisis
- 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
- 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 group centrally manages access to funds in both domestic and offshore markets through the Corporate and Institutional Banking division
- The maintenance of sustainable prudent liquidity resources takes precedence over profitability
- Each major banking entity maintains an internal funds transfer pricing system based on prevailing market rates. The treasury function charges out the price of long- and short-term funding to internal consumers of liquidity, which ensures that the costs, benefits, and risks of liquidity are clearly and transparently attributed to business lines and are understood by business line management. The funds transfer pricing methodology is designed to signal the right incentive to our lending business
- 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 conditions 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 based on statistical historical analysis, documented experience and prudent judgement
- 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. Fixed and notice customer deposits have continued to grow during the year and our customers display a strong 'stickiness' and willingness to reinvest in our suite of 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.

As mentioned above, we hold a liquidity buffer in the form of cash, unencumbered readily available 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 2015 to 31 March 2016 average cash and near cash balances over the period amounted to R105.7 billion.

The group does not rely on committed funding lines for protection against unforeseen interruptions to cash flow. 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 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, as well as 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.

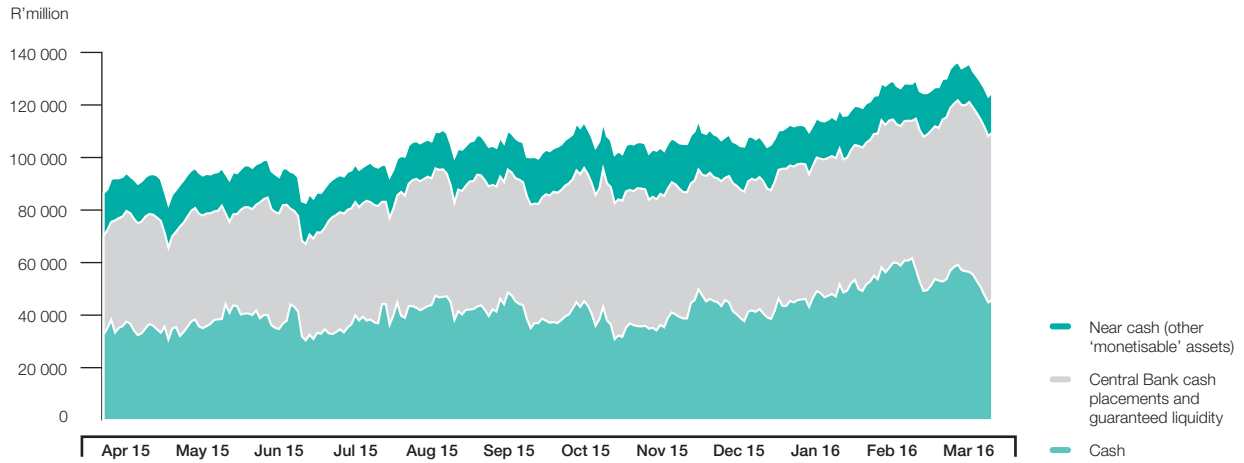
The group utilises securitisation in order to raise external term funding as part of its diversified liability base. Securitisation notes issued are also retained by the group which are available to provide a pool of collateral eligible to support central bank liquidity facilities.

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 111. Related liabilities are also reported.

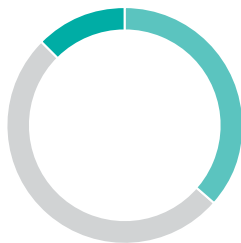


**On page 161 we disclose further details of assets that have been received as collateral under reverse repurchase agreements and securities borrowing transactions where the assets are allowed to be resold or pledged.**

## INVESTEC BANK LIMITED CASH AND NEAR CASH TREND



## AN ANALYSIS OF CASH AND NEAR CASH AT 31 MARCH 2016



R124 907 million

- 36.6% Cash
- 51.0% Central Bank cash placements and guaranteed liquidity
- 12.4% Near cash (other 'monetisable' assets)

## BANK AND NON-BANK DEPOSITOR CONCENTRATION BY TYPE AT 31 MARCH 2016



R316 978 million

- 43.8% Other financials
- 19.8% Non-financial corporates
- 16.1% Individuals
- 11.7% Banks
- 4.7% Public sector
- 3.9% Small business

*The liquidity position of the bank remained sound with total cash and near cash balances amounting to R125 billion*

## Liquidity mismatch

The table that follows shows our contractual liquidity mismatch.

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

The table reflects that loans and advances to customers are largely 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 this asset class is of little consequence, as practically Investec 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 fairly 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 indeterminable 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 2016

| 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               | 25 957                 | 5 818           | 766                 | 397                 | 250                    | 1 392             | –               | 34 580           |
| Cash and short-term funds – non-banks           | 9 582                  | 4               | 232                 | 40                  | –                      | –                 | –               | 9 858            |
| Investment/trading assets and statutory liquids | 61 902                 | 11 809          | 4 653               | 2 930               | 3 651                  | 13 396            | 36 965          | 135 306          |
| Securitised assets                              | 69                     | 12              | 45                  | 84                  | 145                    | 1 310             | 6 417           | 8 082            |
| Advances                                        | 7 116                  | 4 578           | 10 871              | 14 423              | 23 242                 | 97 241            | 50 168          | 207 639          |
| Other assets                                    | 2 551                  | 94              | 110                 | 22                  | –                      | 26                | 7 361           | 10 164           |
| <b>Assets</b>                                   | <b>107 177</b>         | <b>22 315</b>   | <b>16 677</b>       | <b>17 896</b>       | <b>27 288</b>          | <b>113 365</b>    | <b>100 911</b>  | <b>405 629</b>   |
| Deposits – banks                                | (5 066)                | (2 042)         | (2 168)             | (2 290)             | (9 279)                | (16 397)          | –               | (37 242)         |
| Deposits – non-banks                            | (126 940) <sup>^</sup> | (26 706)        | (51 978)            | (20 915)            | (23 954)               | (26 806)          | (2 437)         | (279 736)        |
| Negotiable paper                                | –                      | (396)           | (722)               | (95)                | (19)                   | (6 433)           | –               | (7 665)          |
| Securitised liabilities                         | –                      | –               | –                   | –                   | –                      | –                 | (809)           | (809)            |
| Investment/trading liabilities                  | (854)                  | (6 011)         | (6 036)             | (1 153)             | (10 062)               | (6 990)           | (638)           | (31 744)         |
| Subordinated liabilities                        | –                      | –               | –                   | –                   | –                      | (501)             | (10 231)        | (10 732)         |
| Other liabilities                               | (360)                  | (52)            | (115)               | (249)               | (155)                  | (112)             | (4 793)         | (5 836)          |
| <b>Liabilities</b>                              | <b>(133 220)</b>       | <b>(35 207)</b> | <b>(61 019)</b>     | <b>(24 702)</b>     | <b>(43 469)</b>        | <b>(57 239)</b>   | <b>(18 908)</b> | <b>(373 764)</b> |
| <b>Shareholders' funds</b>                      | <b>–</b>               | <b>–</b>        | <b>–</b>            | <b>–</b>            | <b>–</b>               | <b>–</b>          | <b>(31 865)</b> | <b>(31 865)</b>  |
| <b>Contractual liquidity gap</b>                | <b>(26 043)</b>        | <b>(12 892)</b> | <b>(44 342)</b>     | <b>(6 806)</b>      | <b>(16 181)</b>        | <b>56 126</b>     | <b>50 138</b>   | <b>–</b>         |
| Cumulative liquidity gap                        | (26 043)               | (38 935)        | (83 277)            | (90 083)            | (106 264)              | (50 138)          | –               |                  |

<sup>^</sup> Includes call deposits of R125 billion and the balance reflects term deposits which have finally reached/are reaching contractual maturity.

## Behavioural liquidity



As discussed on page 63.

| R'million                        | Demand        | Up to one month | One to three months | Three to six months | Six months to one year | One to five years | > Five years  | Total    |
|----------------------------------|---------------|-----------------|---------------------|---------------------|------------------------|-------------------|---------------|----------|
| <b>Behavioural liquidity gap</b> | <b>47 454</b> | <b>18 075</b>   | <b>960</b>          | <b>(456)</b>        | <b>(11 414)</b>        | <b>(146 600)</b>  | <b>91 981</b> | <b>–</b> |
| Cumulative                       | 47 454        | 65 529          | 66 489              | 66 033              | 54 619                 | (91 981)          | –             |          |

*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 and improved 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 significantly improved. Investec grew its total customer deposits by 26.4% from R221 billion to R280 billion at 31 March 2016. Our Private Bank and Cash Investments fund raising channels grew deposits by 21.8% to R110 billion over the financial year. The wholesale channels saw a marked turnaround from the previous year and Rand liabilities increased by 29.5% to R170 billion.

Two factors contributed to this. Firstly, there were renewed inflows to Money Market Funds as anxieties relating to the forced entry into curatorship of African Bank were eased; and secondly, Investec gained market share following Fitch's upgrade of Investec's national scale long-term rating to AA- in December 2015 as a result of a resilient risk profile.

Our Rand liquidity was further boosted by several successful medium-term senior unsecured bond issues totalling R5 billion. Investec Bank Limited (solo basis) ended the financial year with the three-month average of its LCR at 117.3%, which is well ahead of the minimum level of 70% required.

Two and three year term dollar transactions amounting to US\$875 million were raised in several club, bilateral and structured loan deals over the course of the year as the cost of term dollars fell to levels last witnessed over five years ago. The bank's long-term USD liquidity position is very positive and places us in a strong position ahead of any concern over South Africa's heightened risk of a credit rating downgrade. Our USD funding augments our cash and near cash balances, with core loans remaining fully funded by domestic deposits.

The strong performance across all funding channels has led to a growth of R36 billion to R125 billion in our total cash and near cash balances by the end of the financial year 2016.

## 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 consultation document on the NSFR in October 2014. The NSFR ratio will be introduced in 2018.

The group has committed itself to implementation of the BCBS guidelines for liquidity risk measurement standards and the enhanced regulatory framework to be established. Investec has been proactively reporting on these ratios internally according to the emerging Basel definitions since February 2010. Investec already exceeds minimum requirements of these standards as a result of efforts to reshape our liquidity and funding profile where 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% over the financial year. Investec Bank Limited exceeds the minimum requirement for the LCR in March 2016
- 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, and will therefore mitigate any increases in the overall cost of funds.

Notwithstanding the above constraints, Investec Bank in South Africa comfortably exceeds the minimum required LCR and NSFR liquidity ratios.

Global developments in the financial industry have formed a more robust regulatory approach to the industry, and

the South African National Treasury has plans to adopt the Twin Peaks regulatory framework to regulate the industry in line with the IMF Financial Sector Assessment Programme (FSAP) recommendations to South Africa.

## NON-TRADING INTEREST RATE RISK DESCRIPTION

Non-trading interest rate risk, otherwise known as interest rate risk in the banking book, is the impact on net interest earnings and sensitivity to economic value as a result of unexpected adverse movements in interest rates arising from the execution of our core business strategies and the delivery of products and services to our customers.

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:** we are not materially exposed to embedded option risk, as contract breakage penalties on fixed-rate advances specifically cover this risk, while prepayment optionality is restricted to variable rate contracts and has no impact on interest rate risk
- **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 vital importance, and our core non-trading interest rate risk philosophy is reflected in day-to-day practices which encompass the following:

- The group complies with the BCBS framework for assessing banking book (non-trading) interest rate risk
- The management of interest rate risk in the banking book is centralised within the Central Treasury function and treasury is mandated by the board to actively manage the liquidity mismatch and non-trading interest rate risk arising from our asset and liability portfolios
- Treasury is the primary interface to the wholesale market
- The treasurer is required to exercise tight control of funding, liquidity, concentration and non-trading interest rate risk within parameters defined by the risk appetite policy
- Internal capital is allocated for non-trading interest rate risk
- The risk appetite is clearly defined by the board in relation to both earnings risk and economic value risk. In addition, each geographic entity has its own board approved policies with respect to non-trading interest rate risk
- The non-trading interest rate risk policy dictates that long-term non-trading interest rate risk is materially eliminated. In accordance with the policy, interest rate swaps are used to swap fixed deposits and loans into variable rate in the wholesale market
- 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



- It is the responsibility of the liability product and pricing forum, a sub-committee of ALCO, to review the liquidity, interest rate and concentration characteristics of all new products and approve their issuance, ensuring that both standard and non-standard deposit products, particularly those designed for the Private Banking customers, both match market curves and can be hedged if necessary
  - Pricing for all deposit products is set centrally. In doing so we manage access to funding at cost-effective levels, considering also the stressed liquidity value of the liabilities
  - Balance Sheet Risk Management independently measures and analyses both traditional interest rate repricing mismatch and net present value (NPV) sensitivity to changes in interest rate risk factors, detailing the sources of interest rate exposure
  - The bank maintains an internal funds transfer pricing system based on prevailing market rates which charges out the price of long- and short-term funding to consumers of liquidity and provides long-term stable funding for our asset creation activity
  - Daily management of interest rate risk is centralised within Treasury and is subject to independent risk and ALCO review
  - 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. We detail the sources of interest rate exposure, whether repricing risk, yield curve risk, basis risk or embedded option risk. This is performed for a variety of interest rate scenarios, covering:
    - Interest rate expectations and perceived risks to the central view
    - Standard shocks to levels and shapes of interest rates and yield curves
    - Historically-based yield curve changes.
- This is consistent with the standardised interest rate measurement recommended by the Basel framework for assessing interest rate risk in the banking book (non-trading interest rate risk).
- The aim is to protect and enhance net interest income and economic value in accordance with the board-approved risk appetite and ensure a high degree of net interest margin stability over an interest rate cycle. Economic value measures have the advantage that all future cash flows are considered and therefore can highlight risk beyond the earnings horizon. 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
  - We carry out technical interest rate analysis and economic review of fundamental developments by geography, the results of this evaluation are used to estimate a set of forward-looking interest rate scenarios incorporating movements in the yield curve level and shape, after taking global trends into account
  - These combinations of measures provide senior management (and the ALCOs) with an assessment of the financial impact of identified rate changes on potential future net interest income and sensitivity to changes in economic value
  - Our risk appetite policy requires that interest rate risk arising from fixed interest loans is transferred from the originating business to the Central Treasury function by match-funding. In turn, Central Treasury hedges material fixed rate assets with a term of more than one year on a deal-by-deal basis with the use of variable versus fixed interest rate swaps. The market for these vanilla swaps is deep, with the result that such hedging is efficient. Likewise, Central Treasury also hedges all fixed rate deposits with a term of more than one year to variable rate. These derivative hedging trades are executed with the bank's interest rate

trading desk. Limits exist to ensure there is no undesired risk retained within any business or product area.

Operationally, 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 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 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.

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 BCBS has indicated that after completing and embedding the current reforms (covering capital, leverage and liquidity), the capital framework for interest rate risk on the banking book will be revisited. In part this is due to the increase in the quantum of high-quality liquid assets (HQLA) which banks will need to hold in meeting the new liquidity ratios and the potential increase in interest rate risk thereon. The expectation is that Basel will produce additional documents in the next year on minimum standards for interest rate risk measurement in the banking book.



## Risk management

(continued)

### Interest rate sensitivity gap

The table below shows our non-trading interest rate mismatch at 31 March 2016. These exposures affect the interest rate margin realised between lending income and borrowing costs assuming no management intervention.

| R'million                                       | Not<br>> three<br>months | > Three<br>months<br>but < six<br>months | > Six<br>months<br>but < one<br>year | > One<br>year<br>but < five<br>years | > Five<br>years | Non-rate        | Total<br>non-trading |
|-------------------------------------------------|--------------------------|------------------------------------------|--------------------------------------|--------------------------------------|-----------------|-----------------|----------------------|
| Cash and short-term funds – banks               | 23 687                   | 9                                        | –                                    | 40                                   | –               | 7 527           | 31 263               |
| Cash and short-term funds – non-banks           | 9 814                    | 40                                       | –                                    | –                                    | –               | 4               | 9 858                |
| Investment/trading assets and statutory liquids | 41 954                   | 24 787                                   | –                                    | 13 358                               | 6 024           | 18 999          | 105 122              |
| Securitised assets                              | 8 082                    | –                                        | –                                    | –                                    | –               | –               | 8 082                |
| Advances                                        | 188 090                  | 4 382                                    | 1 761                                | 11 054                               | 2 352           | –               | 207 639              |
| Other assets                                    | –                        | –                                        | –                                    | –                                    | –               | 3 718           | 3 718                |
| <b>Assets</b>                                   | <b>271 627</b>           | <b>29 218</b>                            | <b>1 761</b>                         | <b>24 452</b>                        | <b>8 376</b>    | <b>30 248</b>   | <b>365 682</b>       |
| Deposits – banks                                | (36 508)                 | (10)                                     | (724)                                | –                                    | –               | –               | (37 242)             |
| Deposits – non-banks                            | (234 525)                | (14 827)                                 | (15 252)                             | (11 875)                             | (1 659)         | (1 526)         | (279 664)            |
| Negotiable paper                                | (1 886)                  | (123)                                    | (19)                                 | (5 636)                              | (1)             | –               | (7 665)              |
| Securitised liabilities                         | (809)                    | –                                        | –                                    | –                                    | –               | –               | (809)                |
| Investment/trading liabilities                  | (244)                    | –                                        | (1 837)                              | (96)                                 | –               | –               | (2 177)              |
| Subordinated liabilities                        | (8 968)                  | (1 340)                                  | –                                    | (301)                                | –               | (123)           | (10 732)             |
| Other liabilities                               | (103)                    | –                                        | –                                    | (25)                                 | –               | (4 820)         | (4 948)              |
| <b>Liabilities</b>                              | <b>(283 043)</b>         | <b>(16 300)</b>                          | <b>(17 832)</b>                      | <b>(17 933)</b>                      | <b>(1 660)</b>  | <b>(6 469)</b>  | <b>(343 237)</b>     |
| <b>Intercompany loans</b>                       | <b>8 560</b>             | <b>1 581</b>                             | <b>2 446</b>                         | <b>2 188</b>                         | <b>563</b>      | <b>251</b>      | <b>15 589</b>        |
| <b>Shareholders' funds</b>                      | <b>(1 158)</b>           | <b>–</b>                                 | <b>–</b>                             | <b>–</b>                             | <b>(11)</b>     | <b>(30 698)</b> | <b>(31 867)</b>      |
| <b>Balance sheet</b>                            | <b>(4 014)</b>           | <b>14 499</b>                            | <b>(13 625)</b>                      | <b>8 707</b>                         | <b>7 268</b>    | <b>(6 668)</b>  | <b>6 167</b>         |
| <b>Off-balance sheet</b>                        | <b>8 408</b>             | <b>(1 656)</b>                           | <b>2 291</b>                         | <b>(8 323)</b>                       | <b>(6 828)</b>  | <b>(59)</b>     | <b>(6 167)</b>       |
| <b>Repricing gap</b>                            | <b>4 394</b>             | <b>12 843</b>                            | <b>(11 334)</b>                      | <b>384</b>                           | <b>440</b>      | <b>(6 727)</b>  | <b>–</b>             |
| Cumulative repricing gap                        | 4 394                    | 17 237                                   | 5 903                                | 6 287                                | 6 727           | –               | –                    |

### Economic value sensitivity at 31 March 2016

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<br>(expressed in original currencies) |         |       |       |       |       |                |           |
|-----------------------------------------------------------------------------------|---------|-------|-------|-------|-------|----------------|-----------|
| 'million                                                                          | ZAR     | GBP   | USD   | EUR   | AUD   | Other<br>(ZAR) | All (ZAR) |
| 200bps down                                                                       | 410.2   | 3.8   | 5.9   | (9.6) | 1.4   | (13.3)         | 419.5     |
| 200bps up                                                                         | (352.1) | (3.5) | (5.1) | 4.1   | (1.4) | 11.6           | (435.7)   |

## LIQUIDITY COVERAGE RATIO (LCR)

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

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

The values in the table are calculated as the simple average of calendar daily values over the period 1 January 2016 to 31 March 2016 for Investec Bank Limited bank solo. All 60 business day observations were used. Investec Bank Limited consolidated group values use daily values for Investec Bank Limited bank solo, while those for other group entities use the average of January, February and March 2016 month-end values.

The minimum LCR requirement is 70% throughout 2016 and will increase by 10% each year to 100% on 1 January 2019. This applies to both Investec Bank Limited bank solo and Investec Bank Limited consolidated group.

### Investec Bank Limited bank solo:

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

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

The composition of HQLA:

- The HQLA comprises primarily South African sovereign and central bank Rand-denominated securities and debt instruments, all of which are eligible for SARB repo
- On average, Level 2 assets made up 3% of total HQLA and the SARB's committed liquidity facility (CLF) contributed 7% to total HQLA
- Some foreign denominated government securities are included in the HQLA, subject to regulatory limitations.

Changes since December 2015 quarter year end:

The average LCR remains well in surplus of regulatory requirements, decreasing by 1.5%, with both the average HQLA and average stressed net cash outflows increasing by R7 billion.

### Investec Bank Limited consolidated group:

Our two banks, Investec Bank Limited (IBL) and Investec Bank (Mauritius) Limited (IBM), contributed over 99% of the Investec Bank Limited consolidated group's combined HQLA and stressed cash inflows and outflows. IBM's average stressed cash outflows of R6 billion are primarily to non-financial corporates, while its average stressed inflows of R9 billion is largely from banks. IBM bank solo currently has no LCR requirement. There is no restriction on the contribution of IBM's cash inflows to the group. Consolidated group LCR is better than IBL solo's, mainly due to IBM'S surplus cash inflows.



## Risk management

(continued)

|                                                                                                       | Investec Bank Limited<br>Bank Solo |                             | Investec Bank Limited<br>Consolidated Group |                             |
|-------------------------------------------------------------------------------------------------------|------------------------------------|-----------------------------|---------------------------------------------|-----------------------------|
| At 31 March 2016<br>R'million                                                                         | Total<br>unweighted<br>value       | Total<br>weighted<br>value  | Total<br>unweighted<br>value                | Total<br>weighted<br>value  |
| High-quality liquid assets                                                                            |                                    |                             |                                             |                             |
| <b>Total high-quality liquid assets</b>                                                               |                                    | <b>62 049</b>               |                                             | <b>62 095</b>               |
| <b>Cash outflows</b>                                                                                  |                                    |                             |                                             |                             |
| <b>Retail deposits and deposits from small business customers, of which:</b>                          |                                    |                             |                                             |                             |
| Stable deposits                                                                                       | 47 471                             | 4 747                       | 50 827                                      | 5 083                       |
| Less stable deposits                                                                                  | –                                  | –                           | –                                           | –                           |
|                                                                                                       | 47 471                             | 4 747                       | 50 827                                      | 5 083                       |
| <b>Unsecured wholesale funding, of which:</b>                                                         | <b>108 933</b>                     | <b>81 511</b>               | <b>119 905</b>                              | <b>86 840</b>               |
| Operational deposits (all counterparties) and deposits in institutional networks of cooperative banks | –                                  | –                           | –                                           | –                           |
| Non-operational deposits (all counterparties)                                                         | 108 119                            | 80 697                      | 119 065                                     | 86 000                      |
| Unsecured debt                                                                                        | 814                                | 814                         | 840                                         | 840                         |
| Secured wholesale funding                                                                             | –                                  | 480                         | –                                           | 480                         |
| <b>Additional requirements, of which:</b>                                                             | <b>60 560</b>                      | <b>9 434</b>                | <b>62 257</b>                               | <b>9 600</b>                |
| Outflows related to derivatives exposures and other collateral requirements                           | 18 502                             | 4 377                       | 18 502                                      | 4 377                       |
| Outflows related to loss of funding on debt products                                                  | 1 149                              | 1 149                       | 1 149                                       | 1 149                       |
| (Undrawn committed) credit and liquidity facilities                                                   | 40 909                             | 3 908                       | 42 606                                      | 4 074                       |
| Other contractual funding obligations                                                                 | 393                                | 393                         | 393                                         | 393                         |
| Other contingent funding obligations                                                                  | 119 369                            | 6 701                       | 118 838                                     | 6 669                       |
| <b>Total cash outflows</b>                                                                            |                                    | <b>103 266</b>              |                                             | <b>108 748</b>              |
| <b>Cash inflows</b>                                                                                   |                                    |                             |                                             |                             |
| Secured lending (e.g. reverse repos)                                                                  | 9 788                              | 5 840                       | 9 788                                       | 5 840                       |
| Inflows from fully performing exposures                                                               | 41 718                             | 38 742                      | 52 201                                      | 48 817                      |
| Other cash inflows                                                                                    | 5 089                              | 5 089                       | 5 409                                       | 5 409                       |
| <b>Total cash inflows</b>                                                                             | <b>56 595</b>                      | <b>49 671</b>               | <b>67 398</b>                               | <b>60 066</b>               |
|                                                                                                       |                                    | <b>Total adjusted value</b> |                                             | <b>Total adjusted value</b> |
| Total high-quality liquid assets                                                                      |                                    | 62 049                      |                                             | 62 095                      |
| Total net cash outflows                                                                               |                                    | 53 594                      |                                             | 48 682                      |
| <b>Liquidity coverage ratio (%)</b>                                                                   |                                    | <b>117.3</b>                |                                             | <b>130.1</b>                |

## Operational risk

### OPERATIONAL RISK DEFINITION

Operational risk is defined as any instance where there is potential or actual impact to the group resulting from failed internal processes, people, systems or from external events. The impacts can be financial as well as non-financial such as customer detriment, reputational or regulatory consequences.

Operational risk is an inherent risk in the 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 integrated into an overall risk management framework which is fit for purpose.

### OPERATIONAL RISK MANAGEMENT FRAMEWORK

The bank continues to operate under the standardised approach (TSA) to operational risk for regulatory capital purposes. The framework which includes policies and procedures 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.

Practices and processes are supported by an operational risk management system which facilitates the identification, assessment and mitigation of operational risk.

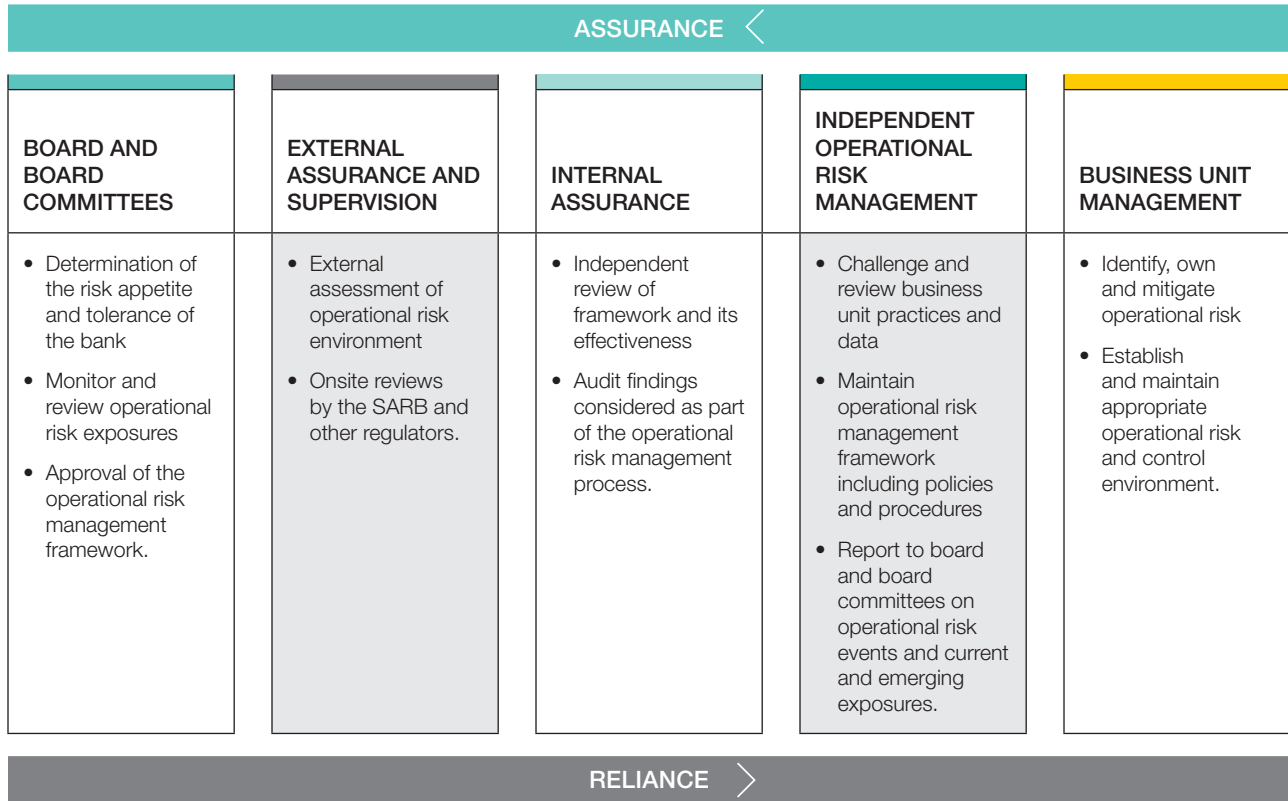
Practices consist of the following:

|             | RISK AND CONTROL ASSESSMENT                                                                                           | INTERNAL RISK EVENTS                                                                                                 | EXTERNAL RISK EVENTS                                                                                                         | KEY RISK INDICATORS                                                             | SCENARIOS AND CAPITAL CALCULATION                                                                                           | REPORTING                                                                                     |
|-------------|-----------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|
| DESCRIPTION | Qualitative assessments that identify key operational risks and controls                                              | Incidents resulting from failed systems, processes, people or external events                                        | Access to an external data provider relating to operational risk events that occur in the global financial services industry | Metrics are used to monitor risk exposures identified against thresholds        | Extreme, yet plausible scenarios are evaluated for financial and non-financial impacts                                      | Reporting and escalation framework in place                                                   |
| PURPOSE     | Identifies ineffective controls and improves decision-making through an understanding of the operational risk profile | A causal analysis is performed and enables business to identify trends in risk events and address control weaknesses | Events are used to raise management awareness and as input to risk assessment and scenario analysis                          | Assists in predictive capability and assessing the risk profile of the business | Measure exposures arising from key risks which are considered in determining internal operational risk capital requirements | Ensures that risk events and exposures are identified and appropriately escalated and managed |

## GOVERNANCE

The governance structure relating to operational risk forms an integral part of the operational risk management framework.

The structure adopted to manage operational risk is supported and enforced by a level of defence model and includes principles relating to combined assurance.



## RISK APPETITE AND TOLERANCE

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

## LOOKING FORWARD

### Key operational risk considerations

| DEFINITION OF RISK                                                                                                                                                                                                                                                                    | MITIGATION APPROACH                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | PRIORITY FOR 2016/17                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>CYBERSECURITY</b>                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Risk associated with cyberattacks, including disruption of client-facing systems, data theft, cyber terrorism and espionage                                                                                                                                                           | <ul style="list-style-type: none"> <li>Maintaining a robust cybersecurity strategy focusing on prediction, detection, prevention and response</li> <li>Sharing of threat information with relevant peers, law enforcement and industry bodies</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                 | <ul style="list-style-type: none"> <li>Active involvement of cybersecurity teams during systems development, ensuring applications are secure by design</li> <li>Maintenance and testing of security incident breach response processes ensuring that these are consistent, coordinated and global in nature</li> <li>Ongoing research into the latest cyberattack methods and revising controls to ensure the group is adequately protected</li> </ul>                                                                                                                                                                                                                                                     |
| <b>FINANCIAL CRIME</b>                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Risk associated with fraud, corruption, theft, embezzlement, extortion, coercion, collusion, abuse of power, conflict of interest, abuse of privileged information, money laundering and other criminal conduct and/or misconduct by staff, clients, suppliers and other stakeholders | <ul style="list-style-type: none"> <li>Identify and assess financial crime risks holistically in clients, sectors and markets</li> <li>Consistent implementation of standards to prevent, detect, deter and respond to all financial crime incidents</li> <li>Targeted training for the specific risk roles and regular campaigns to all employees to raise awareness of financial crime risk and associated policies and to encourage escalation</li> <li>Operate an integrity line which allows employees to make disclosures including regulatory breaches, allegations of bribery, fraud and corruption, and non-compliance with policies</li> </ul> | <ul style="list-style-type: none"> <li>Proactive strategy for the effective prevention, detection and investigation measures of all financial crime types which includes business and client risk assessments</li> <li>Development of financial crime prevention policies and practices which comply with regulations, industry guidance and best practices</li> <li>Regular delivery of management information focused on key risk indicators</li> <li>Review external and industry events by engaging with external partners and stakeholders</li> <li>Increased and enhanced monitoring, analysis of root causes and review of internal controls to enhance defences against external attacks</li> </ul> |
| <b>INFORMATION SECURITY</b>                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Risk associated with the confidentiality, integrity and availability of information assets. This includes its unauthorised access, use, disclosure, modification or destruction                                                                                                       | <ul style="list-style-type: none"> <li>Understanding what critical information assets are and the threats to which they are exposed</li> <li>Ensuring appropriate and robust security controls are in place</li> <li>Raising awareness with relevant stakeholders of policies relating to information security and their responsibility in protecting information</li> </ul>                                                                                                                                                                                                                                                                             | <ul style="list-style-type: none"> <li>Identification and classification of most valuable and confidential information assets</li> <li>Implementation and monitoring of information security policies, standards, processes and technical controls designed to mitigate the risks introduced by the information supply chain</li> <li>Align practices with the rapidly changing legal and regulatory requirements to safeguard information</li> </ul>                                                                                                                                                                                                                                                       |
| <b>PROCESS FAILURE</b>                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Risk associated with inadequate internal processes, including human errors and control failures within the business. This includes process origination, execution and operations                                                                                                      | <ul style="list-style-type: none"> <li>Proactive risk identification and assessment relating to new products and projects to implement adequate and effective controls</li> <li>Continuous process improvements including automation of workflow</li> <li>Segregation of incompatible duties and appropriate authorisation controls</li> </ul>                                                                                                                                                                                                                                                                                                           | <ul style="list-style-type: none"> <li>Causal analyses is used to identify weaknesses in controls following the occurrence of risk events</li> <li>Risk and performance indicators are used to monitor the effectiveness of controls across business units</li> <li>Thematic reviews across business units to ensure consistent and efficient applications of controls</li> <li>Effective management of change remains a priority</li> </ul>                                                                                                                                                                                                                                                                |
| <b>REGULATORY AND COMPLIANCE</b>                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Risk associated with identification, implementation and monitoring of compliance with regulations                                                                                                                                                                                     | <ul style="list-style-type: none"> <li>Alignment of regulatory and compliance approach to reflect new regulatory landscapes (particularly change of regulatory structures)</li> <li>Managing business impact and implemented challenges as a result of significant volumes of statutory and regulatory changes and developments</li> <li>Ensuring existing monitoring remains focused appropriately as areas of conduct and regulatory risk develop</li> </ul>                                                                                                                                                                                           | <ul style="list-style-type: none"> <li>Group Compliance and Group Legal assist in the management of regulatory and compliance risk</li> <li>Identification and adherence to legal and regulatory requirements</li> <li>Review practices and policies as regulatory requirements change</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>TECHNOLOGY</b>                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Risk associated with the reliance on technology to support business processes and client services. This relates to the ownership and usage of IT systems across the business                                                                                                          | <ul style="list-style-type: none"> <li>Enhancing resilience of technical infrastructure and process to IT failures or service interruptions</li> <li>Identifying, monitoring and reducing risks in the digital channel, following the introduction of mobile applications and increased online presence</li> </ul>                                                                                                                                                                                                                                                                                                                                       | <ul style="list-style-type: none"> <li>Ongoing identification and remediation of vulnerabilities identified in IT systems, applications and processes</li> <li>Establishing appropriate IT resilience to support our global digital offerings and 24/7 business services</li> <li>Maintaining and testing IT recovery capabilities to safeguard against disruptions that may result from systems failures or IT service outages</li> </ul>                                                                                                                                                                                                                                                                  |



## 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.

### Business continuity management

The group continues to enhance its global business continuity management capability which incorporates an appropriate level of resilience built into the bank's operations to lessen the impact of severe operational disruptions.

In the event of a major interruption, incident management teams will respond accordingly to manage the disruption. Continuity will be achieved through a flexible and adaptable response, which includes relocating impacted business to the designated recovery site and the reliance on highly available technological solutions. Dedicated resources ensure all governance processes are in place with business and technology teams responsible for ensuring the recovery process meets key business requirements to support client and industry expectations.

The group conducts regular business continuity exercises and testing of recovery strategies to ensure that its recovery capability remains appropriate and fit-for-purpose.

We are active participants in risk mitigation discussions amongst industry bodies to ensure we stay abreast with industry views, concerns and associated collaborative efforts to minimise the risk of interruptions.

### Recovery and resolution planning

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

The recovery plans for Investec Limited:

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

Financial Stability Board member countries are required to have recovery and resolution plans in place for all systemically significant financial institutions. The 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. A discussion document for public comment has been issued during the period under review. 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 a potentially unacceptable level of damage to our reputation. Transaction approval governance structures such as credit, engagement and new product committees have therefore been tasked with this responsibility in relation to all new business undertaken. A disclosure and public communications policy has also been approved by the board.

### Legal risk management

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

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

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

- Relationship contracts
- Legislation/governance

- Litigation
- Corporate events
- Incident or crisis management
- Ongoing quality control.

The legal risk policy is implemented through:

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

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

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

## Conduct risk

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

## Capital management and allocation

### REGULATORY CAPITAL – INVESTEC BANK LIMITED



#### Current regulatory framework

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

Since 1 January 2013, Investec Bank Limited has been calculating capital resources and requirements at a group level using the Basel III framework, as implemented in South Africa by the SARB, in accordance with the Bank's Act and all related regulations.

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

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

each regulated entity, with the support of the group's capital management functions, ensures that capital remains prudently above minimum requirements at all times.

### CAPITAL TARGETS

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

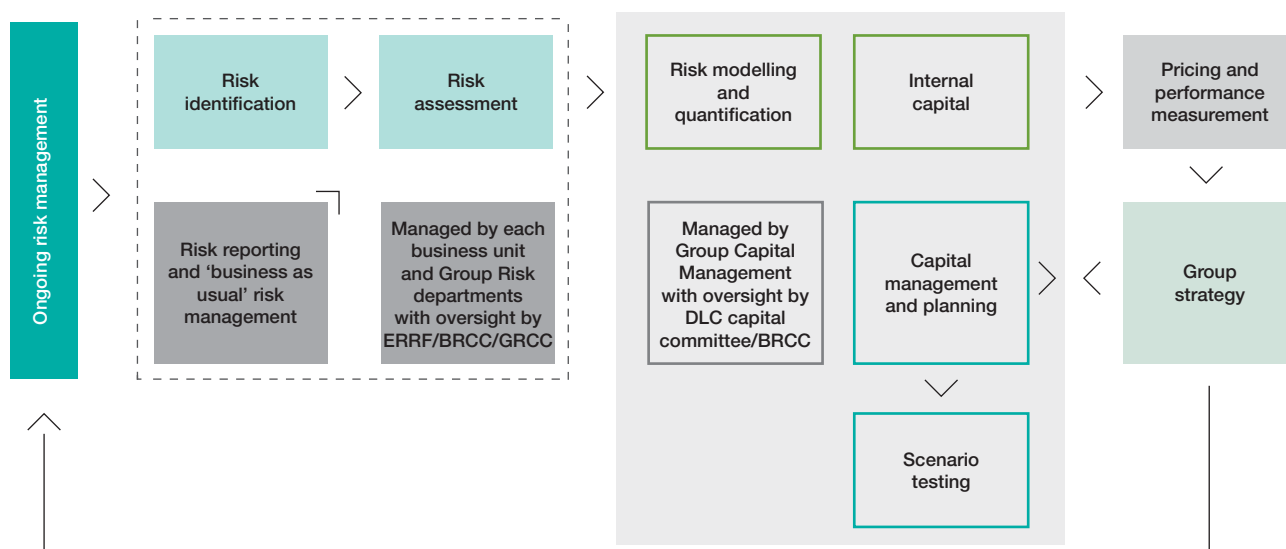
The DLC capital committee is responsible for ensuring that the impact of any regulatory change is analysed, understood, prepared and planned for. To allow the committee to carry out this function the group's regulatory and capital management teams closely monitor regulatory developments and regularly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

### MANAGEMENT OF LEVERAGE

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

## Risk management framework

### THE (SIMPLIFIED) INTEGRATION OF RISK AND CAPITAL MANAGEMENT



#### LEVERAGE RATIO TARGET

Investec is currently targeting a leverage ratio above 6%, but will continue to reassess this target for appropriateness pending the outcome of the EBA's report in July 2016.

#### 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 ASSESSMENT AND REPORTING

We review the business continuously to maintain a close understanding of our universe of risks, which are analysed through the risk management governance framework under stewardship of BRCC. Key risks are reviewed and debated by senior management on a continuous basis. Assessment of the materiality of risks is directly linked to the board's stated risk appetite and approved risk management policies covering all key risks.

Key identified risks are monitored by Group Risk Management and by Internal Audit

to ensure that each risk is managed to an acceptable level. Detailed performance and control metrics of these risks are reported to each ERRF and BRCC meeting including, where appropriate, the results of scenario testing. Key risk types that are considered fall within the following:

- Credit and counterparty risk
- Market risk
- Equity and investment risk in the banking book
- Balance sheet liquidity and non-trading interest rate risk
- Operational, conduct and reputational risk
- Legal risk (considered within operational risk for capital purposes).

Each of these risk categories may consist of a number of specific risks, each of which are analysed in detail and managed by ERRF, GRCC and BRCC.

#### RISK MODELLING AND QUANTIFICATION (INTERNAL CAPITAL)

Internal capital requirements are quantified by analysis of the potential impact of key risks to a degree consistent with our risk appetite. Internal capital requirements are supported by the board-approved risk assessment process described above.

Quantification of all risks is based on analysis of internal data, management expertise and judgement, and external benchmarking.

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

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

## CAPITAL PLANNING AND STRESS/SCENARIO TESTING

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

Capital planning is performed regularly, with regulatory capital being the key driver of decision-making. The goal of capital planning is to provide insight into potential sources of vulnerability of capital adequacy by way of market, economic or internal events. As such, we stress the capital plans based on conditions most likely to place us

under duress. The conditions themselves are agreed by the DLC capital committee after research and consultation with relevant internal experts. Such plans are used by management to formulate balance sheet strategy and agree management actions, trigger points and influence the determination of our risk appetite.

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

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

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

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

## PRICING AND PERFORMANCE MEASUREMENT

The use of internal capital as an allocation tool means that all transactions are considered in the context of their contribution to return on risk-adjusted capital. This ensures that expected returns

are sufficient after taking recognition of the inherent risk generated for a given transaction. This approach allows us to embed risk and capital discipline at the level of deal initiation. Using expectations of risk-based returns as the basis for pricing and deal acceptance ensures that risk management retains a key role in ensuring that the portfolio is appropriately managed for that risk.

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

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

## REGULATORY CAPITAL AND REQUIREMENTS

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

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



## Risk management

(continued)

### CAPITAL DISCLOSURES

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

### CAPITAL MANAGEMENT AND ALLOCATION

#### Capital structure and capital adequacy



Summary information on the terms and conditions of the main features of all capital instruments is provided on pages 75 to 77.

| At 31 March<br>R'million                                  | 2016           | 2015           |
|-----------------------------------------------------------|----------------|----------------|
| <b>Tier 1 capital</b>                                     |                |                |
| Shareholders' equity                                      | 30 331         | 27 365         |
| Shareholders' equity per balance sheet                    | 31 865         | 28 899         |
| Perpetual preference share capital and share premium      | (1 534)        | (1 534)        |
| Regulatory adjustments to the accounting basis            | 1 839          | 1 140          |
| Cash flow hedging reserve                                 | 1 839          | 1 140          |
| Deductions                                                | (695)          | (190)          |
| Goodwill and intangible assets net of deferred tax        | (695)          | (190)          |
| <b>Common equity tier 1 capital</b>                       | <b>31 475</b>  | <b>28 315</b>  |
| <b>Additional tier 1 capital before deductions</b>        | <b>920</b>     | <b>1 073</b>   |
| Additional tier 1 instruments                             | 1 534          | 1 534          |
| Phase out of non-qualifying additional tier 1 instruments | (614)          | (461)          |
| <b>Total tier 1 capital</b>                               | <b>32 395</b>  | <b>29 388</b>  |
| <b>Tier 2 capital</b>                                     | <b>10 726</b>  | <b>10 319</b>  |
| Collective impairment allowances                          | 229            | 169            |
| Tier 2 instruments                                        | 10 732         | 10 449         |
| Phase out of non-qualifying tier 2 instruments            | (235)          | (299)          |
| <b>Total regulatory capital</b>                           | <b>43 121</b>  | <b>39 707</b>  |
| <b>Risk-weighted assets</b>                               | <b>295 752</b> | <b>257 931</b> |
| <b>Capital ratios</b>                                     |                |                |
| Common equity tier 1 ratio                                | 10.6%          | 11.0%          |
| Tier 1 ratio                                              | 11.0%          | 11.4%          |
| Total capital adequacy ratio                              | 14.6%          | 15.4%          |



CAPITAL MANAGEMENT AND ALLOCATION (CONTINUED)

Capital requirements

| At 31 March<br>R'million                               | 2016          | 2015          |
|--------------------------------------------------------|---------------|---------------|
| <b>Capital requirements</b>                            | <b>30 684</b> | <b>25 794</b> |
| Credit risk – prescribed standardised exposure classes | 23 603        | 19 073        |
| Corporates                                             | 13 278        | 11 505        |
| Secured on real estate property                        | 2 943         | 1 923         |
| Short-term claims on institutions and corporates       | 4 876         | 3 242         |
| Retail                                                 | 483           | 549           |
| Institutions                                           | 813           | 872           |
| Other exposure classes                                 | 806           | 277           |
| Securitisation exposures                               | 404           | 705           |
| Equity risk                                            | 4 005         | 4 297         |
| Listed equities                                        | 305           | 847           |
| Unlisted equities                                      | 3 700         | 3 450         |
| Counterparty credit risk                               | 569           | 576           |
| Credit valuation adjustment risk                       | 185           | 32            |
| Market risk                                            | 475           | 324           |
| Interest rate                                          | 66            | 88            |
| Foreign exchange                                       | 212           | 113           |
| Commodities                                            | 4             | 10            |
| Equities                                               | 193           | 113           |
| Operational risk – standardised approach               | 1 847         | 1 492         |

Risk-weighted assets

| At 31 March<br>R'million                               | 2016           | 2015           |
|--------------------------------------------------------|----------------|----------------|
| <b>Risk-weighted assets</b>                            | <b>295 752</b> | <b>257 931</b> |
| Credit risk – prescribed standardised exposure classes | 227 504        | 190 717        |
| Corporates                                             | 127 985        | 115 047        |
| Secured on real estate property                        | 28 361         | 19 230         |
| Short-term claims on institutions and corporates       | 47 001         | 32 420         |
| Retail                                                 | 4 660          | 5 488          |
| Institutions                                           | 7 838          | 8 717          |
| Other exposure classes                                 | 7 766          | 2 770          |
| Securitisation exposures                               | 3 893          | 7 045          |
| Equity risk                                            | 38 603         | 42 967         |
| Listed equities                                        | 2 937          | 8 472          |
| Unlisted equities                                      | 35 666         | 34 495         |
| Counterparty credit risk                               | 5 486          | 5 762          |
| Credit valuation adjustment risk                       | 1 783          | 324            |
| Market risk                                            | 4 578          | 3 240          |
| Interest rate                                          | 636            | 878            |
| Foreign exchange                                       | 2 039          | 1 134          |
| Commodities                                            | 46             | 96             |
| Equities                                               | 1 857          | 1 132          |
| Operational risk – standardised approach               | 17 798         | 14 921         |



## Risk management

(continued)

### 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<br>R'million                                                | 2016          | 2015          |
|-------------------------------------------------------------------------|---------------|---------------|
| <b>Opening common equity tier 1 capital</b>                             | <b>28 315</b> | <b>24 487</b> |
| Dividends                                                               | (120)         | (135)         |
| Profit after taxation                                                   | 3 475         | 3 128         |
| Movement in other comprehensive income                                  | (389)         | 305           |
| Goodwill and intangible assets (deduction net of related tax liability) | (505)         | (88)          |
| Other, including regulatory adjustments and transitional arrangements   | 699           | 618           |
| <b>Closing common equity tier 1 capital</b>                             | <b>31 475</b> | <b>28 315</b> |
| Opening additional tier 1 capital                                       | 1 073         | 1 227         |
| Other, including regulatory adjustments and transitional arrangements   | (153)         | (154)         |
| <b>Closing additional tier 1 capital</b>                                | <b>920</b>    | <b>1 073</b>  |
| <b>Closing tier 1 capital</b>                                           | <b>32 395</b> | <b>29 388</b> |
| <b>Opening tier 2 capital</b>                                           | <b>10 319</b> | <b>10 670</b> |
| New tier 2 capital issues                                               | 1 360         | –             |
| Redeemed capital                                                        | (1 283)       | (250)         |
| Collective impairment allowances                                        | 60            | (2)           |
| Other, including regulatory adjustments and transitional arrangements   | 270           | (99)          |
| <b>Closing tier 2 capital</b>                                           | <b>10 726</b> | <b>10 319</b> |
| <b>Closing total regulatory capital</b>                                 | <b>43 121</b> | <b>39 707</b> |

### A SUMMARY OF CAPITAL ADEQUACY AND LEVERAGE RATIOS

| As at 31 March                                    | 2016              | 2015              |
|---------------------------------------------------|-------------------|-------------------|
| Common equity tier 1 (as reported)                | 10.6%             | 11.0%             |
| Common equity tier 1 (fully loaded) <sup>^^</sup> | 10.6%             | 10.9%             |
| Tier 1 (as reported)                              | 11.0%             | 11.4%             |
| Total capital adequacy ratio (as reported)        | 14.6%             | 15.4%             |
| Leverage ratio* – permanent capital               | 7.5% <sup>#</sup> | 8.5% <sup>#</sup> |
| Leverage ratio* – current                         | 7.3% <sup>#</sup> | 8.3% <sup>#</sup> |
| Leverage ratio* – 'fully loaded' <sup>^^</sup>    | 7.1% <sup>#</sup> | 8.0% <sup>#</sup> |

<sup>#</sup> Based on revised BIS rules.

<sup>^^</sup> 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.



SUMMARY COMPARISON OF ACCOUNTING ASSETS VERSUS LEVERAGE RATIO EXPOSURE MEASURE

| Line # | At 31 March                                                                                                                                                         | 2016<br>R'million | 2015<br>R'million |
|--------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| 1      | Total consolidated assets as per published financial statements                                                                                                     | 405 629           | 332 706           |
|        | Adjustments for:                                                                                                                                                    |                   |                   |
| 2      | Investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation | –                 | –                 |
| 3      | Fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure               | –                 | –                 |
| 4      | Derivative financial instruments                                                                                                                                    | (2 973)           | (1 989)           |
| 5      | Securities financing transactions (i.e. repos and similar secured lending)                                                                                          | 389               | (2 756)           |
| 6      | Off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)                                                               | 38 519            | 24 960            |
| 7      | Other adjustments                                                                                                                                                   | (693)             | (190)             |
| 8      | <b>Leverage ratio exposure</b>                                                                                                                                      | <b>440 871</b>    | <b>352 731</b>    |

LEVERAGE RATIO COMMON DISCLOSURE TEMPLATE

| Line # | At 31 March                                                                                                                              | 2016<br>R'million | 2015<br>R'million |
|--------|------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
|        | <b>Leverage ratio framework</b>                                                                                                          |                   |                   |
| 1      | On-balance sheet items (excluding derivatives and SFTs, but including collateral)                                                        | 350 873           | 307 433           |
| 2      | Asset amounts deducted in determining Basel III Tier 1 capital                                                                           | (693)             | (190)             |
| 3      | <b>Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)</b>                                          | <b>350 180</b>    | <b>307 243</b>    |
| 4      | Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)                               | 9 673             | 8 081             |
| 5      | Add-on amounts for PFE associated with all derivatives transactions                                                                      | 3 197             | 5 108             |
| 6      | Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework | –                 | –                 |
| 7      | Deductions of receivables assets for cash variation margin provided in derivatives transactions                                          | –                 | –                 |
| 8      | Exempted CCP leg of client-cleared trade exposures                                                                                       | –                 | –                 |
| 9      | Adjusted effective notional amount of written credit derivatives                                                                         | –                 | –                 |
| 10     | Adjusted effective notional offsets and add-on deductions for written credit derivatives                                                 | –                 | –                 |
| 11     | <b>Total derivative exposures (sum of lines 4 to 10)</b>                                                                                 | <b>12 870</b>     | <b>13 189</b>     |
| 12     | Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions                                     | 34 936            | 6 672             |
| 13     | Netted amounts of cash payables and cash receivables of gross SFT assets                                                                 | –                 | –                 |
| 14     | Counterparty Credit Risk (CCR) exposures for SFT assets                                                                                  | 4 366             | 667               |
| 15     | Agent transaction exposures                                                                                                              | –                 | –                 |
| 16     | <b>Total securities financing transaction exposures (sum line 12 to 15)</b>                                                              | <b>39 302</b>     | <b>7 339</b>      |
| 17     | Off-balance sheet exposure at gross notional amount                                                                                      | 90 589            | 80 821            |
| 18     | Adjustments for conversion to credit equivalent amounts                                                                                  | (52 070)          | (55 861)          |
| 19     | <b>Off-balance sheet items (sum line 17 and 18)</b>                                                                                      | <b>38 519</b>     | <b>24 960</b>     |
| 20     | Tier 1 capital                                                                                                                           | 32 395            | 29 388            |
| 21     | <b>Total exposures (sum of lines 3, 11, 16 and 19)</b>                                                                                   | <b>440 871</b>    | <b>352 731</b>    |
| 22     | <b>Basel III leverage ratio</b>                                                                                                          | <b>7.3%</b>       | <b>8.3%</b>       |



## Credit ratings

In terms of our dual listed companies structure, Investec plc and Investec Limited are treated separately from a credit point of view. As a result, the rating agencies have assigned ratings to the significant banking entities within the group, namely Investec Bank plc and Investec Bank Limited. Certain rating agencies have assigned ratings to the holding companies, namely Investec plc and Investec Limited. Our ratings are as follows:

| Rating agency                     | Investec Limited | Investec Bank Limited – a subsidiary of Investec Limited |
|-----------------------------------|------------------|----------------------------------------------------------|
| <b>FITCH</b>                      |                  |                                                          |
| <b>Long-term ratings</b>          |                  |                                                          |
| Foreign currency                  | BBB-             | BBB-                                                     |
| National                          |                  | AA-(zaf)                                                 |
| <b>Short-term ratings</b>         |                  |                                                          |
| Foreign currency                  | F3               | F3                                                       |
| National                          |                  | F1+(zaf)                                                 |
| <b>Viability rating</b>           | bbb-             | bbb-                                                     |
| <b>Support rating</b>             | 5                | 3                                                        |
| <b>MOODY'S</b>                    |                  |                                                          |
| <b>Long-term ratings</b>          |                  |                                                          |
| Foreign currency                  |                  | Baa2                                                     |
| National                          |                  | A1.(za)                                                  |
| <b>Short-term ratings</b>         |                  |                                                          |
| Foreign currency                  |                  | Prime-2                                                  |
| National                          |                  | P-1 (za)                                                 |
| <b>Baseline credit assessment</b> |                  | baa2                                                     |
| <b>S&amp;P</b>                    |                  |                                                          |
| <b>Long-term ratings</b>          |                  |                                                          |
| Foreign currency                  |                  | BBB-                                                     |
| National                          |                  | za.AA-                                                   |
| <b>Short-term ratings</b>         |                  |                                                          |
| Foreign currency                  |                  | A-3                                                      |
| National                          |                  | za.A-1                                                   |
| <b>GLOBAL CREDIT RATINGS</b>      |                  |                                                          |
| <b>Local currency</b>             |                  |                                                          |
| Short-term rating                 |                  | A1+(za)                                                  |
| Long-term rating                  |                  | AA-(za)                                                  |

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*Internal Audit 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*

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The head of internal audit reports at each audit committee meeting and has a direct reporting line to the chairman of the audit committee as well as the appropriate chief executive officers. The head of internal audit operates independently of executive management but has regular access to their chief executive officer and to business unit executives. The head of internal audit is responsible for coordinating internal audit efforts to ensure departmental skills are leveraged to maximise efficiency. For administrative purposes the head of internal audit also reports to the global head of corporate governance and compliance. The function complies with the International Standards for the Professional Practice of Internal Auditing, and is subject to an independent Quality Assurance Review (QAR) at appropriate intervals. The most recent independent QAR benchmarked the function 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 III 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.



The pace of regulatory change in the financial sector has shown little signs of abating, and the pressure the industry has faced to implement various regulatory initiatives, has continued to be resource intensive. In addition, the scale and frequency of regulatory fines and redress orders continues to impact firm's balance sheets with the regulators' intensive and intrusive approach to supervision expected to continue for the foreseeable future.

Global regulators have continued to focus on promoting stability and resilience in financial markets, with increasing 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 to professional standards and integrity in each of our jurisdictions. Our culture is a major component of 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 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. 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.

### CONDUCT RISK AND CONSUMER PROTECTION

The draft Financial Sector Regulation Bill (Twin Peaks) was tabled in Parliament in the third quarter of 2015, and is currently in the Parliamentary process. The Bill is expected to be promulgated towards the latter part of 2016, and will result in affected business areas being regulated by the Prudential Authority and the Financial Sector Conduct Authority.

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. A Customer and market conduct committee (CMCC) has been established for Investec Limited, as part of the Conduct Risk framework, with the objective to ensure that Investec Limited maintains a client-focused and fair outcomes-based culture. The CMCC is chaired by the group CEO. Conduct risk forums are being implemented across affected legal entities to ensure that identified gaps are addressed and business readiness for implementation of new regulatory requirements. The work in this regard is ongoing and will remain a focus area.

The South African Reserve Bank 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 Traders' Communications during 2012. There were no material findings. Investec Corporate and Institutional Banking (ICIB) implemented a Financial Markets Code of Conduct and comprehensive monitoring of traders' communications.

Amendments to the National Credit Act have increased the obligations of credit providers in respect of affordability assessments, and has extended the powers of the National Credit Regulator in respect of enforcement and rule-making powers.

A commencement date for the Protection of Personal Information Act has not been announced. The Chief Director for Legislative Development at the Department of Justice and Constitutional Development confirmed that there will be no further developments until the Information Regulator has been established. Work continues internally on data protection and information management.

### FINANCIAL CRIME

Financial crime continues to be a regulatory focus with amendments to governing legislation proposed for later this year. This legislation 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. All accountable institutions are further affected by the Financial Intelligence Centre's intended move to a new automated solution (GoAML) for reporting, which is scheduled to go live in April 2016.

Investec continually aims to strengthen its control environment in order to meet its regulatory obligations.

### TAX REPORTING

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).

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. As for FATCA, the information is reported 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.

Mauritius has indicated that it will opt into CRS from 2017.



## Chairman's introduction

I am pleased to present the 2016 annual corporate governance report which sets out Investec Bank Limited's approach to corporate governance.

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

Investec Bank Limited is a major subsidiary of Investec Limited and due to the DLC operational structure, compliance with many of the specific corporate governance requirements is at the group DLC level. We encourage all stakeholders to read the corporate governance report that follows in conjunction with Investec's 2016 integrated annual report which provides a more detailed review including reports from the various board committee chairmen which provide an explanation of how those committees discharge their duties in respect of both the group and Investec Bank Limited.

Before looking at the summary of our corporate governance philosophy and practices, in the report which follows, I would like to comment on some key developments during the last year and to look at some of the priorities identified for the next year. Firstly, however, I would like to provide some important context regarding our culture, values and philosophies, which are and will continue to be at the core to everything we do.

## OUR CULTURE, VALUES AND PHILOSOPHY

Sound corporate governance depends upon much more than processes and procedures, it fundamentally depends upon the people and the culture within an organisation. At Investec, sound corporate governance is embedded in our values, culture, processes, functions and organisational structure. Our values require that directors and employees behave with integrity, displaying consistent and uncompromising moral strength in order to promote and maintain trust. The board sets the tone from the top in the manner in which it conducts itself and oversees the structures and the framework for corporate governance. Each business area and every employee of the group is responsible for acting in accordance with our values

and philosophies and we conduct our business and measure behaviour and practices against them so as to ensure that we demonstrate the characteristics of good governance.

## The past year in focus

### MANAGEMENT SUCCESSION AND EXECUTIVE DIRECTORS

Succession planning has remained a key area of focus during the year. Investec announced in November 2015 that, in pursuit of sustained growth across its businesses, Investec restructured certain operating responsibilities with the aim of achieving the following broad objectives:

- to maintain differentiated businesses that are integrated and coordinated under the Investec brand, while focused on providing the best solution for the client;
- to facilitate the growth of businesses with direct management responsibility and accountability; and
- to ensure talented future leaders are in place for the long-term success of the group.

Changes included the appointment of Ciaran Whelan and David van der Walt as joint global heads of the Specialist Bank, and the appointment of Richard Wainwright, chief executive officer of Investec Bank Limited in South Africa. Investec has always maintained a policy of growing talent from within, and the majority of the group's leaders have an extensive history with the group and are valued for their institutional knowledge and expertise. The changes implemented have positioned Investec for sustained growth with an enhanced operational focus. Stephen Koseff remains group chief executive officer and Bernard Kantor group managing director.

While non-executive appointments are based on merit and overall suitability for the role, the nominations and directors' affairs committee (NOMDAC) remains mindful of the value of diversity as it considers any recommendations for the board.

The board of Investec Bank Limited, on the recommendation of the NOMDAC and following regulatory approval, appointed Richard Wainwright as the chief executive officer on 1 February 2016. Karl Socikwa did not seek re-election at the August 2015

annual general meeting and subsequently stepped down from the board with effect from 6 August 2015.

## Priorities for the new year

In broad terms, our priorities for 2016 from a corporate governance perspective, are as follows:

### BOARD EFFECTIVENESS

An independent review of the effectiveness of the board was undertaken during 2015. In broad terms, the board was satisfied that it was operating effectively. The board has agreed an action plan to address areas identified for improvement, and will monitor progress against this plan.

### MANAGEMENT SUCCESSION

The changes described above have helped to position the company to meet the challenges of the future. Having implemented these changes, ensuring the restructure is embedded and is operating effectively will be a key area of focus.

### CULTURE AND VALUES

Our culture and values have always been at the heart of how we operate, and we believe the strength with which these are embedded and lived throughout the organisation distinguishes Investec from others. Safeguarding our culture to ensure good conduct, ethical practice will promote the delivery of our long-term success and will remain a key focus of the board.

### GOVERNANCE FRAMEWORK

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

A diagram of the group's governance framework as well as reports on the various board committees can be found in the corporate governance report of Investec's 2016 integrated annual report.



## BOARD COMMITTEES

The DLC (combined) board committees of Investec Limited and Investec plc act as the board committees of Investec Bank Limited as well. The reports by the chairmen of these committees can be found in the corporate governance report of Investec's 2016 integrated annual report.

- Audit committee:

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

- Social and ethics committee:

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

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

- The DLC remuneration committee acts as the remuneration committee for the group (including Investec Bank Limited) and the report from the remuneration committee, explaining the group's policies and processes, as well as required disclosures can be found on pages 42 to 103.

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

## Conclusion

The governance framework and structures that are in place ensure that the company is able to maintain the highest standards of corporate governance. Some key aspects of the framework are described below, and in greater detail in the governance report of Investec's 2016 integrated annual report.



**Fani Titi**  
Chairman

9 June 2016

## Board statement

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

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

### KING III

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



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

## Financial reporting and going concern

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

- Budgeting and forecasts
- Profitability
- Capital
- Liquidity.

The board is of the opinion, based on its knowledge of the bank, key processes in operation and specific enquiries, that there are adequate resources to support the bank as a going concern for the foreseeable future.



**Further information on the bank's liquidity and capital position is provided on pages 59 to 70 of this report.**

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

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

In undertaking this responsibility, the directors are supported by an ongoing process for identifying, evaluating and managing the significant risks Investec faces in preparing the financial and other information contained in this integrated annual report. This process was in place for the year under review and up to the date of approval of the integrated annual report and financial statements. The process is implemented by management and independently monitored for effectiveness by the audit, risk and other sub-committees of the board.

## Management and succession planning

Global business unit heads, geographic management and the heads of central and group service functions are appointed by executive management and endorsed by the board, based on the skills and experience deemed necessary to perform the required function. In general, managers do not have fixed-term employment contracts and there are no employment contracts with managers for a term of more than three years.

Our management structure, reporting lines and the division of responsibilities are built around a geographic, divisional and functional network. Each strategic business unit has a management committee and is responsible for implementing operational decisions, managing risk and aligning divisional objectives with the group strategy and vision.

## Management succession

Succession planning has remained a key area of focus during the year. Investec announced in November 2015 that, in pursuit of sustained growth across its businesses, Investec restructured certain operating responsibilities with the aim of achieving the following broad objectives:

- to maintain differentiated businesses that are integrated and coordinated under the Investec brand, while focused on providing the best solution for the client;
- to facilitate the growth of businesses with direct management responsibility and accountability; and
- to ensure talented future leaders are in place for the long-term success of the group.

## Risk management

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

The independent group risk management functions, accountable to group boards are responsible for establishing, reviewing and monitoring the process of risk management. Group Risk Management reports regularly to the BRCC, GRCC and ERRF.



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

## Internal control

Risks and controls are reviewed and monitored regularly for relevance and effectiveness. The GRCC, BRCC and audit committees assist the board in this regard. Sound risk management practices are promoted by the group risk management function, which is independent of operational management. The board recognises its responsibility for the overall risk and control framework and for reviewing its effectiveness.

Internal control is designed to mitigate, not eliminate, significant risks faced. It is recognised that such a system provides reasonable, but not absolute, assurance against material error, omission, misstatement or loss. This is achieved

within the group through a combination of risk identification, evaluation and monitoring processes, appropriate decision and oversight forums, and assurance and control functions such as group Risk Management, Internal Audit and Compliance. These ongoing processes were in place throughout the year under review and up to the date of approval of the integrated annual report and accounts.

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

## Conflict of interests

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

## Internal financial controls

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

Processes are in place to monitor internal control effectiveness, identify and report material breakdowns, and ensure that timely and appropriate corrective action

is taken. Group Finance and Investor Relations coordinate, review and comment on the monthly financial and regulatory reports, and facilitate the interim and annual financial reporting process, including the independent external audit process.

## Board of directors

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

For further detail of the functions of the board of Investec Bank Limited, as included with the functions of the boards of Investec Limited and Investec plc, performed directly or through board committees, refer to Investec's 2016 integrated annual report.

## MEMBERSHIP

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

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

During the year under review we appointed Richard Wainwright as an executive director and the chief executive officer. All directors are subject to election at the first annual general meeting following their appointment. Thereafter and in accordance with King III, a third of the non-executive directors should retire by rotation and accordingly, Zarina Bibi Mahomed Bassa, Khumo Lesego Shuenyane and Fani Titi will offer themselves for re-election at the 2016 annual general meeting.





## Corporate governance

(continued)

The names of the directors at the date of this report, the year of their appointment and their independence status, are set out in the table below.

|                                             | Date of appointment | Independent |
|---------------------------------------------|---------------------|-------------|
| <b>EXECUTIVE DIRECTORS</b>                  |                     |             |
| RJ Wainwright (chief executive officer)     | 1 February 2016     |             |
| S Koseff (group chief executive officer)    | 30 June 1990        |             |
| B Kantor (group managing director)          | 30 June 1990        |             |
| DM Lawrence (deputy chairman)               | 1 July 1997         |             |
| GR Burger (group risk and finance director) | 30 June 1990        |             |
| B Tapnack                                   | 1 July 1997         |             |
| <b>NON-EXECUTIVE DIRECTORS</b>              |                     |             |
| F Titi (chairman)                           | 3 July 2002         | Yes         |
| SE Abrahams                                 | 1 July 1997         | Yes         |
| ZBM Bassa                                   | 1 November 2014     | Yes         |
| D Friedland                                 | 1 March 2013        | Yes         |
| KL Shuenyane                                | 8 August 2014       | Yes         |
| PRS Thomas                                  | 1 July 1997         | Yes         |

Karl Socikwa did not offer himself for re-election at the August 2015 annual general meeting of Investec Bank Limited and subsequently stepped down from the board.

### INDEPENDENCE

At 31 March 2016, 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 nonexecutive directors is detailed below.

#### Tenure

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

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

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

### Relationships and associations

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

### Attendance at credit meetings

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

### BOARD MEETINGS

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

Details of directors' attendance at board meetings during the financial year ended 31 March 2016:

|                                             | Number of meetings attended of the six held during the year |
|---------------------------------------------|-------------------------------------------------------------|
| <b>EXECUTIVE DIRECTORS</b>                  |                                                             |
| RJ Wainwright* (chief executive officer)    | 1                                                           |
| S Koseff (group chief executive officer)    | 6                                                           |
| B Kantor (group managing director)          | 6                                                           |
| DM Lawrence (deputy chairman)               | 6                                                           |
| GR Burger (group risk and finance director) | 6                                                           |
| B Tapnack                                   | 5                                                           |
| <b>NON-EXECUTIVE DIRECTORS</b>              |                                                             |
| F Titi (chairman)                           | 6                                                           |
| SE Abrahams                                 | 6                                                           |
| ZBM Bassa                                   | 6                                                           |
| D Friedland                                 | 6                                                           |
| KXT Socikwa**                               | 2                                                           |
| KL Shuenyane                                | 6                                                           |
| PRS Thomas                                  | 5                                                           |

\* RJ Wainwright was appointed to the board with effect from 1 February 2016, and was therefore only eligible to attend meetings held after 1 February 2016.

\*\* KXT Socikwa did not offer himself for re-election at the annual general meeting held on 6 August 2015, and was therefore only eligible to attend meetings held prior to 6 August 2015.



## SKILLS, KNOWLEDGE, EXPERIENCE AND ATTRIBUTES OF DIRECTORS

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

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

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

## BOARD AND DIRECTORS' PERFORMANCE EVALUATION

The 2016 board effectiveness was conducted by an external independent facilitator, Professor Rob Goffee of the London Business School. Professor Goffee has no connection with the group. Directors each completed a questionnaire and met with Professor Goffee in order to identify future challenges, current strengths and provide insight to how the board functions. Findings were collated and presented at the January 2016 board meeting. While the review concluded that the board was operating effectively with particular strengths in the areas of corporate governance, the functioning of the audit committee, risk management, leadership and teamwork, there were areas where the board felt it could improve. Key themes to emerge from the effectiveness review included:

- Appropriate and rigorous performance objectives
- Ratio of executive to non-executive directors
- Contribution to setting of strategic objectives.

## TERMS OF APPOINTMENT

On appointment, non-executive directors are provided with a letter of appointment. The letter sets out, among other things, duties, responsibilities and expected time commitments, details of our policy

on obtaining independent advice and, where appropriate, details of the board committees of which the non-executive director is a member. We have an insurance policy that insures directors against liabilities they may incur in carrying out their duties. On the recommendation of the NOMDAC, non-executive directors will be appointed for an expected term of nine years (three times three-year terms) from the date of their first appointment to the board.

## ONGOING TRAINING AND DEVELOPMENT

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

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

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

Following the board's and directors' performance evaluation process, any training needs are communicated to the company secretary who ensures these needs are addressed.

During the period under review there were a number of director workshops arranged outside of board meetings and some topics covered during the past year included the recovery plan, budgets and anti-money laundering.

## INDEPENDENT ADVICE

Through the chairman or deputy chairman or the company secretary, individual directors are entitled to seek professional independent advice on matters related to the exercise of their duties and responsibilities at the expense of Investec.

No such advice was sought during the 2016 financial year.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the chairman and chief executive officer are distinct and separate. The chairman leads the board and is responsible for ensuring that the board receives accurate, timely and clear information to ensure that the directors can perform their duties effectively. The board does not consider the chairman's external commitments to interfere with his performance and responsibilities to Investec. The board is satisfied that the chairman makes sufficient time available to serve Investec effectively.

The deputy chairman is David Lawrence.

## Company secretary

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

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

In addition, the board confirms that for the period 1 April 2015 to 31 March 2016 Niki did not serve as a director on the board of Investec Bank Limited, nor did she take part in board deliberations and only advised on matters of governance, form or procedure.

## Further disclosures

Refer to Investec's 2016 integrated annual report for more information regarding:

- Remuneration
- Directors' dealings
- Internal audit
- Compliance
- Regulation and supervision
- Values and code of conduct
- Sustainability
- IT governance.



## Investec Bank Limited

(details as at 30 June 2016)

A subsidiary of Investec Limited

### FANI TITI (54)

Non-executive chairman  
*BSc (Hons), MA, MBA*

### DAVID M LAWRENCE (65)

Deputy chairman  
*BA (Econ) (Hons), MCom*

### SAMUEL E ABRAHAMS (77)

*FCA, CA(SA)*

### ZARINA BM BASSA (52)

*BAcc, DipAcc, CA(SA)*

### GLYNN R BURGER (59)

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

### DAVID FRIEDLAND (63)

*BCom, CA(SA)*

### BERNARD KANTOR (66)

*CTA*

### STEPHEN KOSEFF (64)

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

### KHUMO L SHUENYANE (45)

*BEcon, CA(England & Wales)*

### BRADLEY TAPNACK (69)

*BCom, CA(SA)*

### PETER RS THOMAS (71)

*CA(SA)*

### RICHARD J WAINWRIGHT (53)

Chief executive officer  
*BCom, CTA, CA(SA)*

*Note: Karl-Bart XT Socikwa resigned as director effective 6 August 2015*

A decorative graphic consisting of a thick green line that starts horizontally from the left, then curves upwards and to the right, ending as a vertical line on the right side.

# Four

Remuneration  
report



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

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

## Remuneration philosophy

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

We reward employees generally for their contribution through:

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

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

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

The type of people the organisation attracts, and the culture and environment

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

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

## Remuneration principles

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

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



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

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

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

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

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

## Remuneration policy

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

Our policy with respect to remuneration of employees has remained unchanged during the 2016 financial year.

### DETERMINATION OF REMUNERATION LEVELS

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

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

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

Factors considered to determine total compensation for each individual include:

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

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

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

**The following section outlines our remuneration policy in more detail for each element of total compensation as it applies to employees. Our remuneration arrangements for S Koseff, B Kantor and GR Burger can be found in Investec's 2016 integrated annual report.**

## Gross remuneration: base salary and benefits

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

The Human Resources division provides guidelines to business units on recommended salary levels for all employees within the organisation to facilitate the review. These guidelines include a strategic message on how to set salary levels that will aid Investec in meeting its objectives while remaining true to corporate values, and incorporate guidance on increasing levels to take account of the change in the cost of living over the year

to ensure that salary levels always allow employees to afford a reasonable standard of living and do not encourage a reliance on variable remuneration.

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

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

## Variable short-term incentive: annual bonus

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

### RISK-WEIGHTED RETURNS FORM BASIS FOR VARIABLE REMUNERATION LEVELS



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

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

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

The BRCC (comprising both executive and non-executive directors) sets the overall risk appetite for the bank and determines the categories of risk, the specific types of risks

and the extent of such risks which the bank should undertake, as well as the mitigation of risks and overall capital management and allocation process. Senior members of the bank's risk management teams, who provide information for the meeting packs and present and contribute to the committee's discussions, attend these meetings.

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

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

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

Our EVA model as described in detail below is principally applied to realised profits against predetermined targets above risk and capital weighted returns. In terms of the EVA structure, capital is allocated based on risk and therefore the higher the risk, the higher the capital allocation and the higher the hurdle return rate required. This model ensures that risk and capital management

are embedded in key processes at both a bank and transaction level, which form the basis of the bank's performance-related variable remuneration model, thus balancing the interests of all stakeholders.

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

### EVA MODEL: ALLOCATION OF PERFORMANCE-RELATED BONUS POOL

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

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

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

Our EVA model has been consistently applied for a period of about 17 years and encompasses the following elements:

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



- Less: Funding costs
- Less: Impairments for bad debts
- Add back: Debt coupon or preference share dividends paid out of the business (where applicable)
- Less: Direct operating costs (personnel, systems, etc)
- Less: Allocated costs and residual charges (certain independent group functions are provided on a centralised basis, with an allocation model applied to charge out costs incurred to business units. Costs allocated are based on the full operational costs for the particular central service area, inclusive of the variable remuneration cost of the central service. Allocation methodologies generally use cost drivers as the basis of allocation)
- Less: Profits earned on retained earnings and statutory held capital
- Add: Notional profit paid by centre on internal allocated capital
- Equals: Net profits.

- Capital allocated is a function of both regulatory and internal capital requirements, the risk assumed within the business and our overall business strategy
- The bank has always held capital in excess of minimum regulatory requirements, and this principle is perpetuated in our internal capital allocation process. This process ensures that risk and capital discipline is embedded at the level of deal initiation and incorporates independent approval (outside of the business unit) of transactions by the various risk and credit committees



**A detailed explanation of our capital management and allocation process is provided on pages 75 to 81.**

- Internal capital comprises the regulatory capital requirement taking into account a number of specified risks plus a capital buffer which caters, inter alia, for any unspecified or future risks not specifically identified in the capital planning process. The bank then ensures that it actually holds capital in excess of this level of internal capital

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

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

for superior performance, in line with our overarching remuneration policy.

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

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

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

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

- Once the annual audit is complete, line managers in each business unit will make discretionary bonus recommendations for each team member taking into consideration qualitative and quantitative criteria (as mentioned above)
- Bonus recommendations are then subject to an extensive geographic review involving human resources, local management and local remuneration committees
- Thereafter, these recommendations are subject to a global review by executive management before the remuneration committee's review and approval process.

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

## DEFERRAL OF ANNUAL BONUS AWARDS

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

## Long-term incentive: share awards

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

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

In principle all employees are eligible for long-term incentives. Awards are considered by the remuneration committee and made only in the 42-day period following the release of our interim or final financial results in accordance with the Investment Association principles of remuneration: 2014 edition (formerly ABI remuneration principles). These awards comprise three elements, namely:

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

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

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

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



**For further information on the share option and long-term share incentive plans in operation and in which the directors are eligible to participate, refer to Investec's 2016 integrated annual report.**

## Non-executive directors' remuneration

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

## Governance

### COMPLIANCE AND GOVERNANCE STATEMENT

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

### SCOPE OF OUR REMUNERATION POLICY

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

(continued)

## Audited information



### DIRECTORS' ANNUAL REMUNERATION

|                                                                | Salaries,<br>directors'<br>fees and<br>other<br>remuneration<br>2016<br>R | Annual<br>bonus<br>2016*<br>R | Total<br>remuneration<br>expense<br>2016<br>R | Salaries,<br>directors'<br>fees and<br>other<br>remuneration<br>2015<br>R | Annual<br>bonus<br>2015*<br>R | Total<br>remuneration<br>2015<br>R |
|----------------------------------------------------------------|---------------------------------------------------------------------------|-------------------------------|-----------------------------------------------|---------------------------------------------------------------------------|-------------------------------|------------------------------------|
| <b>Executive directors</b>                                     |                                                                           |                               |                                               |                                                                           |                               |                                    |
| RJ Wainwright (chief executive officer) <sup>#</sup>           | 517 778                                                                   | 3 200 000                     | 3 717 778                                     | –                                                                         | –                             | –                                  |
| S Koseff <sup>#</sup> (Investec group chief executive officer) | 2 992 548                                                                 | 5 238 431                     | 8 230 979                                     | 2 493 828                                                                 | 4 064 000                     | 6 557 828                          |
| B Kantor (Investec group managing director)                    | 1 978 544                                                                 | 5 238 431                     | 7 216 975                                     | 1 648 741                                                                 | 4 064 000                     | 5 712 741                          |
| DM Lawrence (deputy chairman)                                  | 1 560 000                                                                 | 2 880 000                     | 4 440 000                                     | 1 462 500                                                                 | 2 880 000                     | 4 342 500                          |
| GR Burger (group risk and finance director)                    | 2 250 000                                                                 | 12 653 213                    | 14 903 213                                    | 2 100 000                                                                 | 10 021 199                    | 12 121 199                         |
| B Tapnack                                                      | 2 080 000                                                                 | 3 000 000                     | 5 080 000                                     | 1 950 000                                                                 | 2 700 000                     | 4 650 000                          |
| <b>Total in Rands</b>                                          | <b>11 378 870</b>                                                         | <b>32 210 075</b>             | <b>43 588 945</b>                             | <b>9 655 069</b>                                                          | <b>23 729 199</b>             | <b>33 384 268</b>                  |
| <b>Non-executive directors</b>                                 |                                                                           |                               |                                               |                                                                           |                               |                                    |
| F Titi (chairman)                                              | 3 861 194                                                                 | –                             | 3 861 194                                     | 2 912 829                                                                 | –                             | 2 912 829                          |
| SE Abrahams                                                    | 1 979 076                                                                 | –                             | 1 979 076                                     | 1 260 000                                                                 | –                             | 1 260 000                          |
| ZBM Bassa <sup>^^</sup>                                        | 290 000                                                                   | –                             | 290 000                                       | 114 583                                                                   | –                             | 114 583                            |
| D Friedland                                                    | 2 255 509                                                                 | –                             | 2 255 509                                     | 2 145 991                                                                 | –                             | 2 145 991                          |
| Sir DJ Prosser <sup>^</sup>                                    | –                                                                         | –                             | –                                             | 114 583                                                                   | –                             | 114 583                            |
| KL Shuenyane <sup>^^</sup>                                     | 290 000                                                                   | –                             | 290 000                                       | 183 333                                                                   | –                             | 183 333                            |
| KXT Socikwa <sup>**</sup>                                      | 212 083                                                                   | –                             | 212 083                                       | 483 500                                                                   | –                             | 483 500                            |
| PRS Thomas                                                     | 2 033 420                                                                 | –                             | 2 033 420                                     | 1 446 578                                                                 | –                             | 1 446 578                          |
| <b>Total in Rands</b>                                          | <b>10 921 282</b>                                                         | <b>–</b>                      | <b>10 921 282</b>                             | <b>8 661 397</b>                                                          | <b>–</b>                      | <b>8 661 397</b>                   |
| <b>Total in Rands</b>                                          | <b>22 300 152</b>                                                         | <b>32 210 075</b>             | <b>54 510 227</b>                             | <b>18 316 466</b>                                                         | <b>23 729 199</b>             | <b>42 045 665</b>                  |

\* As discussed on page 96, a portion of the bonus is received in cash and a portion is deferred with reference to the value of a predetermined number of Investec Limited shares over a three-year period.

<sup>#</sup> S Koseff stepped down as CEO of Investec Bank Limited and RJ Wainwright was appointed as CEO of Investec Bank Limited on 1 February 2016.

<sup>\*\*</sup> KXT Socikwa did not offer himself for re-election at the annual general meeting held on 6 August 2015.

<sup>^</sup> Sir DJ Prosser resigned from the board on 8 August 2014.

<sup>^^</sup> KL Shuenyane was appointed to the board on 8 August 2014 and ZBM Bassa was appointed to the board on 1 November 2014.

DIRECTORS' SHAREHOLDINGS IN INVESTEC PLC AND INVESTEC LIMITED SHARES AT 31 MARCH 2016

|                                                                | Beneficial and non-beneficial interest |                   | % of shares in issue <sup>1</sup> | Beneficial and non-beneficial interest |                  | % of shares in issue <sup>1</sup> |
|----------------------------------------------------------------|----------------------------------------|-------------------|-----------------------------------|----------------------------------------|------------------|-----------------------------------|
|                                                                | Investec plc <sup>2</sup>              |                   | Investec plc                      | Investec Limited <sup>3</sup>          |                  | Investec Limited                  |
|                                                                | 1 April 2015                           | 31 March 2016     | 31 March 2016                     | 1 April 2015                           | 31 March 2016    | 31 March 2016                     |
| <b>Executive directors</b>                                     |                                        |                   |                                   |                                        |                  |                                   |
| RJ Wainwright (chief executive officer) <sup>#</sup>           | –                                      | –                 | –                                 | 458 298                                | 458 298          | 0.2%                              |
| S Koseff <sup>#</sup> (Investec group chief executive officer) | 4 773 200                              | 5 274 035         | 0.9%                              | 1 534 399                              | 1 234 399        | 0.4%                              |
| B Kantor (Investec group managing director)                    | 488 918                                | 832 657           | 0.1%                              | 3 600 500                              | 2 800 500        | 1.0%                              |
| DM Lawrence (deputy chairman)                                  | 749 410                                | 749 410           | 0.1%                              | 200 590                                | 100 590          | 0.0%                              |
| GR Burger (group risk and finance director)                    | 2 848 944                              | 3 316 390         | 0.5%                              | 627 076                                | 327 076          | 0.1%                              |
| B Tapnack                                                      | 75 595                                 | 75 595            | 0.0%                              | 40 000                                 | 40 000           | 0.0%                              |
| <b>Total number</b>                                            | <b>8 936 067</b>                       | <b>10 248 087</b> | <b>1.6%</b>                       | <b>6 460 863</b>                       | <b>4 960 863</b> | <b>1.7%</b>                       |
| <b>Non-executive directors</b>                                 |                                        |                   |                                   |                                        |                  |                                   |
| F Titi (chairman)                                              | –                                      | –                 | –                                 | –                                      | –                | –                                 |
| SE Abrahams                                                    | –                                      | –                 | –                                 | –                                      | –                | –                                 |
| ZBM Bassa <sup>^^</sup>                                        | –                                      | –                 | –                                 | –                                      | –                | –                                 |
| D Friedland                                                    | –                                      | –                 | –                                 | –                                      | –                | –                                 |
| KL Shuenyane <sup>^^</sup>                                     | 19 900                                 | 19 900            | 0.0%                              | –                                      | –                | –                                 |
| KXT Socikwa <sup>*</sup>                                       | –                                      | –                 | –                                 | 250                                    | 250              | 0.0%                              |
| PRS Thomas                                                     | –                                      | –                 | –                                 | –                                      | –                | –                                 |
| <b>Total number</b>                                            | <b>19 900</b>                          | <b>19 900</b>     | <b>0.0%</b>                       | <b>250</b>                             | <b>250</b>       | <b>0.0%</b>                       |
| <b>Total number</b>                                            | <b>8 955 967</b>                       | <b>10 267 987</b> | <b>1.6%</b>                       | <b>6 461 113</b>                       | <b>4 961 113</b> | <b>1.7%</b>                       |

The table above reflects holdings of shares by current directors.

<sup>1</sup> The issued share capital of Investec plc and Investec Limited at 31 March 2016 was 617.4 million and 291.4 million shares, respectively.

<sup>2</sup> The market price of an Investec plc share at 31 March 2016 was £5.13 (2015: £5.61), ranging from a low of £4.03 to a high of £6.47 during the financial year.

<sup>3</sup> The market price of an Investec Limited share as at 31 March 2016 was R109.91 (2015: R100.51), ranging from a low of R93.91 to a high of R121.90 during the financial year.

<sup>#</sup> S Koseff stepped down as CEO of Investec Bank Limited and RJ Wainwright was appointed as CEO of Investec Bank Limited on 1 February 2016.

<sup>\*</sup> KXT Socikwa did not offer himself for re-election at the annual general meeting held on 6 August 2015.

<sup>^^</sup> KL Shuenyane was appointed to the board on 8 August 2014 and ZBM Bassa was appointed to the board on 1 November 2014.

(continued)

## DIRECTORS' INTEREST IN PREFERENCE SHARES AT 31 MARCH 2016

|                            | Investec Bank Limited |               | Investec Limited |               | Investec plc |               |
|----------------------------|-----------------------|---------------|------------------|---------------|--------------|---------------|
|                            | 1 April 2015          | 31 March 2016 | 1 April 2015     | 31 March 2016 | 1 April 2015 | 31 March 2016 |
| <b>Executive directors</b> |                       |               |                  |               |              |               |
| S Koseff                   | 4 000                 | 4 000         | 3 000            | 3 000         | 101 198      | 101 198       |
| DM Lawrence                | 4 000                 | 4 000         | 5 400            | 5 400         | –            | –             |
| B Tapnack                  | 2 000                 | 2 000         | 8 620            | 8 620         | 9 058        | 9 058         |
| RJ Wainwright              | –                     | –             | –                | –             | 18 119       | 18 119        |

- The market price of an Investec plc preference share at 31 March 2016 was R104.00 (2015: R90.21).
- The market price of an Investec Limited preference share at 31 March 2016 was R73.20 (2015: R73.50).
- The market price of an Investec Bank Limited preference share at 31 March 2016 was R79.00 (2015: R83.45).

## DIRECTORS' INTEREST IN OPTIONS AT 31 MARCH 2016

## Investec plc shares

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

## Investec Limited shares

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

## DIRECTORS' INTEREST IN LONG-TERM INCENTIVE PLANS AT 31 MARCH 2016

## Investec Limited shares

| Name          | Date of grant    | Exercise price | Number of Investec Limited shares at 1 April 2015 | Exercised during the year | Options granted/ lapsed during the year | Balance at 31 March 2016 | Market price at date of exercise | Gross gains made on date of exercise | Period exercisable                                                 |
|---------------|------------------|----------------|---------------------------------------------------|---------------------------|-----------------------------------------|--------------------------|----------------------------------|--------------------------------------|--------------------------------------------------------------------|
| DM Lawrence   | 1 July 2010      | Nil            | 25 000                                            | (25 000)                  | –                                       | –                        | R108.95                          | R2 723 883                           | –                                                                  |
| B Tapnack     | 23 December 2011 | Nil            | 100 000                                           | (75 000)                  | –                                       | 25 000                   | R109.87                          | R8 240 250                           | 75% is exercisable on 23 December 2015 and 25% on 23 December 2016 |
|               | 13 June 2013     | Nil            | 50 000                                            | –                         | –                                       | 50 000                   | –                                | –                                    | 75% is exercisable on 13 June 2017 and 25% on 13 June 2018         |
| RJ Wainwright | 11 December 2012 | Nil            | 150 000                                           | –                         | –                                       | 150 000                  | –                                | –                                    | 75% is exercisable on 11 December 2016 and 25% on 11 December 2017 |
|               | 4 June 2013      | Nil            | 150 000                                           | –                         | –                                       | 150 000                  | –                                | –                                    | 75% is exercisable on 4 June 2017 and 25% on 4 June 2018           |
|               | 27 May 2014      | Nil            | 175 000                                           | –                         | –                                       | 175 000                  | –                                | –                                    | 75% is exercisable on 27 May 2018 and 25% on 27 May 2019           |
|               | 1 June 2015      | Nil            | 125 000                                           | –                         | –                                       | 125 000                  | –                                | –                                    | 75% is exercisable on 1 June 2019 and 25% on 1 June 2020           |

These options are not subject to any performance conditions.

DM Lawrence exercised his options and sold 25 000 Investec Limited shares on 7 July 2015, at a share price of R108.95 per share.

B Tapnack exercised his options and sold 75 000 Investec Limited shares on 23 December 2015, at a share price of R109.87 per share.

## DIRECTORS' INTERESTS IN THE INVESTEC PLC EXECUTIVE INCENTIVE PLAN 2013 AT 31 MARCH 2016

### Awards made in respect of the financial year ending 31 March 2013

| Name      | Number of Investec plc shares awarded on 16 September 2013 | Exercise price | Performance period            | Performance conditions met (Y/N) | Shares awarded for performance conditions being met | Total shares | Period exercisable                                                                                               | Retention period                   |
|-----------|------------------------------------------------------------|----------------|-------------------------------|----------------------------------|-----------------------------------------------------|--------------|------------------------------------------------------------------------------------------------------------------|------------------------------------|
| S Koseff  | 600 000                                                    | Nil            | 1 April 2013 to 31 March 2016 | Yes*                             | 204 617                                             | 804 617      | 75% is exercisable on 16 September 2017; and 25% on 16 September 2018, subject to performance criteria being met | 16 September 2017 to 16 March 2018 |
| B Kantor  | 600 000                                                    | Nil            | 1 April 2013 to 31 March 2016 | Yes*                             | 204 617                                             | 804 617      | 75% is exercisable on 16 September 2017; and 25% on 16 September 2018, subject to performance criteria being met | 16 September 2017 to 16 March 2018 |
| GR Burger | 600 000                                                    | Nil            | 1 April 2013 to 31 March 2016 | Yes*                             | 204 617                                             | 804 617      | 75% is exercisable on 16 September 2017; and 25% on 16 September 2018, subject to performance criteria being met | 16 September 2017 to 16 March 2018 |

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



\* The performance criteria in respect of these awards are detailed in Investec's 2016 integrated annual report. The performance period for these awards made in 2013 has now been tested and the results are provided in Investec's 2016 integrated annual report. In terms of this assessment a total number of 804 617 shares have been awarded to S Koseff, B Kantor and GR Burger. These awards are only exercisable in 2017 and 2018 as shown above.

## Awards made in respect of the financial year ending 31 March 2016

| Name      | Date of grant | Exercise price | Number of Investec plc shares at 1 April 2015 | Conditional awards made during the year | Balance at 31 March 2016 | Performance period            | Period exercisable                                                                                                                         | Retention period                                 |
|-----------|---------------|----------------|-----------------------------------------------|-----------------------------------------|--------------------------|-------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|
| S Koseff  | 2 June 2016   | Nil            | –                                             | 314 225                                 | 314 225                  | 1 April 2016 to 31 March 2019 | One third is exercisable on 2 June 2019; one third on 2 June 2020; and one third on 2 June 2021, subject to performance criteria being met | A further six-month retention after vesting date |
| B Kantor  | 2 June 2016   | Nil            | –                                             | 314 225                                 | 314 225                  | 1 April 2016 to 31 March 2019 | One third is exercisable on 2 June 2019; one third on 2 June 2020; and one third on 2 June 2021, subject to performance criteria being met | A further six-month retention after vesting date |
| GR Burger | 2 June 2016   | Nil            | –                                             | 277 801                                 | 277 801                  | 1 April 2016 to 31 March 2019 | One third is exercisable on 2 June 2019; one third on 2 June 2020; and one third on 2 June 2021, subject to performance criteria being met | A further six-month retention after vesting date |

On 2 June 2016, 314 225 nil cost options were awarded to S Koseff and B Kantor and 277 801 to GR Burger. These awards form part of their variable remuneration as approved at the 2015 annual general meeting, in respect of the financial year ending 31 March 2016.



**The performance criteria in respect of these awards are detailed in Investec's 2016 integrated annual report. None of these awards have as yet vested. The face value at grant for these awards amounts to £1 480 000 for S Koseff and B Kantor and £1 308 000 for GR Burger based on an actual share price for Investec plc of £4.71 on 2 June 2016 (date of grant). The awards are subject to 100% of fixed remuneration at face value.**



## Additional remuneration disclosures (unaudited)

### PILLAR III REMUNERATION DISCLOSURES

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



The bank's qualitative remuneration disclosures are provided on pages 92 to 96 and further information is provided in Investec's 2016 integrated annual report.

The information contained in the tables below sets out the bank's quantitative disclosures for the year ended 31 March 2016.

#### Aggregate remuneration by remuneration type

| R'million                                                   | Senior management <sup>^</sup> | Risk takers <sup>^</sup> | Financial and risk control staff <sup>^</sup> | Total        |
|-------------------------------------------------------------|--------------------------------|--------------------------|-----------------------------------------------|--------------|
| <b>Fixed remuneration</b>                                   | 42.5                           | 49.1                     | 164.9                                         | 256.5        |
| <b>Variable remuneration*</b>                               |                                |                          |                                               |              |
| – Cash                                                      | 85.8                           | 85.7                     | 74.2                                          | 245.7        |
| – Deferred shares                                           | 40.1                           | 42.9                     | 1.0                                           | 84.0         |
| – Deferred cash                                             | 29.7                           | –                        | –                                             | 29.7         |
| – Deferred shares – long-term incentive awards**            | 100.4                          | 70.2                     | 63.9                                          | 234.5        |
| <b>Total aggregate remuneration and deferred incentives</b> | <b>298.5</b>                   | <b>247.9</b>             | <b>304.0</b>                                  | <b>850.4</b> |

<sup>^</sup> **Senior management:** all members of our South African general management forum, excluding executive directors.

**Risk takers:** includes anyone (not categorised above) who is deemed to be responsible for a division/function (e.g. lending, balance sheet management, advisory and transactional banking activities) which could be incurring risk on behalf of the bank.

**Financial and risk control staff:** includes everyone in central group finance and central group risk as well as employees responsible for risk and finance functions within the operating business units.

\* Total number of employees receiving variable remuneration was 258.

\*\* Value represents the number of shares awarded multiplied by the applicable share price. These awards were made during the period but have not yet vested. These awards are subject to 75% vesting at the end of four years and the final 25% at the end of five years.

(continued)

### Additional disclosure on deferred remuneration

| R'million                                                                                                           | Senior management <sup>^</sup> | Risk takers <sup>^</sup> | Financial and risk control staff <sup>^</sup> | Total          |
|---------------------------------------------------------------------------------------------------------------------|--------------------------------|--------------------------|-----------------------------------------------|----------------|
| Deferred unvested remuneration outstanding at the beginning of the year                                             | 565.5                          | 368.3                    | 169.6                                         | 1 103.4        |
| Deferred unvested remuneration adjustment – employees that are no longer employed by the bank and reclassifications | (205.4)                        | (103.4)                  | (8.0)                                         | (316.8)        |
| Deferred remuneration awarded in year                                                                               | 170.2                          | 113.1                    | 64.9                                          | 348.2          |
| Deferred remuneration reduced in year through performance adjustments                                               | –                              | –                        | –                                             | –              |
| Deferred remuneration vested in year                                                                                | (46.6)                         | (25.0)                   | (1.6)                                         | (73.2)         |
| <b>Deferred unvested remuneration outstanding at the end of the year</b>                                            | <b>483.7</b>                   | <b>353.0</b>             | <b>224.9</b>                                  | <b>1 061.6</b> |

| R'million                                                                | Senior management <sup>^</sup> | Risk takers <sup>^</sup> | Financial and risk control staff <sup>^</sup> | Total        |
|--------------------------------------------------------------------------|--------------------------------|--------------------------|-----------------------------------------------|--------------|
| <b>Deferred unvested remuneration outstanding at the end of the year</b> |                                |                          |                                               |              |
| – Equity                                                                 | 434.8                          | 284.7                    | 193.7                                         | 913.2        |
| – Cash                                                                   | 48.9                           | –                        | –                                             | 48.9         |
| – Other                                                                  | –                              | –                        | –                                             | –            |
|                                                                          | <b>483.7</b>                   | <b>284.7</b>             | <b>193.7</b>                                  | <b>962.1</b> |

| R'million                                   | Senior management <sup>^</sup> | Risk takers <sup>^</sup> | Financial and risk control staff <sup>^</sup> | Total         |
|---------------------------------------------|--------------------------------|--------------------------|-----------------------------------------------|---------------|
| <b>Deferred remuneration vested in year</b> |                                |                          |                                               |               |
| – For awards made in 2015 financial year    | (18.2)                         | (11.0)                   | (0.7)                                         | (29.9)        |
| – For awards made in 2014 financial year    | (15.0)                         | (6.8)                    | (0.6)                                         | (22.4)        |
| – For awards made in 2013 financial year    | (13.4)                         | (7.2)                    | (0.3)                                         | (20.9)        |
|                                             | <b>(46.6)</b>                  | <b>(25.0)</b>            | <b>(1.6)</b>                                  | <b>(73.2)</b> |

### Other remuneration disclosures

| R'million                        | Senior management <sup>^</sup> | Risk takers <sup>^</sup> | Financial and risk control staff <sup>^</sup> | Total |
|----------------------------------|--------------------------------|--------------------------|-----------------------------------------------|-------|
| <b>Sign-on payments</b>          |                                |                          |                                               |       |
| Made during the year (R'million) | –                              | –                        | –                                             | –     |
| Number of beneficiaries          | –                              | –                        | –                                             | –     |
| <b>Severance payments</b>        |                                |                          |                                               |       |
| Made during the year (R'million) | –                              | –                        | –                                             | –     |
| Number of beneficiaries          | –                              | –                        | –                                             | –     |
| <b>Guaranteed bonuses</b>        |                                |                          |                                               |       |
| Made during the year (R'million) | –                              | –                        | –                                             | –     |
| Number of beneficiaries          | –                              | –                        | –                                             | –     |

<sup>^</sup> **Senior management:** all members of our South African general management forum, excluding executive directors.

**Risk takers:** includes anyone (not categorised above) who is deemed to be responsible for a division/function (e.g. lending, balance sheet management, advisory and transactional banking activities) which could be incurring risk on behalf of the bank.

**Financial and risk control staff:** includes everyone in central group finance and central group risk as well as employees responsible for risk and finance functions within the operating business units.

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# Five

Annual financial  
statements



## Directors' responsibility statement

The directors are responsible for the preparation and fair presentation of the group annual financial statements and the annual financial statements of Investec Bank Limited, comprising the balance sheets at 31 March 2016, and the income statements and statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the annual financial statements, accounting policies, and the directors' report, in accordance with International Financial Reporting Standards, SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Standards Council, and in the manner required by the Companies Act, No 71 of 2008, as amended.

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

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

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

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

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

The Investec Bank Limited group and company annual financial statements, as identified in the first paragraph, were approved by the board of directors on 9 June 2016 and signed on its behalf by:



**Fani Titi**  
Chairman

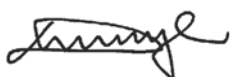


**Richard Wainwright**  
Chief executive officer

9 June 2016

### Declaration by the company secretary

In terms of section 88(2)(e) of the South African Companies Act, No 71 of 2008, as amended (the Act), I hereby certify that, to the best of my knowledge and belief, Investec Bank Limited has lodged with the Companies and Intellectual Property Commission, for the financial year ended 31 March 2016, all such returns as are required in terms of the Act and that all such returns are true, correct and up to date.



**Niki van Wyk**  
Company secretary, Investec Bank Limited

9 June 2016



## Directors' report

### Nature of business

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

### Financial results

The group and company financial results of Investec Bank Limited are set out in the annual financial statements and accompanying notes for the year ended 31 March 2016.



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

The preparation of the group and company annual financial statements was supervised by the group risk and finance director, Glynn Burger.

### Authorised and issued share capital

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

### Ordinary dividends

No ordinary dividends were declared or paid during the year.

### Preference dividends

#### NON-REDEEMABLE NON-CUMULATIVE NON- PARTICIPATING PREFERENCE SHARES

Preference dividend number 25 for the six months ended 30 September 2015, amounting to 390.39534 cents per share, was declared to members holding preference shares registered on 4 December 2015 and was paid on 14 December 2015.

Preference dividend number 26 for the six months ended 31 March 2016 amounting to 412.48350 cents per share, was declared to members holding preference shares registered on 10 June 2016 and will be paid on 20 June 2016.

### Directors



*Details of the directors are reflected on pages 87 to 90.*

### Directors' shareholdings

No director holds any ordinary shares in Investec Bank Limited.



*Directors' shareholdings in Investec Limited and Investec plc and in Investec Bank Limited's preference shares are set out on pages 98 and 99.*

### Directors' remuneration



*Directors' remuneration is disclosed on pages 92 to 103.*

### Company secretary and registered office

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

### Audit committee

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 Bank Limited. An audit committee comprising non-executive directors meets regularly with senior management, the external auditors, Operational Risk, the Internal Audit, Compliance and the Finance division, to consider the nature and scope of the audit reviews and the effectiveness of the group's risk and control systems. Further details on the role and responsibilities of the audit committee are set out in Investec's 2016 integrated annual report.

### Social and ethics committee

As allowed under the Companies Act, No 71 of 2008, as amended, the social and ethics committee of Investec Limited performs the necessary functions required on behalf of Investec Bank Limited. Further details on the role and responsibilities of the social and ethics committee are set out in Investec's 2016 integrated annual report.

### Auditors

KPMG Inc. and Ernst & Young Inc. have expressed their willingness to continue in office as joint auditors. A resolution to reappoint KPMG Inc. and Ernst & Young Inc. as joint auditors will be proposed at the annual general meeting taking place on 4 August 2016.

### Holding company

The bank's holding company is Investec Limited.

### Major shareholders

Investec Limited owns 100% of the issued ordinary shares.

### Subsidiary and associated companies



*Details of principal subsidiary companies are reflected on page 174 and the associate companies on page 169.*

The interest of the company in the aggregate profits after taxation of its subsidiary companies is R795.0 million (2015: R488.0 million) and its share in aggregate losses is R8.0 million (2015: R3.0 million).

### Special resolutions

At the annual general meeting of members held on 6 August 2015, the following special resolutions were passed in terms of which:

- The board of directors of Investec Bank Limited may authorise Investec Bank Limited to provide direct or indirect financial assistance by way of loan, guarantee, the provision of security or otherwise, not in the ordinary course of business
- The remuneration of the non-executive directors was approved for a period of 24 months from the date of passing the special resolution.

## Accounting policies and disclosure

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



**These policies are set out on pages 117 to 125.**

## Employees

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

Further information is provided in Investec's 2016 integrated annual report.

## Political donations and expenditure

Invested Bank Limited made political donations totalling R1.5 million in 2016 (2015: R1.0 million).

## Empowerment and transformation

In South Africa, transformation and black economic empowerment remain high on the corporate agenda. Our approach is to utilise our own entrepreneurial expertise to foster the creation of new black entrepreneurial platforms, and continue to be one of the prime sources of

empowerment financing. We also recognise the need for our own internal transformation and are bringing about greater representivity within our workplace by creating black entrepreneurs within the organisation.

## Environment



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

Further information is provided in Investec's 2016 integrated annual report.

## Subsequent events

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

## Going concern

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

**Fani Titi**  
Chairman

**Richard Wainwright**  
Chief executive officer

9 June 2016



## Independent auditors' report

### To the shareholders of Investec Bank Limited

#### REPORT ON THE FINANCIAL STATEMENTS

We have audited the group and company financial statements of Investec Bank Limited, which comprise the balance sheets of Investec Bank Limited at 31 March 2016, and the income statements, statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended, the accounting policies and the notes to the financial statements, as set out on pages 109 to 194 and the specified disclosures within the Risk management and corporate governance report and Remuneration report that are marked as audited.

### Directors' responsibility for the financial statements

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

### Auditors' responsibility

Our responsibility is to express an opinion on these group and company financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the group and company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the group and company financial statements. The procedures selected depend on the auditors' judgement, including the assessment of

the risks of material misstatement of the group and company financial statements, whether due to fraud or error. In making those risk assessments, the auditors' consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the group and company financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, these group and company financial statements present fairly, in all material respects, the consolidated and separate financial position of Investec Bank Limited at 31 March 2016, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

### Other reports required by the Companies Act

As part of our audit of the group and company financial statements for the year ended 31 March 2016, we have read the Declaration by the company secretary and the directors' report for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion thereon.

### Report on Other Legal and Regulatory Requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Ernst & Young Inc. and KPMG Inc. have been the auditors of Investec Bank Limited for 22 and 47 years respectively.

**Ernst & Young Inc.**  
Registered Auditor

**Per Ernest van Rooyen**  
Chartered Accountant (SA)  
Registered Auditor  
Director

102 Rivonia Road  
Sandton  
Private Bag X14  
Sandton 2146  
Johannesburg

9 June 2016

**KPMG Inc.**  
Registered Auditor

**Per Peter MacDonald**  
Chartered Accountant (SA)  
Registered Auditor  
Director

KPMG Crescent  
85 Empire Road  
Parktown 2193  
Johannesburg

9 June 2016



|                                                                              |       | Group         |              | Company       |              |
|------------------------------------------------------------------------------|-------|---------------|--------------|---------------|--------------|
| For the year to 31 March                                                     |       |               |              |               |              |
| R'million                                                                    | Notes | 2016          | 2015         | 2016          | 2015         |
| Interest income                                                              | 1     | 23 515        | 19 587       | 22 613        | 18 750       |
| Interest expense                                                             | 1     | (16 803)      | (14 066)     | (16 978)      | (14 118)     |
| <b>Net interest income</b>                                                   |       | <b>6 712</b>  | <b>5 521</b> | <b>5 635</b>  | <b>4 632</b> |
| Fee and commission income                                                    | 2     | 1 945         | 1 661        | 1 647         | 1 521        |
| Fee and commission expense                                                   | 2     | (207)         | (207)        | (165)         | (159)        |
| Investment income                                                            | 3     | 1 356         | 1 420        | 2 284         | 1 531        |
| Trading income arising from                                                  |       |               |              |               |              |
| – customer flow                                                              |       | 293           | 290          | 302           | 317          |
| – balance sheet management and other trading activities                      |       | 298           | 260          | 345           | 269          |
| Other operating (loss)/income                                                | 4     | (9)           | 1            | 1             | –            |
| <b>Total operating income before impairment losses on loans and advances</b> |       | <b>10 388</b> | <b>8 946</b> | <b>10 049</b> | <b>8 111</b> |
| Impairment losses on loans and advances                                      | 24    | (517)         | (455)        | (496)         | (468)        |
| <b>Operating income</b>                                                      |       | <b>9 871</b>  | <b>8 491</b> | <b>9 553</b>  | <b>7 643</b> |
| Operating costs                                                              | 5     | (5 537)       | (4 818)      | (5 086)       | (4 553)      |
| <b>Operating profit before acquired intangibles</b>                          |       | <b>4 334</b>  | <b>3 673</b> | <b>4 467</b>  | <b>3 090</b> |
| Amortisation of acquired intangibles                                         | 31    | (39)          | –            | –             | –            |
| <b>Profit before taxation</b>                                                |       | <b>4 295</b>  | <b>3 673</b> | <b>4 467</b>  | <b>3 090</b> |
| Taxation on operating profit before acquired intangibles                     | 7     | (831)         | (545)        | (766)         | (447)        |
| Taxation on acquired intangibles                                             | 7     | 11            | –            | –             | –            |
| <b>Profit after taxation</b>                                                 |       | <b>3 475</b>  | <b>3 128</b> | <b>3 701</b>  | <b>2 643</b> |



## Statements of comprehensive income

|                                                                                                |       | Group        |              | Company      |              |
|------------------------------------------------------------------------------------------------|-------|--------------|--------------|--------------|--------------|
| For the year to 31 March                                                                       |       |              |              |              |              |
| R'million                                                                                      | Notes | 2016         | 2015         | 2016         | 2015         |
| Profit after taxation                                                                          |       | 3 475        | 3 128        | 3 701        | 2 643        |
| <b>Other comprehensive income:</b>                                                             |       |              |              |              |              |
| <b>Items that may be reclassified to the income statement</b>                                  |       |              |              |              |              |
| Fair value movements on cash flow hedges taken directly to other comprehensive income          | 7     | (699)        | (619)        | (645)        | (612)        |
| Fair value movements on available-for-sale assets taken directly to other comprehensive income | 7     | (717)        | 322          | (683)        | 328          |
| Gain on realisation of available-for-sale assets recycled through the income statement         | 7     | (13)         | –            | (13)         | –            |
| Foreign currency adjustments on translating foreign operations                                 |       | 1 040        | 602          | –            | –            |
| <b>Total comprehensive income</b>                                                              |       | <b>3 086</b> | <b>3 433</b> | <b>2 360</b> | <b>2 359</b> |
| Total comprehensive income attributable to ordinary shareholders                               |       | 2 966        | 3 319        | 2 240        | 2 245        |
| Total comprehensive income attributable to perpetual preference shareholders                   |       | 120          | 114          | 120          | 114          |
| <b>Total comprehensive income</b>                                                              |       | <b>3 086</b> | <b>3 433</b> | <b>2 360</b> | <b>2 359</b> |

| At 31 March<br>R'million                                                   | Notes | Group          |                | Company        |                |
|----------------------------------------------------------------------------|-------|----------------|----------------|----------------|----------------|
|                                                                            |       | 2016           | 2015           | 2016           | 2015           |
| <b>Assets</b>                                                              |       |                |                |                |                |
| Cash and balances at central banks                                         | 15    | 7 801          | 6 261          | 7 654          | 6 148          |
| Loans and advances to banks                                                | 16    | 26 779         | 33 422         | 21 385         | 30 284         |
| Non-sovereign and non-bank cash placements                                 |       | 9 858          | 10 540         | 9 982          | 10 540         |
| Reverse repurchase agreements and cash collateral on securities borrowed   | 17    | 38 912         | 10 095         | 38 912         | 9 926          |
| Sovereign debt securities                                                  | 18    | 41 325         | 31 378         | 41 325         | 31 358         |
| Bank debt securities                                                       | 19    | 13 968         | 17 332         | 12 317         | 15 981         |
| Other debt securities                                                      | 20    | 12 761         | 12 749         | 11 354         | 13 390         |
| Derivative financial instruments                                           | 21    | 15 843         | 15 178         | 15 616         | 14 969         |
| Securities arising from trading activities                                 | 22    | 992            | 1 289          | 992            | 1 289          |
| Investment portfolio                                                       | 23    | 6 360          | 9 972          | 5 923          | 9 581          |
| Loans and advances to customers                                            | 24    | 207 272        | 172 993        | 194 578        | 159 028        |
| Own originated loans and advances to customers securitised                 | 25    | 7 967          | 4 535          | –              | –              |
| Other loans and advances                                                   | 24    | 367            | 472            | 373            | 476            |
| Other securitised assets                                                   | 25    | 115            | 618            | –              | 137            |
| Interest in associated undertakings                                        | 26    | 5 145          | 60             | 5 086          | –              |
| Deferred taxation assets                                                   | 27    | 116            | 88             | –              | –              |
| Other assets                                                               | 28    | 3 656          | 1 262          | 1 734          | 994            |
| Property and equipment                                                     | 29    | 236            | 192            | 198            | 187            |
| Investment properties                                                      | 30    | 1              | 80             | 1              | 80             |
| Goodwill                                                                   | 32    | 171            | –              | –              | –              |
| Intangible assets                                                          | 31    | 524            | 190            | 133            | 177            |
| Loans to group companies                                                   | 33    | 5 460          | 3 268          | 6 323          | 2 825          |
| Investment in subsidiaries                                                 | 34    | –              | –              | 5 632          | 6 430          |
| Non-current assets classified as held for sale                             |       | –              | 732            | –              | 732            |
|                                                                            |       | <b>405 629</b> | <b>332 706</b> | <b>379 518</b> | <b>314 532</b> |
| <b>Liabilities</b>                                                         |       |                |                |                |                |
| Deposits by banks                                                          |       | 37 242         | 29 792         | 37 108         | 29 652         |
| Derivative financial instruments                                           | 21    | 13 424         | 12 401         | 13 424         | 12 401         |
| Other trading liabilities                                                  | 35    | 1 405          | 1 623          | 1 405          | 1 623          |
| Repurchase agreements and cash collateral on securities lent               | 17    | 16 916         | 16 556         | 15 325         | 15 225         |
| Customer accounts (deposits)                                               |       | 279 736        | 221 377        | 263 778        | 211 914        |
| Debt securities in issue                                                   | 36    | 7 665          | 5 517          | 6 670          | 4 522          |
| Liabilities arising on securitisation of own originated loans and advances | 25    | 809            | 1 089          | –              | –              |
| Current taxation liabilities                                               |       | 671            | 1 186          | 950            | 1 369          |
| Deferred taxation liabilities                                              | 27    | 122            | 76             | –              | 36             |
| Other liabilities                                                          | 37    | 5 042          | 3 741          | 4 037          | 3 492          |
|                                                                            |       | <b>363 032</b> | <b>293 358</b> | <b>342 697</b> | <b>280 234</b> |
| Subordinated liabilities                                                   | 38    | 10 732         | 10 449         | 10 732         | 10 449         |
|                                                                            |       | <b>373 764</b> | <b>303 807</b> | <b>353 429</b> | <b>290 683</b> |
| <b>Equity</b>                                                              |       |                |                |                |                |
| Ordinary share capital                                                     | 39    | 32             | 32             | 32             | 32             |
| Share premium                                                              | 41    | 14 885         | 14 885         | 14 885         | 14 885         |
| Other reserves                                                             |       | 566            | 764            | (2 250)        | (909)          |
| Retained income                                                            |       | 16 382         | 13 218         | 13 422         | 9 841          |
| <b>Total equity</b>                                                        |       | <b>31 865</b>  | <b>28 899</b>  | <b>26 089</b>  | <b>23 849</b>  |
| <b>Total liabilities and equity</b>                                        |       | <b>405 629</b> | <b>332 706</b> | <b>379 518</b> | <b>314 532</b> |



## Statements of changes in equity

| R'million                                                                                      | Ordinary<br>share<br>capital | Share<br>premium |
|------------------------------------------------------------------------------------------------|------------------------------|------------------|
| <b>Group</b>                                                                                   |                              |                  |
| <b>At 1 April 2014</b>                                                                         | <b>32</b>                    | <b>14 885</b>    |
| <b>Movement in reserves 1 April 2014 – 31 March 2015</b>                                       |                              |                  |
| 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 | –                            | –                |
| Foreign currency adjustments on translating foreign operations                                 | –                            | –                |
| <b>Total comprehensive income</b>                                                              | <b>–</b>                     | <b>–</b>         |
| Dividends paid to ordinary shareholders                                                        | –                            | –                |
| Dividends paid to perpetual preference shareholders                                            | –                            | –                |
| Transfer to regulatory general risk reserve                                                    | –                            | –                |
| <b>At 31 March 2015</b>                                                                        | <b>32</b>                    | <b>14 885</b>    |
| <b>Movement in reserves 1 April 2015 – 31 March 2016</b>                                       |                              |                  |
| Profit after taxation                                                                          | –                            | –                |
| Fair value movements on cash flow hedges taken directly to other comprehensive income          | –                            | –                |
| Fair value movements on available-for-sale assets taken directly to other comprehensive income | –                            | –                |
| Gain on realisation of available-for-sale assets recycled through the income statement         | –                            | –                |
| Foreign currency adjustments on translating foreign operations                                 | –                            | –                |
| <b>Total comprehensive income</b>                                                              | <b>–</b>                     | <b>–</b>         |
| Dividends paid to perpetual preference shareholders                                            | –                            | –                |
| Transfer to regulatory general risk reserve                                                    | –                            | –                |
| <b>At 31 March 2016</b>                                                                        | <b>32</b>                    | <b>14 885</b>    |

# Statements of changes in equity

FIVE

(continued)

| Other reserves                   |                                          |                               |                                |                    |                 |
|----------------------------------|------------------------------------------|-------------------------------|--------------------------------|--------------------|-----------------|
| Available<br>for-sale<br>reserve | Regulatory<br>general<br>risk<br>reserve | Cash flow<br>hedge<br>reserve | Foreign<br>currency<br>reserve | Retained<br>income | Total<br>equity |
| (104)                            | 387                                      | (521)                         | 602                            | 10 320             | 25 601          |
| –                                | –                                        | –                             | –                              | 3 128              | 3 128           |
| –                                | –                                        | (619)                         | –                              | –                  | (619)           |
| 322                              | –                                        | –                             | –                              | –                  | 322             |
| –                                | –                                        | –                             | 602                            | –                  | 602             |
| 322                              | –                                        | (619)                         | 602                            | 3 128              | 3 433           |
| –                                | –                                        | –                             | –                              | (21)               | (21)            |
| –                                | –                                        | –                             | –                              | (114)              | (114)           |
| –                                | 95                                       | –                             | –                              | (95)               | –               |
| 218                              | 482                                      | (1 140)                       | 1 204                          | 13 218             | 28 899          |
| –                                | –                                        | –                             | –                              | 3 475              | 3 475           |
| –                                | –                                        | (699)                         | –                              | –                  | (699)           |
| (717)                            | –                                        | –                             | –                              | –                  | (717)           |
| (13)                             | –                                        | –                             | –                              | –                  | (13)            |
| –                                | –                                        | –                             | 1 040                          | –                  | 1 040           |
| (730)                            | –                                        | (699)                         | 1 040                          | 3 475              | 3 086           |
| –                                | –                                        | –                             | –                              | (120)              | (120)           |
| –                                | 191                                      | –                             | –                              | (191)              | –               |
| (512)                            | 673                                      | (1 839)                       | 2 244                          | 16 382             | 31 865          |



# Statements of changes in equity

(continued)

| R'million                                                                                      | Ordinary<br>share<br>capital | Share<br>premium |
|------------------------------------------------------------------------------------------------|------------------------------|------------------|
| <b>Company</b>                                                                                 |                              |                  |
| <b>At 1 April 2014</b>                                                                         | 32                           | 14 885           |
| <b>Movement in reserves 1 April 2014 – 31 March 2015</b>                                       |                              |                  |
| 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 | –                            | –                |
| <b>Total comprehensive income</b>                                                              | –                            | –                |
| Dividends paid to ordinary shareholders                                                        | –                            | –                |
| Dividends paid to perpetual preference shareholders                                            | –                            | –                |
| <b>At 31 March 2015</b>                                                                        | 32                           | 14 885           |
| <b>Movement in reserves 1 April 2015 – 31 March 2016</b>                                       |                              |                  |
| Profit after taxation                                                                          | –                            | –                |
| Fair value movements on cash flow hedges taken directly to other comprehensive income          | –                            | –                |
| Fair value movements on available-for-sale assets taken directly to other comprehensive income | –                            | –                |
| Gain on realisation of available-for-sale assets recycled through the income statement         | –                            | –                |
| <b>Total comprehensive income</b>                                                              | –                            | –                |
| Dividends paid to perpetual preference shareholders                                            | –                            | –                |
| <b>At 31 March 2016</b>                                                                        | 32                           | 14 885           |

# Statements of changes in equity

FIVE

(continued)

| Other reserves                    |                               |                                |                    |                 |
|-----------------------------------|-------------------------------|--------------------------------|--------------------|-----------------|
| Available-<br>for-sale<br>reserve | Cash flow<br>hedge<br>reserve | Foreign<br>currency<br>reserve | Retained<br>income | Total<br>equity |
| (107)                             | (521)                         | 3                              | 7 333              | 21 625          |
| –                                 | –                             | –                              | 2 643              | 2 643           |
| –                                 | (612)                         | –                              | –                  | (612)           |
| 328                               | –                             | –                              | –                  | 328             |
| 328                               | (612)                         | –                              | 2 643              | 2 359           |
| –                                 | –                             | –                              | (21)               | (21)            |
| –                                 | –                             | –                              | (114)              | (114)           |
| 221                               | (1 133)                       | 3                              | 9 841              | 23 849          |
| –                                 | –                             | –                              | 3 701              | 3 701           |
| –                                 | (645)                         | –                              | –                  | (645)           |
| (683)                             | –                             | –                              | –                  | (683)           |
| (13)                              | –                             | –                              | –                  | (13)            |
| (696)                             | (645)                         | –                              | 3 701              | 2 360           |
| –                                 | –                             | –                              | (120)              | (120)           |
| (475)                             | (1 778)                       | 3                              | 13 422             | 26 089          |





## Cash flow statements

|                                                                       |       | Group         |               | Company       |                |
|-----------------------------------------------------------------------|-------|---------------|---------------|---------------|----------------|
| For the year to 31 March                                              |       |               |               |               |                |
| R'million                                                             | Notes | 2016          | 2015          | 2016          | 2015           |
| <b>Cash flows from operating activities</b>                           |       |               |               |               |                |
| Profit before taxation adjusted for non-cash items                    | 43    | 5 133         | 4 266         | 5 224         | 3 692          |
| Taxation paid                                                         |       | (1 943)       | (546)         | (1 657)       | (445)          |
| Increase in operating assets                                          | 43    | (68 023)      | (25 117)      | (66 597)      | (23 992)       |
| Increase in operating liabilities                                     | 43    | 67 302        | 24 864        | 62 918        | 26 230         |
| <b>Net cash inflow/(outflow) from operating activities</b>            |       | <b>2 469</b>  | <b>3 467</b>  | <b>(112)</b>  | <b>5 485</b>   |
| <b>Cash flows from investing activities</b>                           |       |               |               |               |                |
| Cash flow on acquisition of property, equipment and intangible assets |       | (149)         | (224)         | (127)         | (210)          |
| Cash flow on disposal of property, equipment and intangible assets    |       | 17            | 26            | 17            | 23             |
| Net (increase)/decrease in investment in subsidiaries                 |       | (367)         | –             | 798           | (1 664)        |
| <b>Net cash (outflow)/inflow from investing activities</b>            |       | <b>(499)</b>  | <b>(198)</b>  | <b>688</b>    | <b>(1 851)</b> |
| <b>Cash flows from financing activities</b>                           |       |               |               |               |                |
| Dividends paid to ordinary shareholders                               |       | –             | (21)          | –             | (21)           |
| Dividends paid to perpetual preference shareholders                   |       | (120)         | (114)         | (120)         | (114)          |
| Proceeds from subordinated debt raised                                |       | 1 360         | –             | 1 360         | –              |
| Repayment of subordinated debt                                        |       | (1 283)       | (250)         | (1 283)       | (250)          |
| <b>Net cash outflow from financing activities</b>                     |       | <b>(43)</b>   | <b>(385)</b>  | <b>(43)</b>   | <b>(385)</b>   |
| <b>Effects of exchange rates on cash and cash equivalents</b>         |       | <b>773</b>    | <b>439</b>    | <b>–</b>      | <b>–</b>       |
| <b>Net increase in cash and cash equivalents</b>                      |       | <b>2 700</b>  | <b>3 323</b>  | <b>533</b>    | <b>3 249</b>   |
| Cash and cash equivalents at the beginning of the year                |       | 23 783        | 20 460        | 20 533        | 17 284         |
| <b>Cash and cash equivalents at the end of the year</b>               |       | <b>26 483</b> | <b>23 783</b> | <b>21 066</b> | <b>20 533</b>  |
| <b>Cash and cash equivalents is defined as including:</b>             |       |               |               |               |                |
| Cash and balances at central banks                                    |       | 7 801         | 6 261         | 7 654         | 6 148          |
| On demand loans and advances to banks                                 |       | 8 824         | 6 982         | 3 430         | 3 845          |
| Non-sovereign and non-bank cash placements                            |       | 9 858         | 10 540        | 9 982         | 10 540         |
| <b>Cash and cash equivalents at the end of the year</b>               |       | <b>26 483</b> | <b>23 783</b> | <b>21 066</b> | <b>20 533</b>  |

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

## Basis of presentation

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

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

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

Accounting policies applied are consistent with those of the prior year. Standards which became effective during the year did not have an impact on the group.

## Presentation of information

Disclosure under IFRS 7 Financial Instruments: Disclosures and IAS 1 Presentation of Financial Statements: Capital disclosures relating to the nature and extent of risks have been included in sections marked as audited in the risk management report on pages 22 to 81.

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 2016 integrated annual report.

## Basis of consolidation

All subsidiaries or structured entities are consolidated when the group controls an investee. The group controls an investee if it is exposed to, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial results of subsidiaries are included in the consolidated annual financial statements of the group from the date on which control is obtained until the date the group can no longer demonstrate control. The group performs a reassessment of control whenever there is a change in the substance of the relationship between

Investec and an entity. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. The group also holds investments for example, in private equity investments which give rise to significant, but not majority, voting rights. Assessing these voting rights and whether Investec controls these entities requires judgement that affects the date at which subsidiaries are consolidated or deconsolidated.

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

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

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

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

All intergroup balances, transactions and unrealised gains or losses within the group, are eliminated in full regarding subsidiaries and to the extent of the interest in an associate.

## Segmental reporting

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the group's other components, whose operating results are reviewed regularly by chief operating decision-makers which include members of the board and

for which discrete financial information is available.

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

## Business combinations and goodwill

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

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

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

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

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

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

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

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

Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the cash-generating units retained.

## Share-based payments to employees

The group engages in equity-settled share-based payments in respect of services received from employees.

The fair value of the services received in respect of equity-settled share-based payments is determined by reference to the fair value of the shares or share options on the date of grant to the employee. The cost of the share-based payment, together with a corresponding increase in equity, is recognised in the income statement over the period the service conditions of the grant are met, with the amount changing according to the number of awards expected to vest. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the group's best estimate of the number of equity instruments that will ultimately vest.

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

share-based payment expense is accounted for as an expense in the income statement. This cost is presented with the share-based payment expense in note 6.

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

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

## Foreign currency transactions and foreign operations

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

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

Foreign currency transactions are translated into the functional currency of the entity in which the transactions arise, based on rates of exchange ruling at the date of the transactions. At each balance sheet date foreign currency items are translated as follows:

- Monetary items (other than monetary items that form part of the net investment in a foreign operation) are translated using closing rates, with gains or losses recognised in the income statement
- Exchange differences arising on monetary items that form part of the net investment in a foreign operation are determined using closing rates and recognised as a separate component of equity (foreign currency translation reserve) upon consolidation and is reclassified to the income statement upon disposal of the net investment

- Non-monetary items that are measured at historical cost are translated using the exchange rates ruling at the date of the transaction.

On consolidation, the results and financial position of foreign operations are translated into the presentation currency of the group as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet
- Income and expense items are translated at exchange rates ruling at the date of the transaction
- All resulting exchange differences are recognised in other comprehensive income (foreign currency translation reserve), which is reclassified in the income statement on disposal of the foreign operation
- Cash flow items are translated at the exchange rates ruling at the date of the transactions.

## Revenue recognition

Revenue consists of interest income, fee and commission income, investment income, trading income arising from customer flow, trading income arising from balance sheet management and other trading activities and other operating income.

Revenue is recognised when it can be reliably measured and it is probable that the economic benefits will flow to the entity. Revenue related to provision of services is recognised when the related services are performed. Revenue is measured at the fair value of the consideration received or receivable.

Interest income is recognised in the income statement using the effective interest rate method. Fees charged on lending transactions are included in the effective yield calculation to the extent that they form an integral part of the effective interest rate yield, but excludes those fees earned for a separately identifiable significant act, which are recognised upon completion of the act. Fees and commissions charged *in lieu* of interest are recognised as income as part of the effective interest rate on the underlying loan.

The effective interest rate method is based on the estimated life of the underlying

instrument and where this estimate is not readily available, the contractual life.

Fee and commission income includes fees earned from providing advisory services as well as portfolio management and includes rental income from investment properties. Investment advisory and management fees are accrued over the period to which the income relates. Performance fees are recognised when they become receivable. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due.

Investment income includes income, other than margin from securities held for the purpose of generating interest yield, dividends and capital appreciation.

Customer flow trading income includes income from trading activities arising from making and facilitating client activities.

Trading income arising from balance sheet management and other trading activities consists of proprietary trading income and other gains or losses arising from balance sheet management.

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

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

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

## Fair value measurement

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

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

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis.

If there is no quoted price in an active market, then the group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The group classifies disclosed fair values according to a hierarchy that reflects the significance of observable market inputs. A transfer is made between the hierarchy levels when the inputs have changed or there has been a change in the valuation method. Transfers are deemed to occur at the end of each semi-annual reporting period.

## Financial instruments

Financial instruments are initially recognised at their fair value. For financial assets or financial liabilities not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities are included in the initial measurement. All other transaction costs are recorded in the income statement immediately.

Regular way purchase and sales transactions in respect of financial assets that require delivery of a financial instrument within the timeframe established by market convention are recorded at settlement date.

### FINANCIAL ASSETS AND LIABILITIES HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

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

Financial instruments classified as held-for trading or designated as held at fair value through profit or loss are initially recorded at

fair value on the balance sheet with changes in fair value subsequently recognised in the income statement. Financial instruments are classified as trading when they are held with the intention of short-term disposal, held with intention of generating short-term profits, or are derivatives which are not designated as part of effective hedges. Financial instruments designated as held at fair value through profit or loss are designated as such on initial recognition of the instrument and remain in this classification until derecognition.

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

- it eliminates or significantly reduces an inconsistent measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy and information about the group is provided internally on that basis to the group's key management personnel; and
- a contract contains one or more embedded derivatives (which significantly modifies the cash flows that would be required by the contract and is not clearly prohibited from separation from the host contract) and the group has designated the entire hybrid contract as a financial instrument at fair value through profit or loss.

### HELD-TO-MATURITY FINANCIAL ASSETS

Held-to-maturity financial assets are non-derivative financial instruments with fixed or determinable payments and maturity dates which the group has the intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity assets are measured at amortised cost using the effective interest rate method, less impairment losses.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in interest income in the income statement. The losses arising



from impairment of such investments are recognised in the income statement.

## LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and exclude the following:

- Those that the group intends to trade in, which are classified as held-for-trading and those that the group designates as at fair value through profit or loss
- Those that the group designates as available-for-sale
- Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which is accounted for as available-for-sale instruments.

Subsequent to initial recognition, loans and receivables are measured at amortised cost, using the effective interest rate method, less impairment losses. The effective interest rate represents the rate that exactly discounts future projected cash flows over the expected life of the financial instrument, to the net carrying amount of the financial instrument. Included in the calculation of the effective interest rate, is any discount or premium on acquisition and fees that are an integral part of the effective interest rate.

Losses arising from impairment of such investments are recognised in the income statement line 'impairment losses on loans and advances'.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

## SECURITISATION/CREDIT INVESTMENT AND TRADING ACTIVITIES EXPOSURES

The group makes use of securitisation vehicles as a source of finance, as a means of risk transfer and to leverage returns through the retention of equity tranches in low default rate portfolios. The group predominately focuses on the securitisation of residential and commercial mortgages. The group also trades in structured credit investments.

The structured entities are consolidated under IFRS 10 Consolidated Financial

Statements when the group has exposure to or rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

## AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

Financial assets classified as available-for-sale are measured at fair value, with unrealised gains or losses recognised directly in other comprehensive income in the available-for-sale reserve. When the asset is disposed of, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to the income statement. Interest earned while holding available-for-sale financial assets is reported in the income statement as interest income using the effective interest rate. Dividends earned while holding available-for-sale financial assets are recognised in the income statement when the right to payment has been established.

If an available-for-sale instrument is determined to be impaired, the respective cumulative unrealised losses previously recognised in other comprehensive income are included in the income statement in the period in which the impairment is identified.

Impairments on available-for-sale equity instruments are not reversed once recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed, limited to the impairment value previously recognised in the income statement.

## FINANCIAL LIABILITIES

Financial liabilities are classified as non-trading, held-for-trading or designated as held at fair value through profit or loss.

Non-trading liabilities are recorded at amortised cost applying the effective interest rate method.

Held-for-trading liabilities or liabilities designated as held at fair value through profit or loss are measured at fair value.

All changes in fair value of financial liabilities are recognised in the income statement.

## DAY 1 PROFIT OR LOSS

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

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

## IMPAIRMENTS OF FINANCIAL ASSETS HELD AT AMORTISED COST

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

The test for impairment is based either on specific financial assets or collectively on a portfolio of similar, homogeneous assets. Over and above individual collective

impairments raised at specific portfolio levels, the group recognises a collective impairment allowance at a central level that takes into account macro-economic factors, mainly driven by data related to the prevailing credit markets and which indicate incurred but not specifically identified losses across the loan portfolios (i.e. exposures in all business segments). Assets specifically identified as impaired are excluded from the collective assessment.

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

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

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

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

## DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

A financial asset, or a portion thereof, is derecognised when the group's rights to cash flows have expired or when the group has transferred its rights to cash flows relating to the financial assets and either (a) the group has transferred substantially all the risks and rewards associated with the financial assets, or (b) the group has neither transferred nor retained substantially all the risks and rewards associated with the

financial assets but has transferred control of the assets.

A financial liability is derecognised when it is extinguished, i.e. when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced or modified with substantially different terms, such a replacement or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

## RECLASSIFICATION OF FINANCIAL INSTRUMENTS

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

## DERIVATIVE INSTRUMENTS

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

Derivative positions are entered into either for trading purposes or as part of the group's asset and liability management activities to manage exposures to interest rate and foreign currency risks. Both realised and unrealised profits or losses arising on derivatives are recognised in the income statement as part of trading income (other than circumstances in which cash flow hedging is applied as detailed below).

Derivative instruments entered into as economic hedges which do not qualify for hedge accounting and derivatives that are entered into for trading purposes are treated in the same way as instruments that are held-for-trading.

Credit derivatives are entered into largely for trading purposes. Credit derivatives are initially recognised at their fair values, being the transaction price of the derivative. Subsequently the derivatives are carried at fair value, with movements in fair value through profit or loss, based on the

remeasured price. The counterparty risk from derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit value adjustment (CVA).

## HEDGE ACCOUNTING

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

- At inception of the hedge, the group formally documents the relationship between the hedging instrument(s) and hedged item(s) including the risk management objectives and the strategy in undertaking the hedge transaction. Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%
- For cash flow hedges, a forecasted transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect the income statement
- The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured
- The hedge effectiveness is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

For qualifying fair value hedges, the change in fair value of the hedging instrument is recognised in the income statement. Changes in fair value of the hedged item that is attributable to the hedged risk are also recognised in the income statement.

For qualifying cash flow hedges in respect of non-financial assets and liabilities, the change in fair value of the hedging instrument, relating to the effective portion is initially recognised directly in other comprehensive income in the cash flow hedge reserve and is included in the initial cost of any asset/liability recognised or in all other cases released to the income statement when the hedged firm commitment or forecasted transaction affects net profit. If the forecast transaction or firm commitment is no longer expected to occur, the balance included in other comprehensive income is reclassified to the income statement immediately and recognised in trading income from balance sheet management and other trading activities.

For qualifying cash flow hedges in respect of financial assets and liabilities, the change in fair value of the hedging instrument, which represents an effective hedge are initially recognised in other comprehensive income and is reclassified to the income statement in the same period during which the relevant financial asset or liability affects the income statement. Any ineffective portion of the hedge is immediately recognised in the income statement.

Qualifying hedges of a net investment in a foreign operation including a hedge of a monetary item that is accounted for as part of the net investment are accounted for in a way similar to cash flow hedges. Changes in the fair value of the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of any such gain or loss recorded in other comprehensive income is reclassified to the income statement.

Hedge accounting is discontinued when it is determined that the instrument ceases to be highly effective as a hedge; when the derivative expires or is sold, terminated or exercised; when the hedge item matures or is sold or repaid; when a forecasted transaction is no longer deemed highly probable, or when the designation as a hedge is revoked.

## EMBEDDED DERIVATIVES

To the extent that a derivative may be embedded in a hybrid contract and the hybrid contract is not carried at fair value with changes in fair value recorded in the income statement, the embedded derivative

is separated from the host contract and accounted for as a standalone derivative if and only if:

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

## OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

## ISSUED DEBT AND EQUITY FINANCIAL INSTRUMENTS

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

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

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

## SALE AND REPURCHASE AGREEMENTS (INCLUDING SECURITIES BORROWING AND LENDING)

Securities sold subject to a commitment to repurchase them, at a fixed price or a selling price plus a lender's return, remain on balance sheet. Proceeds received are recorded as a liability on the balance sheet under 'repurchase agreements and cash collateral on securities lent'. Securities that are purchased under a commitment to resell the securities at a future date are not recognised on the balance sheet. The consideration paid is recognised as an asset under 'reverse repurchase

agreements and cash collateral on securities borrowed'.

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

Securities borrowing transactions that are not cash collateralised are not included on the balance sheet. Securities lending and borrowing transactions which are cash collateralised are accounted for in the same manner as securities sold or purchased subject to repurchase commitments.

The cash collateral from agency-based scrip lending transactions are disclosed on a net basis, in accordance with master netting agreements and the group's intention to settle net.

## FINANCIAL GUARANTEES

Financial guarantee contracts issued by the group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due, in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at fair value, adjusted for the transaction costs that are directly attributable to the issuance of the guarantee.

Subsequent to initial recognition, the liability under each guarantee is measured at the higher of the amount recognised, less cumulative amortisation and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Subsequent to initial measurement, all changes in the balance sheet carrying value are recognised in the income statement.

## INSTALMENT CREDIT, LEASES AND RENTAL AGREEMENTS

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset/assets, even if that right is not explicitly specified in an arrangement.

A finance lease is a lease that transfers substantially all of the risks and rewards



incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

Where classified as a finance lease, amounts outstanding on these contracts, net of unearned finance charges, are included in loans and advances where the group is the lessor and included in liabilities where the group is the lessee. Finance charges on finance leases and instalment credit transactions are credited or debited to the income statement in proportion to the capital balances outstanding at the rate implicit in the agreement.

Where classified as operating leases, rentals payable/receivable are charged/credited in the income statement on a straight-line basis over the lease term. Contingent rentals (if any) are accrued to the income statement when incurred.

## Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and impairments.

Cost is the cash equivalent paid or the fair value of the consideration given to acquire an asset and includes other expenditures that are directly attributable to the acquisition of the asset.

Depreciation is provided on the depreciable amount of each component on a straight-line basis over the expected useful life of the asset. The depreciable amount related to each asset is determined as the difference between the cost and the residual value of the asset. The residual value is the estimated amount, net of disposal costs, that the group would currently obtain from the disposal of an asset in similar age and condition as expected at the end of its useful life. The current and comparative annual depreciation rates for each class of property and equipment is as follows:

- Computer and related equipment 20% – 33%
- Motor Vehicles 20% – 25%
- Furniture and fittings 10% – 20%
- Leasehold property and improvements\*

\* Leasehold improvements depreciation rates are determined by reference to the appropriate useful life of its separate components, limited to the period of the lease. Leasehold property depreciation rates are determined by reference to the period of the lease.

The useful lives, depreciation methods and residual values are assessed annually. Routine maintenance and service costs of assets are expensed as incurred. Subsequent expenditure is only capitalised if it is probable that future economic benefits associated with the item will flow to the group.

## Investment properties

Properties held for capital appreciation or rental yield are classified as investment properties.

Investment properties are initially measured at cost plus transaction costs and subsequently carried at fair value, with fair value gains or losses recognised in the income statement in 'investment income'.

Fair value of investment property is calculated by taking into account the expected rental stream associated with the property, and is supported by market evidence.

## Trading properties

Trading properties are carried at the lower of cost and net realisable value.

## Intangible assets

Intangible assets are recorded at cost less accumulated amortisation and impairments.

Intangible assets with finite lives, are amortised over the useful economic life (currently three to eight years) on a straight-line basis. The depreciable amount related to each intangible asset is determined as the difference between the cost and the residual value of the asset.

## Impairment of non-financial assets

At each balance sheet date, the group reviews the carrying value of non-financial assets, other than investment property for indication of impairment. The recoverable amount, being the higher of fair value less cost of disposal and value in use, is determined for any assets for which an indication of impairment is identified. If the recoverable amount of an asset is less than its carrying value, the carrying value of the asset is reduced to its recoverable amount value.

Impairment losses are recognised as an expense in the income statement in the

period in which they are identified. Reversal of impairment losses are recognised in income in the period in which the reversal is identified, to the extent that the carrying value of the asset does not exceed the amount that would have been calculated without impairment.

## Taxation and deferred taxation

Current taxation payable is provided for based on the amount expected to be payable on taxable profits at rates that are enacted or substantively enacted and applicable to the relevant period.

Deferred taxation is provided on temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base, except where such temporary differences arise from:

- The initial recognition of goodwill
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction has no effect on the income statement
- In respect of temporary differences associated with the investments in subsidiaries and interests in associated undertakings, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

## Employee benefits

The group operates various defined contribution schemes. All employer contributions are charged to the income statement as incurred, in accordance with the rules of the scheme, and included under staff costs.

The group has no liabilities for other post-retirement benefits.

## Borrowing costs

Borrowing costs that are directly attributable to property developments which take a substantial period of time to develop are capitalised.

## Provisions, contingent liabilities and contingent assets

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the income statement net of any reimbursement. Contingent assets and contingent liabilities are not recognised on balance sheet.

## 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 annual financial statements. The group intends to comply with these standards from the effective dates.

### IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 Financial Instruments was issued in July 2014 and will replace certain key elements of IAS 39. The mandatory effective date for IFRS 9 is for annual periods beginning on or after 1 January 2018 with early adoption permitted. IFRS 9 has not yet been endorsed by the European Union. 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 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. 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 comprehensive income. With reference to financial liabilities held at fair value, the standard proposes that changes to fair value attributable to credit risk are recognised directly in other comprehensive income without recycling through the income statement; and

- 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 requirement until this section of IFRS 9 has been finalised.

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 provides updates on the status of the project to the appropriate board committees.

### 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 debt securities classified as held to maturity will be measured at amortised cost; 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 these changes, 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.

### Current assessment of impairments

As noted, the group would also shift its impairment methodology from the current incurred loss basis to expected loss. We are in the process of developing models to determine expected credit losses for exposures subject to credit risk that are not carried at fair value through profit or loss.

We are also reviewing key definitions such as significant deterioration in credit quality and default against our current asset quality classifications. This process includes participation in industry/regulatory discussions and workshops. We will incorporate IFRS 9 requirements into our group credit risk classification and provisioning policy.

## 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. We do not anticipate an impact to the 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. Earlier adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. 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.

All other standards and interpretations issued but not yet effective are not expected to have an impact on the group.

## Key management assumptions

In preparation of the annual financial statements, the group makes estimations and applies judgement that could affect the reported amount of assets and liabilities within the next financial year. Key areas in which judgement is applied include:

- Valuation of unlisted investments primarily in the private equity and direct investments portfolios and embedded derivatives. Key valuation inputs are based on the most relevant observable market inputs, adjusted where necessary for factors that specifically apply to the individual investments and recognising market volatility



**Details of unlisted investments can be found in note 23 with further risk analysis contained in the risk management section on pages 51 to 53.**

- The determination of impairments against assets that are carried at amortised cost and impairments relating to available-for-sale financial assets involves the assessment of future cash flows which is judgemental in nature



**Refer to pages 42 to 50 of the risk management section for further analysis on impairments.**

- The group's income tax charge and balance sheet provision are judgemental in nature. This arises from certain transactions for which the ultimate tax treatment can only be determined by final resolution with the relevant local tax authorities. The group has recognised in its current tax provision certain amounts in respect of taxation that involve a degree of estimation and uncertainty where the tax treatment cannot finally be determined until a resolution has been reached by the relevant tax authority. The carrying amount of this provision is often dependent on the timetable and progress of discussions and negotiations with the relevant tax authorities, arbitration processes and legal proceedings in the relevant tax jurisdictions in which the group operates. Issues can take many years to resolve and assumptions on the likely outcome would therefore have to be made by the group
- In making any estimates, management's judgement would be based on various factors, including any such transactions and events whose treatment for tax purposes is uncertain. In making any estimates, management's judgement has been based on various factors, including:

- the current status of tax audits and enquiries;
- the current status of discussions and negotiations with the relevant tax authorities;
- the results of any previous claims;
- any changes to the relevant tax environments; and
- Where appropriate the group has utilised expert external advice as well as experience of similar situations elsewhere in making any such provisions.
- Determination of interest income and interest expense using the effective interest rate method involved judgement in determining the timing and extent of future cash flows
- In order to meet the objectives of IFRS 12, management performs an assessment of the value of total assets as well as any qualitative considerations that may exist in order to determine materiality to the reporting entity for disclosure purposes.

|                                                             |       | Group               |                 |                     |                 | Company             |                 |                     |                 |
|-------------------------------------------------------------|-------|---------------------|-----------------|---------------------|-----------------|---------------------|-----------------|---------------------|-----------------|
|                                                             |       | 2016                |                 | 2015                |                 | 2016                |                 | 2015                |                 |
| For the year to 31 March                                    | Notes | Balance sheet value | Interest income | Balance sheet value | Interest income | Balance sheet value | Interest income | Balance sheet value | Interest income |
| R'million                                                   |       |                     |                 |                     |                 |                     |                 |                     |                 |
| <b>1. Net interest income</b>                               |       |                     |                 |                     |                 |                     |                 |                     |                 |
| Cash, near cash and bank debt and sovereign debt securities | 1     | 138 643             | 5 787           | 109 028             | 4 768           | 131 575             | 5 705           | 104 237             | 4 709           |
| Core loans and advances                                     | 2     | 215 239             | 16 860          | 177 528             | 14 091          | 194 578             | 14 806          | 159 028             | 12 574          |
| Private client                                              |       | 142 151             | 11 118          | 116 382             | 9 071           | 134 501             | 10 274          | 106 252             | 8 592           |
| Corporate, institutional and other clients                  |       | 73 088              | 5 742           | 61 146              | 5 020           | 60 077              | 4 532           | 52 776              | 3 982           |
| Other debt securities and other loans and advances          |       | 13 128              | 610             | 13 221              | 411             | 11 727              | 564             | 13 866              | 365             |
| Other interest-earning assets                               | 3     | 5 575               | 258             | 3 886               | 317             | 6 323               | 1 538           | 8 487               | 1 102           |
| <b>Total interest-earning assets</b>                        |       | <b>372 585</b>      | <b>23 515</b>   | <b>303 663</b>      | <b>19 587</b>   | <b>344 203</b>      | <b>22 613</b>   | <b>285 618</b>      | <b>18 750</b>   |

|                                                     |       | Group               |                  |                     |                  | Company             |                  |                     |                  |
|-----------------------------------------------------|-------|---------------------|------------------|---------------------|------------------|---------------------|------------------|---------------------|------------------|
|                                                     |       | 2016                |                  | 2015                |                  | 2016                |                  | 2015                |                  |
| For the year to 31 March                            | Notes | Balance sheet value | Interest expense | Balance sheet value | Interest expense | Balance sheet value | Interest expense | Balance sheet value | Interest expense |
| R'million                                           |       |                     |                  |                     |                  |                     |                  |                     |                  |
| Deposits by banks and other debt-related securities | 4     | 61 823              | (1 351)          | 51 865              | (642)            | 59 103              | (1 268)          | 49 399              | (569)            |
| Customer accounts (deposits)                        |       | 279 736             | (14 565)         | 221 377             | (12 613)         | 263 778             | (14 519)         | 211 914             | (12 563)         |
| Other interest-bearing liabilities                  | 5     | 809                 | (98)             | 1 089               | (35)             | –                   | (402)            | –                   | (210)            |
| Subordinated liabilities                            |       | 10 732              | (789)            | 10 449              | (776)            | 10 732              | (789)            | 10 449              | (776)            |
| <b>Total interest-bearing liabilities</b>           |       | <b>353 100</b>      | <b>(16 803)</b>  | <b>284 780</b>      | <b>(14 066)</b>  | <b>333 613</b>      | <b>(16 978)</b>  | <b>271 762</b>      | <b>(14 118)</b>  |
| <b>Net interest income</b>                          |       |                     | <b>6 712</b>     |                     | <b>5 521</b>     |                     | <b>5 635</b>     |                     | <b>4 632</b>     |

Notes:

1. Comprises (as per the balance sheet) cash and balances at central banks; loans and advances to banks; non-sovereign and non-bank cash placements; reverse repurchase agreements and collateral on securities borrowed; sovereign debt securities; bank debt securities.
2. Comprises (as per the balance sheet) loans and advances to customers; own originated loans and advances to customers securitised.
3. Comprises (as per the balance sheet) other securitised assets; loans to group companies.
4. Comprises (as per the balance sheet) deposits by banks; debt securities in issue; repurchase agreements and cash collateral on securities lent.
5. Comprises (as per the balance sheet) liabilities arising on securitisation of own originated loans and advances.

(continued)

|                                                                 | Group        |              | Company      |              |
|-----------------------------------------------------------------|--------------|--------------|--------------|--------------|
| For the year to 31 March<br>R'million                           | 2016         | 2015         | 2016         | 2015         |
| <b>2. Net fee and commission income</b>                         |              |              |              |              |
| Corporate and institutional transactional and advisory services | 1 305        | 1 076        | 1 073        | 986          |
| Private client transactional fees                               | 640          | 585          | 574          | 535          |
| Fee and commission income                                       | 1 945        | 1 661        | 1 647        | 1 521        |
| Fee and commission expense                                      | (207)        | (207)        | (165)        | (159)        |
| <b>Net fee and commission income</b>                            | <b>1 738</b> | <b>1 454</b> | <b>1 482</b> | <b>1 362</b> |
| Annuity fees (net of fees payable)                              | 986          | 772          | 805          | 740          |
| Deal fees                                                       | 752          | 682          | 677          | 622          |

| For the year to 31 March<br>R'million                                                                       | Investment<br>portfolio<br>(listed and<br>unlisted<br>equities)* | Debt<br>securities<br>(sovereign,<br>bank and<br>other) | Investment<br>properties | Other<br>asset<br>categories | Total        |
|-------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|---------------------------------------------------------|--------------------------|------------------------------|--------------|
| <b>3. Investment income<sup>^</sup></b>                                                                     |                                                                  |                                                         |                          |                              |              |
| The following table analyses investment income generated by the asset portfolio shown on the balance sheet: |                                                                  |                                                         |                          |                              |              |
| <b>Group</b>                                                                                                |                                                                  |                                                         |                          |                              |              |
| <b>2016</b>                                                                                                 |                                                                  |                                                         |                          |                              |              |
| Realised                                                                                                    | 3 869                                                            | 63                                                      | 60                       | 19                           | 4 011        |
| Unrealised                                                                                                  | (2 664)                                                          | –                                                       | (60)                     | 1                            | (2 723)      |
| Dividend income                                                                                             | 385                                                              | –                                                       | –                        | –                            | 385          |
| Funding and other net related costs                                                                         | (316)                                                            | –                                                       | –                        | (1)                          | (317)        |
|                                                                                                             | <b>1 274</b>                                                     | <b>63</b>                                               | <b>–</b>                 | <b>19</b>                    | <b>1 356</b> |
| <b>2015</b>                                                                                                 |                                                                  |                                                         |                          |                              |              |
| Realised                                                                                                    | 669                                                              | 68                                                      | –                        | 34                           | 771          |
| Unrealised                                                                                                  | 394                                                              | (8)                                                     | –                        | 6                            | 392          |
| Dividend income                                                                                             | 511                                                              | –                                                       | –                        | –                            | 511          |
| Funding and other net related costs                                                                         | (253)                                                            | –                                                       | –                        | (1)                          | (254)        |
|                                                                                                             | <b>1 321</b>                                                     | <b>60</b>                                               | <b>–</b>                 | <b>39</b>                    | <b>1 420</b> |

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

<sup>^</sup> In a year of realisation, any prior period mark-to-market gains/(losses) recognised are reversed in the unrealised line item.



## Notes to the financial statements

(continued)

| For the year to 31 March<br>R'million                                                                       | Investment<br>portfolio<br>(listed and<br>unlisted<br>equities)* | Debt<br>securities<br>(sovereign,<br>bank and<br>other) | Investment<br>properties | Other<br>asset<br>categories | Total        |
|-------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|---------------------------------------------------------|--------------------------|------------------------------|--------------|
| <b>3. Investment income<sup>^</sup></b> (continued)                                                         |                                                                  |                                                         |                          |                              |              |
| The following table analyses investment income generated by the asset portfolio shown on the balance sheet: |                                                                  |                                                         |                          |                              |              |
| <b>Company</b>                                                                                              |                                                                  |                                                         |                          |                              |              |
| <b>2016</b>                                                                                                 |                                                                  |                                                         |                          |                              |              |
| Realised                                                                                                    | 3 869                                                            | 18                                                      | 60                       | (1)                          | 3 946        |
| Unrealised                                                                                                  | (2 630)                                                          | –                                                       | (60)                     | 1                            | (2 689)      |
| Dividend income**                                                                                           | 384                                                              | –                                                       | –                        | 960                          | 1 344        |
| Funding cost and other net related costs                                                                    | (316)                                                            | –                                                       | –                        | (1)                          | (317)        |
|                                                                                                             | <b>1 307</b>                                                     | <b>18</b>                                               | <b>–</b>                 | <b>959</b>                   | <b>2 284</b> |
| <b>2015</b>                                                                                                 |                                                                  |                                                         |                          |                              |              |
| Realised                                                                                                    | 470                                                              | 67                                                      | –                        | (3)                          | 534          |
| Unrealised                                                                                                  | 456                                                              | –                                                       | –                        | 6                            | 462          |
| Dividend income**                                                                                           | 511                                                              | –                                                       | –                        | 278                          | 789          |
| Funding cost and other net related costs                                                                    | (253)                                                            | –                                                       | –                        | (1)                          | (254)        |
|                                                                                                             | <b>1 184</b>                                                     | <b>67</b>                                               | <b>–</b>                 | <b>280</b>                   | <b>1 531</b> |

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

\*\* Dividend income from investment in subsidiaries.

<sup>^</sup> In a year of realisation, any prior period mark-to-market gains/(losses) recognised are reversed in the unrealised line item.

| For the year to 31 March<br>R'million   | Group      |          | Company  |          |
|-----------------------------------------|------------|----------|----------|----------|
|                                         | 2016       | 2015     | 2016     | 2015     |
| <b>4. Other operating (loss)/income</b> |            |          |          |          |
| Rental income from properties           | 1          | 1        | –        | –        |
| Gains on realisation of fixed assets    | 1          | –        | 1        | –        |
| Operating loss from associates          | (11)       | –        | –        | –        |
|                                         | <b>(9)</b> | <b>1</b> | <b>1</b> | <b>–</b> |

(continued)

|                                                                                                                                                                       | Group        |              | Company      |              |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|--------------|--------------|
| For the year to 31 March<br>R'million                                                                                                                                 | 2016         | 2015         | 2016         | 2015         |
| <b>5. Operating costs</b>                                                                                                                                             |              |              |              |              |
| Staff costs                                                                                                                                                           | 4 033        | 3 510        | 3 759        | 3 366        |
| – Salaries and wages (including directors' remuneration)*                                                                                                             | 3 080        | 2 745        | 2 839        | 2 630        |
| – Training and other costs                                                                                                                                            | 107          | 80           | 103          | 78           |
| – Share-based payments expense                                                                                                                                        | 652          | 510          | 628          | 493          |
| – Social security costs                                                                                                                                               | 40           | 34           | 39           | 33           |
| – Pensions and provident fund contributions                                                                                                                           | 154          | 141          | 150          | 132          |
| Premises expenses (excluding depreciation)                                                                                                                            | 394          | 376          | 353          | 344          |
| Equipment expenses (excluding depreciation)                                                                                                                           | 202          | 161          | 153          | 125          |
| Business expenses**                                                                                                                                                   | 406          | 329          | 341          | 292          |
| Marketing expenses                                                                                                                                                    | 348          | 304          | 336          | 292          |
| Depreciation, amortisation and impairment of property, equipment and intangibles                                                                                      | 154          | 138          | 144          | 134          |
|                                                                                                                                                                       | <b>5 537</b> | <b>4 818</b> | <b>5 086</b> | <b>4 553</b> |
| <b>The following amounts were paid by the group to the auditors in respect of the audit of the financial statements and for other services provided to the group:</b> |              |              |              |              |
| <b>Ernst &amp; Young fees:</b>                                                                                                                                        |              |              |              |              |
| Fees payable to the companies' auditors for the audit of the companies' accounts                                                                                      | 18           | 7            | 6            | 7            |
| Fees payable to the companies' auditors and its associates for other services:                                                                                        |              |              |              |              |
| – Audit of the company's subsidiaries pursuant to legislation                                                                                                         | 20           | 8            | –            | –            |
| – Other services                                                                                                                                                      | –            | –            | 1            | –            |
|                                                                                                                                                                       | <b>38</b>    | <b>15</b>    | <b>7</b>     | <b>7</b>     |
| <b>KPMG fees:</b>                                                                                                                                                     |              |              |              |              |
| Fees payable to the companies' auditors for the audit of the companies' accounts                                                                                      | 21           | 15           | 17           | 13           |
| Fees payable to the companies' auditors and its associates for other services:                                                                                        |              |              |              |              |
| – Audit of the company's subsidiaries pursuant to legislation                                                                                                         | 3            | 9            | –            | 3            |
| – Other services                                                                                                                                                      | 2            | 2            | 2            | 2            |
|                                                                                                                                                                       | <b>26</b>    | <b>26</b>    | <b>19</b>    | <b>18</b>    |
| <b>Total</b>                                                                                                                                                          | <b>64</b>    | <b>41</b>    | <b>26</b>    | <b>25</b>    |
| Minimum operating lease payments recognised in operating costs                                                                                                        | <b>325</b>   | <b>314</b>   | <b>316</b>   | <b>314</b>   |

\* Details of the directors' emoluments, pensions and their interests are disclosed in the remuneration report on pages 92 to 103.

\*\* Business expenses mainly comprise insurance costs, consulting and professional fees, travel expenses and subscriptions.



|                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Group             |                   | Company           |                   |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|
| For the year to 31 March                                                                                                                                                                                                                                                                                                                                                                                                                            | 2016              | 2015              | 2016              | 2015              |
| R'million                                                                                                                                                                                                                                                                                                                                                                                                                                           |                   |                   |                   |                   |
| <b>6. Share-based payments</b>                                                                                                                                                                                                                                                                                                                                                                                                                      |                   |                   |                   |                   |
| The group operates share option and long-term share incentive plans for employees the majority of which are on an equity-settled basis. The purpose of the staff share schemes is to promote an <i>esprit de corps</i> within the organisation, create an awareness of the Investec group's performance and provide an incentive to maximise individual and group performance by allowing all staff to share in the risks and rewards of the group. |                   |                   |                   |                   |
|  <b>Further information on the group share options and long-term incentive plans are provided in the remuneration report and on our website.</b>                                                                                                                                                                                                                   |                   |                   |                   |                   |
| <b>Equity-settled share-based payment expense charged to the income statement</b>                                                                                                                                                                                                                                                                                                                                                                   | <b>652</b>        | <b>510</b>        | <b>628</b>        | <b>493</b>        |
| <b>Fair value of options at grant date</b>                                                                                                                                                                                                                                                                                                                                                                                                          | <b>522</b>        | <b>609</b>        | <b>494</b>        | <b>589</b>        |
| <b>Details of options outstanding during the year</b>                                                                                                                                                                                                                                                                                                                                                                                               |                   |                   |                   |                   |
| Outstanding at the beginning of the year                                                                                                                                                                                                                                                                                                                                                                                                            | 31 551 754        | 32 113 711        | 30 362 808        | 30 854 481        |
| Relocation of employees during the year                                                                                                                                                                                                                                                                                                                                                                                                             | 277 528           | 245 965           | 133 778           | 244 527           |
| Granted during the year                                                                                                                                                                                                                                                                                                                                                                                                                             | 6 139 400         | 8 755 401         | 5 817 487         | 8 477 151         |
| Exercised during the year <sup>^</sup>                                                                                                                                                                                                                                                                                                                                                                                                              | (7 985 662)       | (8 658 071)       | (7 676 562)       | (8 314 349)       |
| Lapsed during the year                                                                                                                                                                                                                                                                                                                                                                                                                              | (1 081 340)       | (905 252)         | (1 053 214)       | (899 002)         |
| <b>Outstanding at the end of the year</b>                                                                                                                                                                                                                                                                                                                                                                                                           | <b>28 901 680</b> | <b>31 551 754</b> | <b>27 584 297</b> | <b>30 362 808</b> |
| <b>Vested and exercisable at the end of the year</b>                                                                                                                                                                                                                                                                                                                                                                                                | <b>10 065</b>     | <b>84 188</b>     | <b>10 065</b>     | <b>84 188</b>     |

<sup>^</sup> The weighted average share price and weighted average exercise during the year were R108.32 (2015: R96.85) and Rnil (2015: Rnil) respectively.

|                                                                                                                                                                                       | Group             |                  | Company           |                  |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|------------------|-------------------|------------------|
| For the year to 31 March                                                                                                                                                              | 2016              | 2015             | 2016              | 2015             |
| The exercise price range and weighted average remaining contractual life for the options outstanding were as follows:                                                                 |                   |                  |                   |                  |
| <b>Long-term incentive grants with no strike price</b>                                                                                                                                |                   |                  |                   |                  |
| Exercise price                                                                                                                                                                        | Rnil              | Rnil             | Rnil              | Rnil             |
| Weighted average remaining contractual life                                                                                                                                           | 2.03 years        | 2.22 years       | 2.03 years        | 2.23 years       |
| Weighted average fair value of options and long-term grants at measurement date                                                                                                       | R84.98            | R69.58           | R84.91            | R69.51           |
| <b>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:</b> |                   |                  |                   |                  |
| – Share price at date of grants                                                                                                                                                       | R109.98 – R120.88 | R90.00 – R100.57 | R109.98 – R120.88 | R90.00 – R100.57 |
| – Exercise price                                                                                                                                                                      | Rnil              | Rnil             | Rnil              | Rnil             |
| – Expected volatility                                                                                                                                                                 | 30%               | 25.24% – 30%     | 30%               | 25.24% – 30%     |
| – Option life                                                                                                                                                                         | 4.0 – 5.0 years   | 4.5 – 5.0 years  | 4.0 – 5.0 years   | 4.5 – 5.0 years  |
| – Expected dividend yields                                                                                                                                                            | 4.02% – 4.19%     | 4.45% – 4.62%    | 4.02% – 4.19%     | 4.45% – 4.62%    |
| – Risk-free rate                                                                                                                                                                      | 7.49% – 7.66%     | 6.78% – 7.18%    | 7.49% – 7.66%     | 6.78% – 7.18%    |

Expected volatility was determined based on the implied volatility levels quoted by the equity derivatives' trading desk. The expected volatility is based on the respective share price movement over the last six months, but also includes an element of forward expectation. The expected attrition rates used were determined based on historical group data with an adjustment to actual attrition on final vesting.



For information on the share options granted to directors, refer to the remuneration report on pages 98 to 101.

(continued)

|                                                                          | Group        |              | Company      |              |
|--------------------------------------------------------------------------|--------------|--------------|--------------|--------------|
| For the year to 31 March<br>R'million                                    | 2016         | 2015         | 2016         | 2015         |
| <b>7. Taxation</b>                                                       |              |              |              |              |
| <b>Income statement tax charge</b>                                       |              |              |              |              |
| Taxation on income                                                       |              |              |              |              |
| South Africa                                                             | 790          | 520          | 766          | 447          |
| – Current taxation                                                       | 815          | 661          | 731          | 597          |
| – Deferred taxation                                                      | (25)         | (141)        | 35           | (150)        |
| Foreign taxation – Mauritius                                             | 30           | 25           | –            | –            |
| <b>Total taxation charge as per income statement</b>                     | <b>820</b>   | <b>545</b>   | <b>766</b>   | <b>447</b>   |
| <b>Total taxation charge for the year comprises:</b>                     |              |              |              |              |
| Taxation on operating profit before acquitted intangibles                | 831          | 545          | 766          | 447          |
| Taxation on acquired intangibles                                         | (11)         | –            | –            | –            |
|                                                                          | <b>820</b>   | <b>545</b>   | <b>766</b>   | <b>447</b>   |
| <b>Tax rate reconciliation:</b>                                          |              |              |              |              |
| Profit before taxation as per income statement                           | 4 295        | 3 673        | 4 467        | 3 090        |
| Total taxation charge as per income statement                            | 820          | 545          | 766          | 447          |
| <b>Effective rate of taxation</b>                                        | <b>19.1%</b> | <b>14.8%</b> | <b>17.1%</b> | <b>14.5%</b> |
| The standard rate of South African normal taxation has been affected by: |              |              |              |              |
| Dividend income                                                          | 7.0%         | 10.3%        | 11.9%        | 15.1%        |
| Foreign earnings*                                                        | 2.9%         | 4.1%         | –            | –            |
| Profits of capital nature                                                | 7.1%         | 1.6%         | 6.8%         | 1.9%         |
| Other non-taxable/non-deductible differences                             | (8.1%)       | (2.8%)       | (7.8%)       | (3.5%)       |
|                                                                          | <b>28.0%</b> | <b>28.0%</b> | <b>28.0%</b> | <b>28.0%</b> |

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

|                                                                                                | Group   |       | Company |       |
|------------------------------------------------------------------------------------------------|---------|-------|---------|-------|
| For the year to 31 March                                                                       |         |       |         |       |
| R'million                                                                                      | 2016    | 2015  | 2016    | 2015  |
| <b>7. Taxation</b> <i>(continued)</i>                                                          |         |       |         |       |
| <b>Other comprehensive income taxation effects</b>                                             |         |       |         |       |
| Fair value movements on cash flow hedges taken directly to other comprehensive income          | (699)   | (619) | (645)   | (612) |
| – Pre-taxation                                                                                 | (1 138) | (576) | (1 084) | (569) |
| – Current tax                                                                                  | 439     | 31    | 439     | 31    |
| – Deferred tax                                                                                 | –       | (74)  | –       | (74)  |
| Fair value movements on available-for-sale assets taken directly to other comprehensive income | (717)   | 322   | (683)   | 328   |
| – Pre-taxation                                                                                 | (788)   | 380   | (754)   | 386   |
| – Deferred tax                                                                                 | 71      | (58)  | 71      | (58)  |
| Gain on realisation of available-for-sale assets recycled through the income statement         | (13)    | –     | (13)    | –     |
| – Pre-taxation                                                                                 | (18)    | –     | (18)    | –     |
| – Taxation effect                                                                              | 5       | –     | 5       | –     |

|                                                                    | Group        |              | Company      |              |
|--------------------------------------------------------------------|--------------|--------------|--------------|--------------|
| For the year to 31 March                                           |              |              |              |              |
| R'million                                                          | 2016         | 2015         | 2016         | 2015         |
| <b>8. Headline earnings</b>                                        |              |              |              |              |
| Profit after taxation                                              | 3 475        | 3 128        | 3 701        | 2 643        |
| Preference dividends paid                                          | (120)        | (114)        | (120)        | (114)        |
| <b>Earnings attributable to ordinary shareholders</b>              | <b>3 355</b> | <b>3 014</b> | <b>3 581</b> | <b>2 529</b> |
| Headline adjustments, net of taxation*                             | 94           | –            | 94           | –            |
| Gain on available-for-sale assets recycled to the income statement | (13)         | –            | (13)         | –            |
| Write down of non-current assets classified as held-for-sale       | 107          | –            | 107          | –            |
| <b>Headline earnings attributable to ordinary shareholders</b>     | <b>3 449</b> | <b>3 014</b> | <b>3 675</b> | <b>2 529</b> |

\* These amounts are net of taxation of R19.3 million (2015: Rnil) for both group and company.

| For the year to 31 March                                                                                     | Group              |            |                    |            | Company            |            |                    |            |
|--------------------------------------------------------------------------------------------------------------|--------------------|------------|--------------------|------------|--------------------|------------|--------------------|------------|
|                                                                                                              | 2016               |            | 2015               |            | 2016               |            | 2015               |            |
|                                                                                                              | Cents<br>per share | R'million  | Cents<br>per share | R'million  | Cents<br>per share | R'million  | Cents<br>per share | R'million  |
| <b>9. Dividends</b>                                                                                          |                    |            |                    |            |                    |            |                    |            |
| <b>Perpetual preference dividend</b>                                                                         |                    |            |                    |            |                    |            |                    |            |
| Final dividend in prior year                                                                                 | 384.35             | 59         | 360.15             | 55         | 384.35             | 59         | 360.15             | 55         |
| Interim dividend for current year                                                                            | 390.40             | 61         | 380.29             | 59         | 390.40             | 61         | 380.29             | 59         |
| <b>Total dividend attributable to perpetual preference shareholders recognised in current financial year</b> | <b>774.75</b>      | <b>120</b> | <b>740.44</b>      | <b>114</b> | <b>774.75</b>      | <b>120</b> | <b>740.44</b>      | <b>114</b> |

The directors have declared a final dividend in respect of the financial year ended 31 March 2016 of 412.48350 cents (2015: 384.34536 cents) per perpetual preference share.



# Notes to the financial statements

(continued)

| For the year to 31 March<br>R'million                                                 | At fair value through<br>profit or loss |                            |
|---------------------------------------------------------------------------------------|-----------------------------------------|----------------------------|
|                                                                                       | Trading                                 | Designated<br>at inception |
| <b>10. Analysis of income and impairments by category<br/>of financial instrument</b> |                                         |                            |
| <b>Group</b>                                                                          |                                         |                            |
| <b>2016</b>                                                                           |                                         |                            |
| Net interest income                                                                   | 225                                     | 786                        |
| Fee and commission income                                                             | 28                                      | 2                          |
| Fee and commission expense                                                            | –                                       | –                          |
| Investment income                                                                     | –                                       | 108                        |
| Trading income arising from                                                           |                                         |                            |
| – customer flow                                                                       | 286                                     | 7                          |
| – balance sheet management and other trading activities                               | (46)                                    | 237                        |
| Other operating loss                                                                  | –                                       | –                          |
| <b>Total operating income before impairment losses on loans and advances</b>          | <b>493</b>                              | <b>1 140</b>               |
| Impairment losses on loans and advances                                               | –                                       | –                          |
| <b>Operating income</b>                                                               | <b>493</b>                              | <b>1 140</b>               |
| <b>2015</b>                                                                           |                                         |                            |
| Net interest income                                                                   | 468                                     | 781                        |
| Fee and commission income                                                             | –                                       | 8                          |
| Fee and commission expense                                                            | –                                       | (14)                       |
| Investment income                                                                     | –                                       | 1 246                      |
| Trading income arising from                                                           |                                         |                            |
| – customer flow                                                                       | 288                                     | 2                          |
| – balance sheet management and other trading activities                               | 461                                     | (212)                      |
| Other operating income                                                                | –                                       | –                          |
| <b>Total operating income before impairment losses on loans and advances</b>          | <b>1 217</b>                            | <b>1 811</b>               |
| Impairment losses on loans and advances                                               | –                                       | –                          |
| <b>Operating income</b>                                                               | <b>1 217</b>                            | <b>1 811</b>               |

# Notes to the financial statements

FIVE

(continued)

| Held-to-maturity | Loans and receivables | Available-for-sale | Financial liabilities at amortised cost | Non-financial instruments | Other fee income | Total         |
|------------------|-----------------------|--------------------|-----------------------------------------|---------------------------|------------------|---------------|
| 613              | 18 022                | 1 644              | (14 580)                                | 2                         | –                | 6 712         |
| –                | 1 112                 | 3                  | 25                                      | 138                       | 637              | 1 945         |
| –                | (120)                 | (36)               | (6)                                     | (45)                      | –                | (207)         |
| –                | 20                    | 1 189              | –                                       | 39                        | –                | 1 356         |
| –                | –                     | –                  | –                                       | –                         | –                | 293           |
| –                | 88                    | 71                 | (52)                                    | –                         | –                | 298           |
| –                | –                     | –                  | –                                       | (9)                       | –                | (9)           |
| <b>613</b>       | <b>19 122</b>         | <b>2 871</b>       | <b>(14 613)</b>                         | <b>125</b>                | <b>637</b>       | <b>10 388</b> |
| –                | (517)                 | –                  | –                                       | –                         | –                | (517)         |
| <b>613</b>       | <b>18 605</b>         | <b>2 871</b>       | <b>(14 613)</b>                         | <b>125</b>                | <b>637</b>       | <b>9 871</b>  |
| 831              | 15 476                | 641                | (12 676)                                | –                         | –                | 5 521         |
| –                | 458                   | –                  | 36                                      | 1                         | 1 158            | 1 661         |
| –                | (76)                  | –                  | (64)                                    | (2)                       | (51)             | (207)         |
| (17)             | 45                    | 116                | –                                       | 30                        | –                | 1 420         |
| –                | –                     | –                  | –                                       | –                         | –                | 290           |
| –                | 11                    | –                  | –                                       | –                         | –                | 260           |
| –                | –                     | –                  | –                                       | 1                         | –                | 1             |
| <b>814</b>       | <b>15 914</b>         | <b>757</b>         | <b>(12 704)</b>                         | <b>30</b>                 | <b>1 107</b>     | <b>8 946</b>  |
| –                | (455)                 | –                  | –                                       | –                         | –                | (455)         |
| <b>814</b>       | <b>15 459</b>         | <b>757</b>         | <b>(12 704)</b>                         | <b>30</b>                 | <b>1 107</b>     | <b>8 491</b>  |



## Notes to the financial statements

(continued)

| For the year to 31 March<br>R'million                                                                    | At fair value through<br>profit or loss |                            |
|----------------------------------------------------------------------------------------------------------|-----------------------------------------|----------------------------|
|                                                                                                          | Trading                                 | Designated<br>at inception |
| <b>10. Analysis of income and impairments by category<br/>of financial instrument</b> <i>(continued)</i> |                                         |                            |
| <b>Company</b>                                                                                           |                                         |                            |
| <b>2016</b>                                                                                              |                                         |                            |
| Net interest income                                                                                      | 294                                     | 783                        |
| Fee and commission income                                                                                | 9                                       | 2                          |
| Fee and commission expense                                                                               | –                                       | –                          |
| Investment income                                                                                        | –                                       | 92                         |
| Trading income arising from                                                                              |                                         |                            |
| – customer flow                                                                                          | 294                                     | 8                          |
| – balance sheet management and other trading activities                                                  | (54)                                    | 280                        |
| Other operating income                                                                                   | –                                       | –                          |
| <b>Total operating income before impairment losses on loans and advances</b>                             | <b>543</b>                              | <b>1 165</b>               |
| Impairment losses on loans and advances                                                                  | –                                       | –                          |
| <b>Operating income</b>                                                                                  | <b>543</b>                              | <b>1 165</b>               |
| <b>2015</b>                                                                                              |                                         |                            |
| Net interest income                                                                                      | 557                                     | 775                        |
| Fee and commission income                                                                                | –                                       | 8                          |
| Fee and commission expense                                                                               | –                                       | (14)                       |
| Investment income                                                                                        | –                                       | 1 116                      |
| Trading income arising from                                                                              |                                         |                            |
| – customer flow                                                                                          | 317                                     | –                          |
| – balance sheet management and other trading activities                                                  | 466                                     | (212)                      |
| <b>Total operating income before impairment losses on loans and advances</b>                             | <b>1 340</b>                            | <b>1 673</b>               |
| Impairment losses on loans and advances                                                                  | –                                       | –                          |
| <b>Operating income</b>                                                                                  | <b>1 340</b>                            | <b>1 673</b>               |



# Notes to the financial statements

FIVE

(continued)

| Held-to-maturity | Loans and receivables | Available-for-sale | Financial liabilities at amortised cost | Non-financial instruments | Other fee income | Total         |
|------------------|-----------------------|--------------------|-----------------------------------------|---------------------------|------------------|---------------|
| 529              | 16 785                | 1 609              | (14 368)                                | 3                         | –                | 5 635         |
| –                | 858                   | 3                  | 1                                       | 138                       | 636              | 1 647         |
| –                | (79)                  | (36)               | (5)                                     | (45)                      | –                | (165)         |
| –                | 20                    | 1 189              | –                                       | 983                       | –                | 2 284         |
| –                | –                     | –                  | –                                       | –                         | –                | 302           |
| –                | 99                    | 71                 | (52)                                    | –                         | –                | 345           |
| –                | –                     | –                  | –                                       | 1                         | –                | 1             |
| <b>529</b>       | <b>17 683</b>         | <b>2 836</b>       | <b>(14 424)</b>                         | <b>1 080</b>              | <b>636</b>       | <b>10 049</b> |
| –                | (496)                 | –                  | –                                       | –                         | –                | (496)         |
| <b>529</b>       | <b>17 187</b>         | <b>2 836</b>       | <b>(14 424)</b>                         | <b>1 080</b>              | <b>636</b>       | <b>9 553</b>  |
| 773              | 14 395                | 605                | (12 473)                                | –                         | –                | 4 632         |
| –                | 367                   | –                  | (1)                                     | 1                         | 1 146            | 1 521         |
| –                | (31)                  | –                  | (64)                                    | –                         | (50)             | (159)         |
| (17)             | 40                    | 113                | –                                       | 279                       | –                | 1 531         |
| –                | –                     | –                  | –                                       | –                         | –                | 317           |
| –                | 15                    | –                  | –                                       | –                         | –                | 269           |
| <b>756</b>       | <b>14 786</b>         | <b>718</b>         | <b>(12 538)</b>                         | <b>280</b>                | <b>1 096</b>     | <b>8 111</b>  |
| –                | (468)                 | –                  | –                                       | –                         | –                | (468)         |
| <b>756</b>       | <b>14 318</b>         | <b>718</b>         | <b>(12 538)</b>                         | <b>280</b>                | <b>1 096</b>     | <b>7 643</b>  |



# Notes to the financial statements

(continued)

| At 31 March<br>R'million                                                         | At fair value through<br>profit or loss |                            |
|----------------------------------------------------------------------------------|-----------------------------------------|----------------------------|
|                                                                                  | Trading                                 | Designated<br>at inception |
| <b>11. Analysis of financial assets and liabilities<br/>by measurement basis</b> |                                         |                            |
| <b>Group</b>                                                                     |                                         |                            |
| <b>2016</b>                                                                      |                                         |                            |
| <b>Assets</b>                                                                    |                                         |                            |
| Cash and balances at central banks                                               | –                                       | –                          |
| Loans and advances to banks                                                      | –                                       | –                          |
| Non-sovereign and non-bank cash placements                                       | 3                                       | –                          |
| Reverse repurchase agreements and cash collateral on securities borrowed         | 24 155                                  | –                          |
| Sovereign debt securities                                                        | –                                       | 28 920                     |
| Bank debt securities                                                             | –                                       | 1 114                      |
| Other debt securities                                                            | –                                       | 298                        |
| Derivative financial instruments*                                                | 15 843                                  | –                          |
| Securities arising from trading activities                                       | 992                                     | –                          |
| Investment portfolio                                                             | –                                       | 3 796                      |
| Loans and advances to customers                                                  | –                                       | 12 241                     |
| Own originated loans and advances to customers securitised                       | –                                       | –                          |
| Other loans and advances                                                         | –                                       | –                          |
| Other securitised assets                                                         | –                                       | –                          |
| Interests in associated undertakings                                             | –                                       | –                          |
| Deferred taxation assets                                                         | –                                       | –                          |
| Other assets                                                                     | 324                                     | –                          |
| Property and equipment                                                           | –                                       | –                          |
| Investment properties                                                            | –                                       | –                          |
| Goodwill                                                                         | –                                       | –                          |
| Intangible assets                                                                | –                                       | –                          |
| Loans to group companies                                                         | (101)                                   | –                          |
|                                                                                  | <b>41 216</b>                           | <b>46 369</b>              |
| <b>Liabilities</b>                                                               |                                         |                            |
| Deposits by banks                                                                | –                                       | –                          |
| Derivative financial instruments*                                                | 13 424                                  | –                          |
| Other trading liabilities                                                        | 1 405                                   | –                          |
| Repurchase agreements and cash collateral on securities lent                     | 2 509                                   | –                          |
| Customer accounts (deposits)                                                     | –                                       | 12 059                     |
| Debt securities in issue                                                         | –                                       | 5 080                      |
| Liabilities arising on securitisation of own originated loans and advances       | –                                       | –                          |
| Current taxation liabilities                                                     | –                                       | –                          |
| Deferred taxation liabilities                                                    | –                                       | –                          |
| Other liabilities                                                                | 680                                     | –                          |
|                                                                                  | <b>18 018</b>                           | <b>17 139</b>              |
| Subordinated liabilities                                                         | –                                       | –                          |
|                                                                                  | <b>18 018</b>                           | <b>17 139</b>              |

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

# Notes to the financial statements

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(continued)

| Available-for-sale | Total instruments at fair value | Held-to-maturity | Loans and receivables | Financial liabilities at amortised cost | Total instruments at amortised cost | Non-financial instruments or scoped out of IAS 39 | Total   |
|--------------------|---------------------------------|------------------|-----------------------|-----------------------------------------|-------------------------------------|---------------------------------------------------|---------|
| –                  | –                               | –                | 7 801                 | –                                       | 7 801                               | –                                                 | 7 801   |
| –                  | –                               | –                | 26 779                | –                                       | 26 779                              | –                                                 | 26 779  |
| –                  | 3                               | –                | 9 855                 | –                                       | 9 855                               | –                                                 | 9 858   |
| –                  | 24 155                          | –                | 14 757                | –                                       | 14 757                              | –                                                 | 38 912  |
| 8 687              | 37 607                          | 3 718            | –                     | –                                       | 3 718                               | –                                                 | 41 325  |
| 4 990              | 6 104                           | 6 272            | 1 592                 | –                                       | 7 864                               | –                                                 | 13 968  |
| 10 234             | 10 532                          | 1 374            | 855                   | –                                       | 2 229                               | –                                                 | 12 761  |
| –                  | 15 843                          | –                | –                     | –                                       | –                                   | –                                                 | 15 843  |
| –                  | 992                             | –                | –                     | –                                       | –                                   | –                                                 | 992     |
| 2 564              | 6 360                           | –                | –                     | –                                       | –                                   | –                                                 | 6 360   |
| –                  | 12 241                          | –                | 195 031               | –                                       | 195 031                             | –                                                 | 207 272 |
| –                  | –                               | –                | 7 967                 | –                                       | 7 967                               | –                                                 | 7 967   |
| –                  | –                               | –                | 367                   | –                                       | 367                                 | –                                                 | 367     |
| –                  | –                               | –                | 115                   | –                                       | 115                                 | –                                                 | 115     |
| –                  | –                               | –                | –                     | –                                       | –                                   | 5 145                                             | 5 145   |
| –                  | –                               | –                | –                     | –                                       | –                                   | 116                                               | 116     |
| –                  | 324                             | –                | 2 500                 | –                                       | 2 500                               | 832                                               | 3 656   |
| –                  | –                               | –                | –                     | –                                       | –                                   | 236                                               | 236     |
| –                  | –                               | –                | –                     | –                                       | –                                   | 1                                                 | 1       |
| –                  | –                               | –                | –                     | –                                       | –                                   | 171                                               | 171     |
| –                  | –                               | –                | –                     | –                                       | –                                   | 524                                               | 524     |
| –                  | (101)                           | –                | 5 561                 | –                                       | 5 561                               | –                                                 | 5 460   |
| 26 475             | 114 060                         | 11 364           | 273 080               | –                                       | 284 544                             | 7 025                                             | 405 629 |
| –                  | –                               | –                | –                     | 37 242                                  | 37 242                              | –                                                 | 37 242  |
| –                  | 13 424                          | –                | –                     | –                                       | –                                   | –                                                 | 13 424  |
| –                  | 1 405                           | –                | –                     | –                                       | –                                   | –                                                 | 1 405   |
| –                  | 2 509                           | –                | –                     | 14 407                                  | 14 407                              | –                                                 | 16 916  |
| –                  | 12 059                          | –                | –                     | 267 677                                 | 267 677                             | –                                                 | 279 736 |
| –                  | 5 080                           | –                | –                     | 2 585                                   | 2 585                               | –                                                 | 7 665   |
| –                  | –                               | –                | –                     | 809                                     | 809                                 | –                                                 | 809     |
| –                  | –                               | –                | –                     | –                                       | –                                   | 671                                               | 671     |
| –                  | –                               | –                | –                     | –                                       | –                                   | 122                                               | 122     |
| –                  | 680                             | –                | –                     | 1 233                                   | 1 233                               | 3 129                                             | 5 042   |
| –                  | 35 157                          | –                | –                     | 323 953                                 | 323 953                             | 3 922                                             | 363 032 |
| –                  | –                               | –                | –                     | 10 732                                  | 10 732                              | –                                                 | 10 732  |
| –                  | 35 157                          | –                | –                     | 334 685                                 | 334 685                             | 3 922                                             | 373 764 |

ANNUAL FINANCIAL STATEMENTS



# Notes to the financial statements

(continued)

| At 31 March<br>R'million                                                                     | At fair value through<br>profit or loss |                            |
|----------------------------------------------------------------------------------------------|-----------------------------------------|----------------------------|
|                                                                                              | Trading                                 | Designated<br>at inception |
| <b>11. Analysis of financial assets and liabilities<br/>by measurement basis (continued)</b> |                                         |                            |
| <b>Group</b>                                                                                 |                                         |                            |
| <b>2015</b>                                                                                  |                                         |                            |
| <b>Assets</b>                                                                                |                                         |                            |
| Cash and balances at central banks                                                           | –                                       | –                          |
| Loans and advances to banks                                                                  | –                                       | –                          |
| Non-sovereign and non-bank cash placements                                                   | 3                                       | –                          |
| Reverse repurchase agreements and cash collateral on securities borrowed                     | 10 095                                  | –                          |
| Sovereign debt securities                                                                    | –                                       | 23 337                     |
| Bank debt securities                                                                         | –                                       | 4 485                      |
| Other debt securities                                                                        | –                                       | 36                         |
| Derivative financial instruments*                                                            | 15 178                                  | –                          |
| Securities arising from trading activities                                                   | 1 289                                   | –                          |
| Investment portfolio                                                                         | –                                       | 7 811                      |
| Loans and advances to customers                                                              | –                                       | 12 034                     |
| Own originated loans and advances to customers securitised                                   | –                                       | –                          |
| Other loans and advances                                                                     | –                                       | –                          |
| Other securitised assets                                                                     | –                                       | –                          |
| Interests in associated undertakings                                                         | –                                       | –                          |
| Deferred taxation assets                                                                     | –                                       | –                          |
| Other assets                                                                                 | 2                                       | –                          |
| Property and equipment                                                                       | –                                       | –                          |
| Investment properties                                                                        | –                                       | –                          |
| Intangible assets                                                                            | –                                       | –                          |
| Loans to group companies                                                                     | –                                       | –                          |
| Non-current assets classified as held for sale                                               | –                                       | –                          |
|                                                                                              | <b>26 567</b>                           | <b>47 703</b>              |
| <b>Liabilities</b>                                                                           |                                         |                            |
| Deposits by banks                                                                            | –                                       | –                          |
| Derivative financial instruments*                                                            | 12 401                                  | –                          |
| Other trading liabilities                                                                    | 1 623                                   | –                          |
| Repurchase agreements and cash collateral on securities lent                                 | 1 148                                   | –                          |
| Customer accounts (deposits)                                                                 | –                                       | 16 609                     |
| Debt securities in issue                                                                     | –                                       | 3 366                      |
| Liabilities arising on securitisation of own originated loans and advances                   | –                                       | –                          |
| Current taxation liabilities                                                                 | –                                       | –                          |
| Deferred taxation liabilities                                                                | –                                       | –                          |
| Other liabilities                                                                            | 690                                     | –                          |
|                                                                                              | <b>15 862</b>                           | <b>19 975</b>              |
| Subordinated liabilities                                                                     | –                                       | –                          |
|                                                                                              | <b>15 862</b>                           | <b>19 975</b>              |

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

# Notes to the financial statements

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(continued)

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| Available-for-sale | Total instruments at fair value | Held-to-maturity | Loans and receivables | Financial liabilities at amortised cost | Total instruments at amortised cost | Non-financial instruments or scoped out of IAS 39 | Total          |
|--------------------|---------------------------------|------------------|-----------------------|-----------------------------------------|-------------------------------------|---------------------------------------------------|----------------|
| –                  | –                               | –                | 6 261                 | –                                       | 6 261                               | –                                                 | 6 261          |
| –                  | –                               | –                | 33 422                | –                                       | 33 422                              | –                                                 | 33 422         |
| –                  | 3                               | –                | 10 537                | –                                       | 10 537                              | –                                                 | 10 540         |
| –                  | 10 095                          | –                | –                     | –                                       | –                                   | –                                                 | 10 095         |
| 4 487              | 27 824                          | 3 554            | –                     | –                                       | 3 554                               | –                                                 | 31 378         |
| 3 132              | 7 617                           | 8 426            | 1 289                 | –                                       | 9 715                               | –                                                 | 17 332         |
| 6 787              | 6 823                           | 1 468            | 4 458                 | –                                       | 5 926                               | –                                                 | 12 749         |
| –                  | 15 178                          | –                | –                     | –                                       | –                                   | –                                                 | 15 178         |
| –                  | 1 289                           | –                | –                     | –                                       | –                                   | –                                                 | 1 289          |
| 2 161              | 9 972                           | –                | –                     | –                                       | –                                   | –                                                 | 9 972          |
| –                  | 12 034                          | –                | 160 959               | –                                       | 160 959                             | –                                                 | 172 993        |
| –                  | –                               | –                | 4 535                 | –                                       | 4 535                               | –                                                 | 4 535          |
| –                  | –                               | –                | 472                   | –                                       | 472                                 | –                                                 | 472            |
| –                  | –                               | –                | 618                   | –                                       | 618                                 | –                                                 | 618            |
| –                  | –                               | –                | –                     | –                                       | –                                   | 60                                                | 60             |
| –                  | –                               | –                | –                     | –                                       | –                                   | 88                                                | 88             |
| –                  | 2                               | –                | 875                   | –                                       | 875                                 | 385                                               | 1 262          |
| –                  | –                               | –                | –                     | –                                       | –                                   | 192                                               | 192            |
| –                  | –                               | –                | –                     | –                                       | –                                   | 80                                                | 80             |
| –                  | –                               | –                | –                     | –                                       | –                                   | 190                                               | 190            |
| –                  | –                               | –                | 3 268                 | –                                       | 3 268                               | –                                                 | 3 268          |
| –                  | –                               | –                | –                     | –                                       | –                                   | 732                                               | 732            |
| <b>16 567</b>      | <b>90 837</b>                   | <b>13 448</b>    | <b>226 694</b>        | <b>–</b>                                | <b>240 142</b>                      | <b>1 727</b>                                      | <b>332 706</b> |
| –                  | –                               | –                | –                     | 29 792                                  | 29 792                              | –                                                 | 29 792         |
| –                  | 12 401                          | –                | –                     | –                                       | –                                   | –                                                 | 12 401         |
| –                  | 1 623                           | –                | –                     | –                                       | –                                   | –                                                 | 1 623          |
| –                  | 1 148                           | –                | –                     | 15 408                                  | 15 408                              | –                                                 | 16 556         |
| –                  | 16 609                          | –                | –                     | 204 768                                 | 204 768                             | –                                                 | 221 377        |
| –                  | 3 366                           | –                | –                     | 2 151                                   | 2 151                               | –                                                 | 5 517          |
| –                  | –                               | –                | –                     | 1 089                                   | 1 089                               | –                                                 | 1 089          |
| –                  | –                               | –                | –                     | –                                       | –                                   | 1 186                                             | 1 186          |
| –                  | –                               | –                | –                     | –                                       | –                                   | 76                                                | 76             |
| –                  | 690                             | –                | –                     | 835                                     | 835                                 | 2 216                                             | 3 741          |
| –                  | <b>35 837</b>                   | <b>–</b>         | <b>–</b>              | <b>254 043</b>                          | <b>254 043</b>                      | <b>3 478</b>                                      | <b>293 358</b> |
| –                  | –                               | –                | –                     | 10 449                                  | 10 449                              | –                                                 | 10 449         |
| –                  | <b>35 837</b>                   | <b>–</b>         | <b>–</b>              | <b>264 492</b>                          | <b>264 492</b>                      | <b>3 478</b>                                      | <b>303 807</b> |



# Notes to the financial statements

(continued)

| At 31 March<br>R'million                                                                     | At fair value through<br>profit or loss |                            |
|----------------------------------------------------------------------------------------------|-----------------------------------------|----------------------------|
|                                                                                              | Trading                                 | Designated<br>at inception |
| <b>11. Analysis of financial assets and liabilities<br/>by measurement basis (continued)</b> |                                         |                            |
| <b>Company</b>                                                                               |                                         |                            |
| <b>2016</b>                                                                                  |                                         |                            |
| <b>Assets</b>                                                                                |                                         |                            |
| Cash and balances at central banks                                                           | –                                       | –                          |
| Loans and advances to banks                                                                  | –                                       | –                          |
| Non-sovereign and non-bank cash placements                                                   | 3                                       | –                          |
| Reverse repurchase agreements and cash collateral on securities borrowed                     | 24 155                                  | –                          |
| Sovereign debt securities                                                                    | –                                       | 28 920                     |
| Bank debt securities                                                                         | –                                       | 1 114                      |
| Other debt securities                                                                        | –                                       | 298                        |
| Derivative financial instruments*                                                            | 15 616                                  | –                          |
| Securities arising from trading activities                                                   | 992                                     | –                          |
| Investment portfolio                                                                         | –                                       | 3 403                      |
| Loans and advances to customers                                                              | –                                       | 12 241                     |
| Other loans and advances                                                                     | –                                       | –                          |
| Interests in associated undertakings                                                         | –                                       | –                          |
| Other assets                                                                                 | 324                                     | –                          |
| Property and equipment                                                                       | –                                       | –                          |
| Investment properties                                                                        | –                                       | –                          |
| Intangible assets                                                                            | –                                       | –                          |
| Loans to group companies                                                                     | –                                       | –                          |
| Investment in subsidiaries                                                                   | –                                       | –                          |
|                                                                                              | <b>41 090</b>                           | <b>45 976</b>              |
| <b>Liabilities</b>                                                                           |                                         |                            |
| Deposits by banks                                                                            | –                                       | –                          |
| Derivative financial instruments*                                                            | 13 424                                  | –                          |
| Other trading liabilities                                                                    | 1 405                                   | –                          |
| Repurchase agreements and cash collateral on securities lent                                 | 2 509                                   | –                          |
| Customer accounts (deposits)                                                                 | –                                       | 12 059                     |
| Debt securities in issue                                                                     | –                                       | 5 080                      |
| Current taxation liabilities                                                                 | –                                       | –                          |
| Other liabilities                                                                            | 680                                     | –                          |
|                                                                                              | <b>18 018</b>                           | <b>17 139</b>              |
| Subordinated liabilities                                                                     | –                                       | –                          |
|                                                                                              | <b>18 018</b>                           | <b>17 139</b>              |

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

# Notes to the financial statements

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(continued)

| Available-for-sale | Total instruments at fair value | Held-to-maturity | Loans and receivables | Financial liabilities at amortised cost | Total instruments at amortised cost | Non-financial instruments or scoped out of IAS 39 | Total   |
|--------------------|---------------------------------|------------------|-----------------------|-----------------------------------------|-------------------------------------|---------------------------------------------------|---------|
| -                  | -                               | -                | 7 654                 | -                                       | 7 654                               | -                                                 | 7 654   |
| -                  | -                               | -                | 21 385                | -                                       | 21 385                              | -                                                 | 21 385  |
| -                  | 3                               | -                | 9 979                 | -                                       | 9 979                               | -                                                 | 9 982   |
| -                  | 24 155                          | -                | 14 757                | -                                       | 14 757                              | -                                                 | 38 912  |
| 8 687              | 37 607                          | 3 718            | -                     | -                                       | 3 718                               | -                                                 | 41 325  |
| 4 990              | 6 104                           | 4 621            | 1 592                 | -                                       | 6 213                               | -                                                 | 12 317  |
| 9 142              | 9 440                           | 1 184            | 730                   | -                                       | 1 914                               | -                                                 | 11 354  |
| -                  | 15 616                          | -                | -                     | -                                       | -                                   | -                                                 | 15 616  |
| -                  | 992                             | -                | -                     | -                                       | -                                   | -                                                 | 992     |
| 2 520              | 5 923                           | -                | -                     | -                                       | -                                   | -                                                 | 5 923   |
| -                  | 12 241                          | -                | 182 337               | -                                       | 182 337                             | -                                                 | 194 578 |
| -                  | -                               | -                | 373                   | -                                       | 373                                 | -                                                 | 373     |
| -                  | -                               | -                | -                     | -                                       | -                                   | 5 086                                             | 5 086   |
| -                  | 324                             | -                | 987                   | -                                       | 987                                 | 423                                               | 1 734   |
| -                  | -                               | -                | -                     | -                                       | -                                   | 198                                               | 198     |
| -                  | -                               | -                | -                     | -                                       | -                                   | 1                                                 | 1       |
| -                  | -                               | -                | -                     | -                                       | -                                   | 133                                               | 133     |
| -                  | -                               | -                | 6 323                 | -                                       | 6 323                               | -                                                 | 6 323   |
| -                  | -                               | -                | 3 979                 | -                                       | 3 979                               | 1 653                                             | 5 632   |
| 25 339             | 112 405                         | 9 523            | 250 096               | -                                       | 259 619                             | 7 494                                             | 379 518 |
| -                  | -                               | -                | -                     | 37 108                                  | 37 108                              | -                                                 | 37 108  |
| -                  | 13 424                          | -                | -                     | -                                       | -                                   | -                                                 | 13 424  |
| -                  | 1 405                           | -                | -                     | -                                       | -                                   | -                                                 | 1 405   |
| -                  | 2 509                           | -                | -                     | 12 816                                  | 12 816                              | -                                                 | 15 325  |
| -                  | 12 059                          | -                | -                     | 251 719                                 | 251 719                             | -                                                 | 263 778 |
| -                  | 5 080                           | -                | -                     | 1 590                                   | 1 590                               | -                                                 | 6 670   |
| -                  | -                               | -                | -                     | -                                       | -                                   | 950                                               | 950     |
| -                  | 680                             | -                | -                     | 860                                     | 860                                 | 2 497                                             | 4 037   |
| -                  | 35 157                          | -                | -                     | 304 093                                 | 304 093                             | 3 447                                             | 342 697 |
| -                  | -                               | -                | -                     | 10 732                                  | 10 732                              | -                                                 | 10 732  |
| -                  | 35 157                          | -                | -                     | 314 825                                 | 314 825                             | 3 447                                             | 353 429 |

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| At 31 March<br>R'million                                                                     | At fair value through<br>profit or loss |                            |
|----------------------------------------------------------------------------------------------|-----------------------------------------|----------------------------|
|                                                                                              | Trading                                 | Designated<br>at inception |
| <b>11. Analysis of financial assets and liabilities<br/>by measurement basis (continued)</b> |                                         |                            |
| <b>Company</b>                                                                               |                                         |                            |
| <b>2015</b>                                                                                  |                                         |                            |
| <b>Assets</b>                                                                                |                                         |                            |
| Cash and balances at central banks                                                           | –                                       | –                          |
| Loans and advances to banks                                                                  | –                                       | –                          |
| Non-sovereign and non-bank cash placements                                                   | 3                                       | –                          |
| Reverse repurchase agreements and cash collateral on securities borrowed                     | 9 926                                   | –                          |
| Sovereign debt securities                                                                    | –                                       | 23 337                     |
| Bank debt securities                                                                         | –                                       | 4 485                      |
| Other debt securities                                                                        | –                                       | –                          |
| Derivative financial instruments*                                                            | 14 969                                  | –                          |
| Securities arising from trading activities                                                   | 1 289                                   | –                          |
| Investment portfolio                                                                         | –                                       | 7 420                      |
| Loans and advances to customers                                                              | –                                       | 12 034                     |
| Other loans and advances                                                                     | –                                       | –                          |
| Other securitised assets                                                                     | –                                       | –                          |
| Other assets                                                                                 | 2                                       | –                          |
| Property and equipment                                                                       | –                                       | –                          |
| Investment properties                                                                        | –                                       | –                          |
| Intangible assets                                                                            | –                                       | –                          |
| Loans to group companies                                                                     | –                                       | –                          |
| Investment in subsidiaries                                                                   | –                                       | –                          |
| Non-current assets classified as held for sale                                               | –                                       | –                          |
|                                                                                              | <b>26 189</b>                           | <b>47 276</b>              |
| <b>Liabilities</b>                                                                           |                                         |                            |
| Deposits by banks                                                                            | –                                       | –                          |
| Derivative financial instruments*                                                            | 12 401                                  | –                          |
| Other trading liabilities                                                                    | 1 623                                   | –                          |
| Repurchase agreements and cash collateral on securities lent                                 | 1 149                                   | –                          |
| Customer accounts (deposits)                                                                 | –                                       | 16 609                     |
| Debt securities in issue                                                                     | –                                       | 3 366                      |
| Current taxation liabilities                                                                 | –                                       | –                          |
| Deferred taxation liabilities                                                                | –                                       | –                          |
| Other liabilities                                                                            | 691                                     | –                          |
|                                                                                              | <b>15 864</b>                           | <b>19 975</b>              |
| Subordinated liabilities                                                                     | –                                       | –                          |
|                                                                                              | <b>15 864</b>                           | <b>19 975</b>              |

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

# Notes to the financial statements

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(continued)

ANNUAL FINANCIAL STATEMENTS

| Available-for-sale | Total instruments at fair value | Held-to-maturity | Loans and receivables | Financial liabilities at amortised cost | Total instruments at amortised cost | Non-financial instruments or scoped out of IAS 39 | Total   |
|--------------------|---------------------------------|------------------|-----------------------|-----------------------------------------|-------------------------------------|---------------------------------------------------|---------|
| -                  | -                               | -                | 6 148                 | -                                       | 6 148                               | -                                                 | 6 148   |
| -                  | -                               | -                | 30 284                | -                                       | 30 284                              | -                                                 | 30 284  |
| -                  | 3                               | -                | 10 537                | -                                       | 10 537                              | -                                                 | 10 540  |
| -                  | 9 926                           | -                | -                     | -                                       | -                                   | -                                                 | 9 926   |
| 4 467              | 27 804                          | 3 554            | -                     | -                                       | 3 554                               | -                                                 | 31 358  |
| 3 132              | 7 617                           | 7 075            | 1 289                 | -                                       | 8 364                               | -                                                 | 15 981  |
| 6 132              | 6 132                           | 1 290            | 5 968                 | -                                       | 7 258                               | -                                                 | 13 390  |
| -                  | 14 969                          | -                | -                     | -                                       | -                                   | -                                                 | 14 969  |
| -                  | 1 289                           | -                | -                     | -                                       | -                                   | -                                                 | 1 289   |
| 2 161              | 9 581                           | -                | -                     | -                                       | -                                   | -                                                 | 9 581   |
| -                  | 12 034                          | -                | 146 994               | -                                       | 146 994                             | -                                                 | 159 028 |
| -                  | -                               | -                | 476                   | -                                       | 476                                 | -                                                 | 476     |
| -                  | -                               | -                | 137                   | -                                       | 137                                 | -                                                 | 137     |
| -                  | 2                               | -                | 780                   | -                                       | 780                                 | 212                                               | 994     |
| -                  | -                               | -                | -                     | -                                       | -                                   | 187                                               | 187     |
| -                  | -                               | -                | -                     | -                                       | -                                   | 80                                                | 80      |
| -                  | -                               | -                | -                     | -                                       | -                                   | 177                                               | 177     |
| -                  | -                               | -                | 2 825                 | -                                       | 2 825                               | -                                                 | 2 825   |
| -                  | -                               | -                | -                     | -                                       | -                                   | 6 430                                             | 6 430   |
| -                  | -                               | -                | -                     | -                                       | -                                   | 732                                               | 732     |
| 15 892             | 89 357                          | 11 919           | 205 438               | -                                       | 217 357                             | 7 818                                             | 314 532 |
| -                  | -                               | -                | -                     | 29 652                                  | 29 652                              | -                                                 | 29 652  |
| -                  | 12 401                          | -                | -                     | -                                       | -                                   | -                                                 | 12 401  |
| -                  | 1 623                           | -                | -                     | -                                       | -                                   | -                                                 | 1 623   |
| -                  | 1 149                           | -                | -                     | 14 076                                  | 14 076                              | -                                                 | 15 225  |
| -                  | 16 609                          | -                | -                     | 195 305                                 | 195 305                             | -                                                 | 211 914 |
| -                  | 3 366                           | -                | -                     | 1 156                                   | 1 156                               | -                                                 | 4 522   |
| -                  | -                               | -                | -                     | -                                       | -                                   | 1 369                                             | 1 369   |
| -                  | -                               | -                | -                     | -                                       | -                                   | 36                                                | 36      |
| -                  | 691                             | -                | -                     | 681                                     | 681                                 | 2 120                                             | 3 492   |
| -                  | 35 839                          | -                | -                     | 240 870                                 | 240 870                             | 3 525                                             | 280 234 |
| -                  | -                               | -                | -                     | 10 449                                  | 10 449                              | -                                                 | 10 449  |
| -                  | 35 839                          | -                | -                     | 251 319                                 | 251 319                             | 3 525                                             | 290 683 |

## 12. Fair value hierarchy

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

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

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

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



Fair value disclosures on investment properties are included in the investment properties note 30 on page 171.

| For the year to 31 March<br>R'million                                    | Total<br>instruments<br>at fair value | Fair value category |               |              |
|--------------------------------------------------------------------------|---------------------------------------|---------------------|---------------|--------------|
|                                                                          |                                       | Level 1             | Level 2       | Level 3      |
| <b>Group</b>                                                             |                                       |                     |               |              |
| <b>2016</b>                                                              |                                       |                     |               |              |
| <b>Assets</b>                                                            |                                       |                     |               |              |
| Non-sovereign and non-bank cash placements                               | 3                                     | –                   | 3             | –            |
| Reverse repurchase agreements and cash collateral on securities borrowed | 24 155                                | –                   | 24 155        | –            |
| Sovereign debt securities                                                | 37 607                                | 37 607              | –             | –            |
| Bank debt securities                                                     | 6 104                                 | 4 429               | 1 675         | –            |
| Other debt securities                                                    | 10 532                                | 10 532              | –             | –            |
| Derivative financial instruments                                         | 15 843                                | –                   | 15 833        | 10           |
| Securities arising from trading activities                               | 992                                   | 992                 | –             | –            |
| Investment portfolio                                                     | 6 360                                 | 3 287               | 503           | 2 570        |
| Loans and advances to customers                                          | 12 241                                | –                   | 12 241        | –            |
| Other assets                                                             | 324                                   | 324                 | –             | –            |
| Loans to group companies                                                 | (101)                                 | –                   | (101)         | –            |
|                                                                          | <b>114 060</b>                        | <b>57 171</b>       | <b>54 309</b> | <b>2 580</b> |
| <b>Liabilities</b>                                                       |                                       |                     |               |              |
| Derivative financial instruments                                         | 13 424                                | –                   | 13 424        | –            |
| Other trading liabilities                                                | 1 405                                 | 576                 | 829           | –            |
| Repurchase agreements and cash collateral on securities lent             | 2 509                                 | –                   | 2 509         | –            |
| Customer accounts (deposits)                                             | 12 059                                | –                   | 12 059        | –            |
| Debt securities in issue                                                 | 5 080                                 | –                   | 5 080         | –            |
| Other liabilities                                                        | 680                                   | –                   | 680           | –            |
|                                                                          | <b>35 157</b>                         | <b>576</b>          | <b>34 581</b> | <b>–</b>     |
| <b>Net financial assets at fair value</b>                                | <b>78 903</b>                         | <b>56 595</b>       | <b>19 728</b> | <b>2 580</b> |

(continued)

| For the year to 31 March<br>R'million                                    | Financial<br>instruments<br>at fair value | Fair value category |               |              |
|--------------------------------------------------------------------------|-------------------------------------------|---------------------|---------------|--------------|
|                                                                          |                                           | Level 1             | Level 2       | Level 3      |
| <b>12. Fair value hierarchy</b> <i>(continued)</i>                       |                                           |                     |               |              |
| <b>Group</b>                                                             |                                           |                     |               |              |
| <b>2015</b>                                                              |                                           |                     |               |              |
| <b>Assets</b>                                                            |                                           |                     |               |              |
| Non-sovereign and non-bank cash placements                               | 3                                         | –                   | 3             | –            |
| Reverse repurchase agreements and cash collateral on securities borrowed | 10 095                                    | –                   | 10 095        | –            |
| Sovereign debt securities                                                | 27 824                                    | 27 804              | 20            | –            |
| Bank debt securities                                                     | 7 617                                     | 3 233               | 4 384         | –            |
| Other debt securities                                                    | 6 823                                     | 6 787               | –             | 36           |
| Derivative financial instruments                                         | 15 178                                    | –                   | 15 423        | (245)        |
| Securities arising from trading activities                               | 1 289                                     | 1 289               | –             | –            |
| Investment portfolio                                                     | 9 972                                     | 2 640               | 614           | 6 718        |
| Loans and advances to customers                                          | 12 034                                    | –                   | 12 034        | –            |
| Other assets                                                             | 2                                         | 2                   | –             | –            |
|                                                                          | <b>90 837</b>                             | <b>41 755</b>       | <b>42 573</b> | <b>6 509</b> |
| <b>Liabilities</b>                                                       |                                           |                     |               |              |
| Derivative financial instruments                                         | 12 401                                    | –                   | 12 401        | –            |
| Other trading liabilities                                                | 1 623                                     | 826                 | 797           | –            |
| Repurchase agreements and cash collateral on securities lent             | 1 148                                     | –                   | 1 148         | –            |
| Customer accounts (deposits)                                             | 16 609                                    | –                   | 16 609        | –            |
| Debt securities in issue                                                 | 3 366                                     | –                   | 3 366         | –            |
| Other liabilities                                                        | 690                                       | –                   | 690           | –            |
|                                                                          | <b>35 837</b>                             | <b>826</b>          | <b>35 011</b> | <b>–</b>     |
| <b>Net financial assets at fair value</b>                                | <b>55 000</b>                             | <b>40 929</b>       | <b>7 562</b>  | <b>6 509</b> |



## Notes to the financial statements

(continued)

| For the year to 31 March<br>R'million                                    | Total<br>instruments<br>at fair value | Fair value category |               |              |
|--------------------------------------------------------------------------|---------------------------------------|---------------------|---------------|--------------|
|                                                                          |                                       | Level 1             | Level 2       | Level 3      |
| <b>12. Fair value hierarchy</b> <i>(continued)</i>                       |                                       |                     |               |              |
| <b>Company</b>                                                           |                                       |                     |               |              |
| <b>2016</b>                                                              |                                       |                     |               |              |
| <b>Assets</b>                                                            |                                       |                     |               |              |
| Non-sovereign and non-bank cash placements                               | 3                                     | –                   | 3             | –            |
| Reverse repurchase agreements and cash collateral on securities borrowed | 24 155                                | –                   | 24 155        | –            |
| Sovereign debt securities                                                | 37 607                                | 37 607              | –             | –            |
| Bank debt securities                                                     | 6 104                                 | 4 429               | 1 675         | –            |
| Other debt securities                                                    | 9 440                                 | 9 440               | –             | –            |
| Derivative financial instruments                                         | 15 616                                | –                   | 15 606        | 10           |
| Securities arising from trading activities                               | 992                                   | 992                 | –             | –            |
| Investment portfolio                                                     | 5 923                                 | 3 287               | 209           | 2 427        |
| Loans and advances to customers                                          | 12 241                                | –                   | 12 241        | –            |
| Other assets                                                             | 324                                   | 324                 | –             | –            |
|                                                                          | <b>112 405</b>                        | <b>56 079</b>       | <b>53 889</b> | <b>2 437</b> |
| <b>Liabilities</b>                                                       |                                       |                     |               |              |
| Derivative financial instruments                                         | 13 424                                | –                   | 13 424        | –            |
| Other trading liabilities                                                | 1 405                                 | 576                 | 829           | –            |
| Repurchase agreements and cash collateral on securities lent             | 2 509                                 | –                   | 2 509         | –            |
| Customer accounts (deposits)                                             | 12 059                                | –                   | 12 059        | –            |
| Debt securities in issue                                                 | 5 080                                 | –                   | 5 080         | –            |
| Other liabilities                                                        | 680                                   | –                   | 680           | –            |
|                                                                          | <b>35 157</b>                         | <b>576</b>          | <b>34 581</b> | <b>–</b>     |
| <b>Net financial assets at fair value</b>                                | <b>77 248</b>                         | <b>55 503</b>       | <b>19 308</b> | <b>2 437</b> |

(continued)

| For the year to 31 March<br>R'million                                    | Total<br>instruments<br>at fair value | Fair value category |               |              |
|--------------------------------------------------------------------------|---------------------------------------|---------------------|---------------|--------------|
|                                                                          |                                       | Level 1             | Level 2       | Level 3      |
| <b>12. Fair value hierarchy</b> <i>(continued)</i>                       |                                       |                     |               |              |
| <b>Company</b>                                                           |                                       |                     |               |              |
| <b>2015</b>                                                              |                                       |                     |               |              |
| <b>Assets</b>                                                            |                                       |                     |               |              |
| Non-sovereign and non-bank cash placements                               | 3                                     | –                   | 3             | –            |
| Reverse repurchase agreements and cash collateral on securities borrowed | 9 926                                 | –                   | 9 926         | –            |
| Sovereign debt securities                                                | 27 804                                | 27 804              | –             | –            |
| Bank debt securities                                                     | 7 617                                 | 3 233               | 4 384         | –            |
| Other debt securities                                                    | 6 132                                 | 6 132               | –             | –            |
| Derivative financial instruments                                         | 14 969                                | –                   | 15 214        | (245)        |
| Securities arising from trading activities                               | 1 289                                 | 1 289               | –             | –            |
| Investment portfolio                                                     | 9 581                                 | 2 639               | 366           | 6 576        |
| Loans and advances to customers                                          | 12 034                                | –                   | 12 034        | –            |
| Other assets                                                             | 2                                     | 2                   | –             | –            |
|                                                                          | <b>89 357</b>                         | <b>41 099</b>       | <b>41 927</b> | <b>6 331</b> |
| <b>Liabilities</b>                                                       |                                       |                     |               |              |
| Derivative financial instruments                                         | 12 401                                | –                   | 12 401        | –            |
| Other trading liabilities                                                | 1 623                                 | 826                 | 797           | –            |
| Repurchase agreements and cash collateral on securities lent             | 1 149                                 | –                   | 1 149         | –            |
| Customer accounts (deposits)                                             | 16 609                                | –                   | 16 609        | –            |
| Debt securities in issue                                                 | 3 366                                 | –                   | 3 366         | –            |
| Other liabilities                                                        | 691                                   | –                   | 691           | –            |
|                                                                          | <b>35 839</b>                         | <b>826</b>          | <b>35 013</b> | <b>–</b>     |
| <b>Net financial assets at fair value</b>                                | <b>53 518</b>                         | <b>40 273</b>       | <b>6 914</b>  | <b>6 331</b> |

## 12. Fair value hierarchy (continued)

### TRANSFERS BETWEEN LEVEL 1 AND LEVEL 2

There were no transfers between level 1 and level 2 in the current and prior year.

### LEVEL 3 INSTRUMENTS

The following table is a reconciliation of the opening balances to the closing balances for level 3 financial instruments. All instruments are at fair value through profit and loss.

| For the year to 31 March<br>R'million          | Group        | Company      |
|------------------------------------------------|--------------|--------------|
| Balance as at 1 April 2014                     | 5 928        | 5 869        |
| Total gains recognised in the income statement | 693          | 700          |
| Purchases                                      | 677          | 535          |
| Sales                                          | (532)        | (520)        |
| Issues                                         | (110)        | (110)        |
| Settlements                                    | (161)        | (161)        |
| Transfers into level 3                         | 15           | 15           |
| Transfers out of level 3                       | (32)         | (32)         |
| Foreign exchange adjustments                   | 31           | 35           |
| <b>Balance as at 31 March 2015</b>             | <b>6 509</b> | <b>6 331</b> |
| Total gains recognised in the income statement | 761          | 735          |
| Purchases                                      | 483          | 483          |
| Sales                                          | (5 379)      | (5 291)      |
| Issues                                         | 70           | 70           |
| Settlements                                    | (397)        | (397)        |
| Transfers into level 3                         | 103          | 103          |
| Transfers out of level 3                       | 332          | 332          |
| Foreign exchange adjustments                   | 98           | 71           |
| <b>Balance as at 31 March 2016</b>             | <b>2 580</b> | <b>2 437</b> |

For the year ended 31 March 2016, R103.3 million has been transferred into level 3 from level 2 as a result of the inputs to the valuation methods becoming unobservable in the market. R331.9 million related to instruments transferred from level 3 to level 2 as a result of inputs to the valuation methods becoming observable.



**12. Fair value hierarchy** (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<br>R'million                                           | Total      | Realised     | Unrealised     |
|---------------------------------------------------------------------------------|------------|--------------|----------------|
| <b>Group</b>                                                                    |            |              |                |
| <b>2016</b>                                                                     |            |              |                |
| <b>Total gains/(losses) included in the income statement for the year</b>       |            |              |                |
| Investment income                                                               | 739        | 3 450        | (2 711)        |
| Trading income arising from customer flow                                       | 22         | 22           | –              |
|                                                                                 | <b>761</b> | <b>3 472</b> | <b>(2 711)</b> |
| <b>2015</b>                                                                     |            |              |                |
| <b>Total gains/(losses) included in the income statement for the year</b>       |            |              |                |
| Investment income                                                               | 614        | 267          | 347            |
| Trading income arising from customer flow                                       | 97         | –            | 97             |
| Trading loss arising from balance sheet management and other trading activities | (18)       | –            | (18)           |
|                                                                                 | <b>693</b> | <b>267</b>   | <b>426</b>     |
| <b>Company</b>                                                                  |            |              |                |
| <b>2016</b>                                                                     |            |              |                |
| <b>Total gains/(losses) recognised in the income statement for the year</b>     |            |              |                |
| Investment income                                                               | 713        | 3 424        | (2 711)        |
| Trading income arising from customer flow                                       | 22         | 22           | –              |
|                                                                                 | <b>735</b> | <b>3 446</b> | <b>(2 711)</b> |
| <b>2015</b>                                                                     |            |              |                |
| <b>Total gains/(losses) included in the income statement for the year</b>       |            |              |                |
| Investment income                                                               | 621        | 267          | 354            |
| Trading income arising from customer flow                                       | 97         | –            | 97             |
| Trading loss arising from balance sheet management and other trading activities | (18)       | –            | (18)           |
|                                                                                 | <b>700</b> | <b>267</b>   | <b>433</b>     |

## 12. Fair value hierarchy (continued)

### MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES AT LEVEL 2

The table below sets out information about the valuation techniques used at the end of the reporting year in measuring financial instruments categorised as level 2 in the fair value hierarchy:

|                                                                          | Valuation basis/techniques                  | Main inputs                 |
|--------------------------------------------------------------------------|---------------------------------------------|-----------------------------|
| <b>Assets</b>                                                            |                                             |                             |
| 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<br>Black-Scholes | Yield curve<br>Volatilities |
| Sovereign debt securities                                                | Discounted cash flow model                  | Yield curve                 |
| Bank debt securities                                                     | Discounted cash flow model                  | Yield curve                 |
| Derivative financial instruments                                         | Discounted cash flow model<br>Black-Scholes | Yield curve<br>Volatilities |
| Investment portfolio                                                     | Adjusted quoted price                       | Liquidity adjustment        |
| Loans and advances to customers                                          | Discounted cash flow model                  | Yield curve                 |
| Loans to group companies                                                 | Discounted cash flow model                  | Yield curve                 |
| <b>Liabilities</b>                                                       |                                             |                             |
| Derivative financial instruments                                         | Discounted cash flow model<br>Black-Scholes | Yield curve<br>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                 |

(continued)

**12. Fair value hierarchy** (continued)**SENSITIVITY OF FAIR VALUES TO REASONABLY POSSIBLE ALTERNATIVE ASSUMPTIONS BY LEVEL 3 INSTRUMENT TYPE**

The fair value of financial instruments in level 3 are measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable market data. The following table shows the sensitivity of these fair values to reasonable possible alternative assumptions, determined at a transactional level:

|                                  |                                       |                         |                                        |                                                 | Reflected in the income statement |                                |
|----------------------------------|---------------------------------------|-------------------------|----------------------------------------|-------------------------------------------------|-----------------------------------|--------------------------------|
| At 31 March 2016                 | Level 3 balance sheet value R'million | Valuation method        | Significant unobservable input changed | Range which unobservable input has been changed | Favourable changes R'million      | Unfavourable changes R'million |
| <b>Group Assets</b>              |                                       |                         |                                        |                                                 |                                   |                                |
| Derivative financial instruments | 10                                    | Price multiple          | Net asset value                        | (10%) – 10%                                     | 1                                 | (1)                            |
| Investment portfolio             | 2 570                                 | Price-earnings<br>Other | Change in PE multiple<br>Various       | *<br>^                                          | 399<br>102<br>297                 | (327)<br>(79)<br>(248)         |
| <b>Total</b>                     | <b>2 580</b>                          |                         |                                        |                                                 | <b>400</b>                        | <b>(328)</b>                   |

|                                  |                                       |                                                                   |                                                                    |                                                  | Reflected in the income statement |                                      |
|----------------------------------|---------------------------------------|-------------------------------------------------------------------|--------------------------------------------------------------------|--------------------------------------------------|-----------------------------------|--------------------------------------|
| At 31 March 2015                 | Level 3 balance sheet value R'million | Valuation method                                                  | Significant unobservable input changed                             | Range which unobservable input has been stressed | Favourable changes R'million      | Unfavourable changes R'million       |
| <b>Group Assets</b>              |                                       |                                                                   |                                                                    |                                                  |                                   |                                      |
| Other debt securities            | 36                                    | Discounted cash flows                                             | Discount rates                                                     | (3%) – 3%                                        | 5                                 | (4)                                  |
| Derivative financial instruments | (245)                                 | Black-Scholes<br>Discounted cash flows<br>Price-earnings<br>Other | Volatilities<br>Credit spreads<br>Change in PE multiple<br>Various | (25%) – 40%<br>(50bps) – 50bps<br>*<br>^         | 195<br>58<br>23<br>69<br>45       | (118)<br>(25)<br>(12)<br>(73)<br>(8) |
| Investment portfolio             | 6 718                                 | Price-earnings<br>Other                                           | Change in PE multiple<br>Various                                   | *<br>^                                           | 1 639<br>1 357<br>282             | (1 111)<br>(893)<br>(218)            |
| <b>Total</b>                     | <b>6 509</b>                          |                                                                   |                                                                    |                                                  | <b>1 839</b>                      | <b>(1 233)</b>                       |

\* The price-earnings multiple has been stressed on an investment-by-investment basis in order to obtain favourable and unfavourable valuations.

^ Other – The valuation sensitivity for the private equity and embedded derivatives (profit share portfolios) has been assessed by adjusting various inputs such as expected cash flows, discount rates and earnings multiples. It is deemed appropriate to reflect the outcome on a portfolio basis for the purposes of this analysis as the sensitivity of the investments cannot be determined through the adjustment of a single input.

## 12. Fair value hierarchy (continued)

SENSITIVITY OF FAIR VALUES TO REASONABLY POSSIBLE ALTERNATIVE ASSUMPTIONS BY LEVEL 3 INSTRUMENT TYPE (continued)

|                                  |                                       |                  |                                        |                                                 | Reflected in the income statement |                                |
|----------------------------------|---------------------------------------|------------------|----------------------------------------|-------------------------------------------------|-----------------------------------|--------------------------------|
| At 31 March 2016                 | Level 3 balance sheet value R'million | Valuation method | Significant unobservable input changed | Range which unobservable input has been changed | Favourable changes R'million      | Unfavourable changes R'million |
| <b>Company Assets</b>            |                                       |                  |                                        |                                                 |                                   |                                |
| Derivative financial instruments | 10                                    | Price multiple   | Net asset value                        | (10%) – 10%                                     | 1                                 | (1)                            |
| Investment portfolio             | 2 427                                 | Price-earnings   | Change in PE multiple                  | *                                               | 389                               | (319)                          |
|                                  |                                       | Other            | Various                                | ^                                               | 102                               | (79)                           |
|                                  |                                       |                  |                                        |                                                 | 287                               | (240)                          |
| <b>Total</b>                     | <b>2 437</b>                          |                  |                                        |                                                 | <b>390</b>                        | <b>(320)</b>                   |

|                                  |                                       |                       |                                        |                                                  | Reflected in the income statement |                                |
|----------------------------------|---------------------------------------|-----------------------|----------------------------------------|--------------------------------------------------|-----------------------------------|--------------------------------|
| At 31 March 2015                 | Level 3 balance sheet value R'million | Valuation method      | Significant unobservable input changed | Range which unobservable input has been stressed | Favourable changes R'million      | Unfavourable changes R'million |
| <b>Company Assets</b>            |                                       |                       |                                        |                                                  |                                   |                                |
| Derivative financial instruments | (245)                                 | Black-Scholes         | Volatilities                           | (25%) – 40%                                      | 195                               | (118)                          |
|                                  |                                       | Discounted cash flows | Credit spreads                         | (50bps) – 50bps                                  | 58                                | (25)                           |
|                                  |                                       | Price-earnings        | Change in PE multiple                  | *                                                | 23                                | (12)                           |
|                                  |                                       | Other                 | Various                                | ^                                                | 69                                | (73)                           |
|                                  |                                       |                       |                                        |                                                  | 45                                | (8)                            |
| Investment portfolio             | 6 576                                 | Price-earnings        | Change in PE multiple                  | *                                                | 1 632                             | (1 111)                        |
|                                  |                                       | Other                 | Various                                | ^                                                | 1 357                             | (893)                          |
|                                  |                                       |                       |                                        |                                                  | 275                               | (218)                          |
| <b>Total</b>                     | <b>6 331</b>                          |                       |                                        |                                                  | <b>1 827</b>                      | <b>(1 229)</b>                 |

\* The price-earnings multiple has been stressed on an investment-by-investment basis in order to obtain favourable and unfavourable valuations.

^ Other – The valuation sensitivity for the private equity and embedded derivatives (profit share portfolios) has been assessed by adjusting various inputs such as expected cash flows, discount rates and earnings multiples. It is deemed appropriate to reflect the outcome on a portfolio basis for the purposes of this analysis as the sensitivity of the investments cannot be determined through the adjustment of a single input.

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

### Credit spreads

Credit spreads reflect the additional yield that a market participant would demand for taking exposure to the credit risk of a counter party. The credit spread for an instrument forms part of the yield used in a discounted cash flow calculation. In general a significant increase in a credit spread in isolation will result in a movement in fair value that is unfavourable for the holder of a financial instrument.

### Discount rates

Discount rates are the interest rates used to discount future cash flows in the discounted cash flow valuation method. The discount rate takes into account time value of money and uncertainty of cash flows.

### Volatilities

Volatility is a key input in the valuation of derivative products containing optionality. Volatility is a measure of the variability or uncertainty in returns for a given derivative underlying. It represents an estimate of how much a particular underlying instrument, parameter or index will change in value over time.

### Price-earnings multiple

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

(continued)

|                                                                            |                    | Fair value category |         |         |         |
|----------------------------------------------------------------------------|--------------------|---------------------|---------|---------|---------|
| At 31 March<br>R'million                                                   | Carrying<br>amount | Fair value          | Level 1 | Level 2 | Level 3 |
| <b>13. Fair value of financial instruments at amortised cost</b>           |                    |                     |         |         |         |
| <b>Group</b>                                                               |                    |                     |         |         |         |
| <b>2016</b>                                                                |                    |                     |         |         |         |
| <b>Assets</b>                                                              |                    |                     |         |         |         |
| Cash and balances at central banks                                         | 7 801              | 7 801               | ^       | ^       | ^       |
| Loans and advances to banks                                                | 26 779             | 26 779              | ^       | ^       | ^       |
| Non-sovereign and non-bank cash placements                                 | 9 855              | 9 855               | ^       | ^       | ^       |
| Reverse repurchase agreements and cash collateral on securities borrowed   | 14 757             | 14 757              | ^       | ^       | ^       |
| Sovereign debt securities                                                  | 3 718              | 3 798               | 3 798   | –       | –       |
| Bank debt securities                                                       | 7 864              | 8 778               | 7 178   | 1 600   | –       |
| Other debt securities                                                      | 2 229              | 2 247               | 69      | 2 178   | –       |
| Loans and advances to customers                                            | 195 031            | 195 157             | 2 100   | 173 522 | 19 535  |
| Own originated loans and advances to customers securitised                 | 7 967              | 7 967               | ^       | ^       | ^       |
| Other loans and advances                                                   | 367                | 367                 | ^       | ^       | ^       |
| Other securitised assets                                                   | 115                | 115                 | ^       | ^       | ^       |
| Other assets                                                               | 2 500              | 2 500               | ^       | ^       | ^       |
| Loans to group companies                                                   | 5 561              | 5 561               | ^       | ^       | ^       |
|                                                                            | <b>284 544</b>     | <b>285 682</b>      |         |         |         |
| <b>Liabilities</b>                                                         |                    |                     |         |         |         |
| Deposits by banks                                                          | 37 242             | 37 399              | 811     | 36 588  | –       |
| Repurchase agreements and cash collateral on securities lent               | 14 407             | 14 452              | –       | 14 452  | –       |
| Customer accounts (deposits)                                               | 267 677            | 268 191             | 137 475 | 130 716 | –       |
| Debt securities in issue                                                   | 2 585              | 2 587               | –       | 2 587   | –       |
| Liabilities arising on securitisation of own originated loans and advances | 809                | 809                 | ^       | ^       | ^       |
| Other liabilities                                                          | 1 233              | 1 233               | ^       | ^       | ^       |
| Subordinated liabilities                                                   | 10 732             | 11 692              | 11 692  | –       | –       |
|                                                                            | <b>334 685</b>     | <b>336 363</b>      |         |         |         |

^ Financial instruments for which fair value approximates carrying value.

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value and have been reflected in level 1. This assumption also applies to demand deposits and savings accounts without a specific maturity included in customer accounts (deposits) and variable rate financial instruments.



## Notes to the financial statements

(continued)

|                                                                                     | Fair value category |                |         |         |         |
|-------------------------------------------------------------------------------------|---------------------|----------------|---------|---------|---------|
| At 31 March<br>R'million                                                            | Carrying<br>amount  | Fair value     | Level 1 | Level 2 | Level 3 |
| <b>13. Fair value of financial instruments at amortised cost</b> <i>(continued)</i> |                     |                |         |         |         |
| <b>Group</b>                                                                        |                     |                |         |         |         |
| <b>2015</b>                                                                         |                     |                |         |         |         |
| <b>Assets</b>                                                                       |                     |                |         |         |         |
| Cash and balances at central banks                                                  | 6 261               | 6 261          | ^       | ^       | ^       |
| Loans and advances to banks                                                         | 33 422              | 33 422         | ^       | ^       | ^       |
| Non-sovereign and non-bank cash placements                                          | 10 537              | 10 543         | 10 543  | –       | –       |
| Sovereign debt securities                                                           | 3 554               | 3 648          | 3 648   | –       | –       |
| Bank debt securities                                                                | 9 715               | 9 993          | 8 704   | 1 289   | –       |
| Other debt securities                                                               | 5 926               | 6 020          | 606     | 5 414   | –       |
| Loans and advances to customers                                                     | 160 959             | 161 072        | 2 365   | 139 526 | 19 181  |
| Own originated loans and advances to customers securitised                          | 4 535               | 4 535          | ^       | ^       | ^       |
| Other loans and advances                                                            | 472                 | 472            | ^       | ^       | ^       |
| Other securitised assets                                                            | 618                 | 618            | ^       | ^       | ^       |
| Other assets                                                                        | 875                 | 875            | ^       | ^       | ^       |
| Loans to group companies                                                            | 3 268               | 3 268          | ^       | ^       | ^       |
|                                                                                     | <b>240 142</b>      | <b>240 727</b> |         |         |         |
| <b>Liabilities</b>                                                                  |                     |                |         |         |         |
| Deposits by banks                                                                   | 29 792              | 30 005         | 569     | 29 436  | –       |
| Repurchase agreements and cash collateral on securities lent                        | 15 408              | 15 395         | –       | 15 395  | –       |
| Customer accounts (deposits)                                                        | 204 768             | 206 029        | 22 727  | 183 302 | –       |
| Debt securities in issue                                                            | 2 151               | 2 166          | –       | 2 166   | –       |
| Liabilities arising on securitisation of own originated loans and advances          | 1 089               | 1 089          | ^       | ^       | ^       |
| Other liabilities                                                                   | 835                 | 835            | ^       | ^       | ^       |
| Subordinated liabilities                                                            | 10 449              | 10 593         | 10 593  | –       | –       |
|                                                                                     | <b>264 492</b>      | <b>266 112</b> |         |         |         |

^ Financial instruments for which fair value approximates carrying value.

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value and have been reflected in level 1. This assumption also applies to demand deposits and savings accounts without a specific maturity included in customer accounts (deposits) and variable rate financial instruments.

(continued)

|                                                                                     |                    |                | Fair value category |         |         |
|-------------------------------------------------------------------------------------|--------------------|----------------|---------------------|---------|---------|
| At 31 March<br>R'million                                                            | Carrying<br>amount | Fair value     | Level 1             | Level 2 | Level 3 |
| <b>13. Fair value of financial instruments at amortised cost</b> <i>(continued)</i> |                    |                |                     |         |         |
| <b>Company</b>                                                                      |                    |                |                     |         |         |
| <b>2016</b>                                                                         |                    |                |                     |         |         |
| <b>Assets</b>                                                                       |                    |                |                     |         |         |
| Cash and balances at central banks                                                  | 7 654              | 7 654          | ^                   | ^       | ^       |
| Loans and advances to banks                                                         | 21 385             | 21 385         | ^                   | ^       | ^       |
| Non-sovereign and non-bank cash placements                                          | 9 979              | 9 979          | ^                   | ^       | ^       |
| Reverse repurchase agreements and cash collateral on securities borrowed            | 14 757             | 14 757         | ^                   | ^       | ^       |
| Sovereign debt securities                                                           | 3 718              | 3 798          | 3 798               | –       | –       |
| Bank debt securities                                                                | 6 213              | 6 217          | 4 617               | 1 600   | –       |
| Other debt securities                                                               | 1 914              | 1 914          | ^                   | ^       | ^       |
| Loans and advances to customers                                                     | 182 337            | 182 337        | 2 100               | 178 994 | 1 243   |
| Other loans and advances                                                            | 373                | 373            | ^                   | ^       | ^       |
| Other assets                                                                        | 987                | 987            | ^                   | ^       | ^       |
| Loans to group companies                                                            | 6 323              | 6 323          | ^                   | ^       | ^       |
| Investment in subsidiaries                                                          | 3 979              | 3 979          | ^                   | ^       | ^       |
|                                                                                     | <b>259 619</b>     | <b>259 703</b> |                     |         |         |
| <b>Liabilities</b>                                                                  |                    |                |                     |         |         |
| Deposits by banks                                                                   | 37 108             | 37 265         | 811                 | 36 454  | –       |
| Repurchase agreements and cash collateral on securities lent                        | 12 816             | 12 860         | –                   | 12 860  | –       |
| Customer accounts (deposits)                                                        | 251 719            | 252 225        | 137 475             | 114 750 | –       |
| Debt securities in issue                                                            | 1 590              | 1 592          | –                   | 1 592   | –       |
| Other liabilities                                                                   | 860                | 860            | ^                   | ^       | ^       |
| Subordinated liabilities                                                            | 10 732             | 11 692         | 11 692              | –       | –       |
|                                                                                     | <b>314 825</b>     | <b>316 494</b> |                     |         |         |

^ Financial instruments for which fair value approximates carrying value.

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value and have been reflected in level 1. This assumption also applies to demand deposits and savings accounts without a specific maturity included in customer accounts (deposits) and variable rate financial instruments.



|                                                                                     |                    | Fair value category |         |         |         |
|-------------------------------------------------------------------------------------|--------------------|---------------------|---------|---------|---------|
| At 31 March<br>R'million                                                            | Carrying<br>amount | Fair value          | Level 1 | Level 2 | Level 3 |
| <b>13. Fair value of financial instruments at amortised cost</b> <i>(continued)</i> |                    |                     |         |         |         |
| <b>Company</b>                                                                      |                    |                     |         |         |         |
| <b>2015</b>                                                                         |                    |                     |         |         |         |
| <b>Assets</b>                                                                       |                    |                     |         |         |         |
| Cash and balances at central banks                                                  | 6 148              | 6 148               | ^       | ^       | ^       |
| Loans and advances to banks                                                         | 30 284             | 30 284              | ^       | ^       | ^       |
| Non-sovereign and non-bank cash placements                                          | 10 537             | 10 543              | 10 543  | —       | —       |
| Sovereign debt securities                                                           | 3 554              | 3 648               | 3 648   | —       | —       |
| Bank debt securities                                                                | 8 364              | 8 468               | 7 179   | 1 289   | —       |
| Other debt securities                                                               | 7 258              | 7 336               | 606     | 6 730   | —       |
| Loans and advances to customers                                                     | 146 994            | 147 011             | 2 365   | 140 409 | 4 237   |
| Other loans and advances                                                            | 476                | 476                 | ^       | ^       | ^       |
| Other securitised assets                                                            | 137                | 137                 | ^       | ^       | ^       |
| Other assets                                                                        | 780                | 780                 | ^       | ^       | ^       |
| Loans to group companies                                                            | 2 825              | 2 825               | ^       | ^       | ^       |
|                                                                                     | <b>217 357</b>     | <b>217 656</b>      |         |         |         |
| <b>Liabilities</b>                                                                  |                    |                     |         |         |         |
| Deposits by banks                                                                   | 29 652             | 29 864              | 569     | 29 295  | —       |
| Repurchase agreements and cash collateral on securities lent                        | 14 076             | 14 063              | —       | 14 063  | —       |
| Customer accounts (deposits)                                                        | 195 305            | 196 565             | 22 727  | 173 838 | —       |
| Debt securities in issue                                                            | 1 156              | 1 171               | —       | 1 171   | —       |
| Other liabilities                                                                   | 681                | 681                 | ^       | ^       | ^       |
| Subordinated liabilities                                                            | 10 449             | 10 593              | 10 593  | —       | —       |
|                                                                                     | <b>251 319</b>     | <b>252 937</b>      |         |         |         |

^ Financial instruments for which fair value approximates carrying value.

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value and have been reflected in level 1. This assumption also applies to demand deposits and savings accounts without a specific maturity included in customer accounts (deposits) and variable rate financial instruments.

The table below sets out information about the valuation techniques used at the end of the reporting period in measuring level 2 and level 3 financial instruments not held at fair value:

|                                                              | Valuation basis/technique  | Main inputs |
|--------------------------------------------------------------|----------------------------|-------------|
| <b>Assets</b>                                                |                            |             |
| 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 |
| <b>Liabilities</b>                                           |                            |             |
| 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 |

(continued)

| At 31 March<br>R'million                                                                 | Fair value adjustment |              |            | Maximum<br>exposure to<br>credit risk |
|------------------------------------------------------------------------------------------|-----------------------|--------------|------------|---------------------------------------|
|                                                                                          | Carrying<br>value     | Year to date | Cumulative |                                       |
| <b>14. Designated at fair value: loans and<br/>receivables and financial liabilities</b> |                       |              |            |                                       |
| Group                                                                                    |                       |              |            |                                       |
| Loans and receivables                                                                    |                       |              |            |                                       |
| 2016                                                                                     |                       |              |            |                                       |
| Loans and advances to customers                                                          | 12 241                | (284)        | (17)       | 12 027                                |
|                                                                                          | 12 241                | (284)        | (17)       | 12 027                                |
| 2015                                                                                     |                       |              |            |                                       |
| Loans and advances to customers                                                          | 12 034                | 112          | 267        | 11 883                                |
|                                                                                          | 12 034                | 112          | 267        | 11 883                                |

Year-to-date and cumulative fair value adjustments to loans and receivables attributable to credit risk were both Rnil (2015: Rnil).

| At 31 March<br>R'million     | Fair value adjustment |                                                                   |              |              |
|------------------------------|-----------------------|-------------------------------------------------------------------|--------------|--------------|
|                              | Carrying<br>value     | Remaining<br>contractual<br>amount to<br>be repaid<br>at maturity | Year to date | Cumulative   |
| <b>Group</b>                 |                       |                                                                   |              |              |
| <b>Financial liabilities</b> |                       |                                                                   |              |              |
| <b>2016</b>                  |                       |                                                                   |              |              |
| Customer accounts (deposits) | 12 059                | 12 222                                                            | (56)         | (163)        |
| Debt securities in issue     | 5 080                 | 5 090                                                             | 7            | 3            |
|                              | <b>17 139</b>         | <b>17 312</b>                                                     | <b>(49)</b>  | <b>(160)</b> |
| <b>2015</b>                  |                       |                                                                   |              |              |
| Customer accounts (deposits) | 16 609                | 16 503                                                            | (228)        | 106          |
| Debt securities in issue     | 3 366                 | 3 382                                                             | (19)         | (15)         |
|                              | <b>19 975</b>         | <b>19 885</b>                                                     | <b>(247)</b> | <b>91</b>    |

Changes in fair value due to credit risk are determined as the change in the fair value of the financial instrument that is not attributable to changes in other market inputs.

Year-to-date and cumulative changes in fair value of financial liabilities attributable to credit risk were both Rnil (2015: Rnil).

| At 31 March<br>R'million                                                                 | Fair value adjustment |              |             | Maximum<br>exposure to<br>credit risk |
|------------------------------------------------------------------------------------------|-----------------------|--------------|-------------|---------------------------------------|
|                                                                                          | Carrying<br>value     | Year to date | Cumulative  |                                       |
| <b>14. Designated at fair value: loans and<br/>receivables and financial liabilities</b> |                       |              |             |                                       |
| <i>(continued)</i>                                                                       |                       |              |             |                                       |
| <b>Company</b>                                                                           |                       |              |             |                                       |
| <b>Loans and receivables</b>                                                             |                       |              |             |                                       |
| <b>2016</b>                                                                              |                       |              |             |                                       |
| Loans and advances to customers                                                          | 12 241                | (284)        | (17)        | 12 027                                |
|                                                                                          | <b>12 241</b>         | <b>(284)</b> | <b>(17)</b> | <b>12 027</b>                         |
| <b>2015</b>                                                                              |                       |              |             |                                       |
| Loans and advances to customers                                                          | 12 034                | 112          | 267         | 11 883                                |
|                                                                                          | <b>12 034</b>         | <b>112</b>   | <b>267</b>  | <b>11 883</b>                         |

Year-to-date and cumulative fair value adjustments to loans and receivables attributable to credit risk were both Rnil (2015: Rnil).

| At 31 March<br>R'million                                                     | Fair value adjustment |                                                                   |              |              |
|------------------------------------------------------------------------------|-----------------------|-------------------------------------------------------------------|--------------|--------------|
|                                                                              | Carrying<br>value     | Remaining<br>contractual<br>amount to<br>be repaid<br>at maturity | Year to date | Cumulative   |
| <b>Company</b>                                                               |                       |                                                                   |              |              |
| <b>Financial liabilities designated at fair value through profit or loss</b> |                       |                                                                   |              |              |
| <b>2016</b>                                                                  |                       |                                                                   |              |              |
| Customer accounts (deposits)                                                 | 12 059                | 12 222                                                            | (56)         | (163)        |
| Debt securities in issue                                                     | 5 080                 | 5 090                                                             | 7            | 3            |
|                                                                              | <b>17 139</b>         | <b>17 312</b>                                                     | <b>(49)</b>  | <b>(160)</b> |
| <b>2015</b>                                                                  |                       |                                                                   |              |              |
| Customer accounts (deposits)                                                 | 16 609                | 16 503                                                            | (228)        | 106          |
| Debt securities in issue                                                     | 3 366                 | 3 382                                                             | (19)         | (15)         |
|                                                                              | <b>19 975</b>         | <b>19 885</b>                                                     | <b>(247)</b> | <b>91</b>    |

Changes in fair value due to credit risk are determined as the change in the fair value of the financial instrument that is not attributable to changes in other market inputs.

Year-to-date and cumulative changes in fair value of financial liabilities attributable to credit risk were both Rnil (2015: Rnil).

(continued)

|                                                                                           | Group        |              | Company      |              |
|-------------------------------------------------------------------------------------------|--------------|--------------|--------------|--------------|
| At 31 March<br>R'million                                                                  | 2016         | 2015         | 2016         | 2015         |
| <b>15. Cash and balances at central banks</b>                                             |              |              |              |              |
| The country risk of cash and balances at central banks lies in the following geographies: |              |              |              |              |
| South Africa                                                                              | 7 655        | 6 148        | 7 654        | 6 148        |
| Other                                                                                     | 146          | 113          | –            | –            |
|                                                                                           | <b>7 801</b> | <b>6 261</b> | <b>7 654</b> | <b>6 148</b> |

|                                                                                    | Group         |               | Company       |               |
|------------------------------------------------------------------------------------|---------------|---------------|---------------|---------------|
| At 31 March<br>R'million                                                           | 2016          | 2015          | 2016          | 2015          |
| <b>16. Loans and advances to banks</b>                                             |               |               |               |               |
| The country risk of loans and advances to banks lies in the following geographies: |               |               |               |               |
| South Africa                                                                       | 14 509        | 12 355        | 14 221        | 12 325        |
| United Kingdom                                                                     | 1 531         | 6 204         | 132           | 6 085         |
| Europe (excluding UK)                                                              | 3 132         | 8 224         | 2 581         | 8 090         |
| Australia                                                                          | 172           | 129           | 144           | 116           |
| United States of America                                                           | 4 769         | 5 301         | 2 766         | 3 015         |
| Asia                                                                               | 1 839         | 649           | 1 018         | 647           |
| Other                                                                              | 827           | 560           | 523           | 6             |
|                                                                                    | <b>26 779</b> | <b>33 422</b> | <b>21 385</b> | <b>30 284</b> |

|                                                                                                                                                                                                                                                                                                                                        | Group         |               | Company       |               |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|---------------|---------------|
| At 31 March<br>R'million                                                                                                                                                                                                                                                                                                               | 2016          | 2015          | 2016          | 2015          |
| <b>17. Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent</b>                                                                                                                                                                                   |               |               |               |               |
| <b>Assets</b>                                                                                                                                                                                                                                                                                                                          |               |               |               |               |
| Reverse repurchase agreements                                                                                                                                                                                                                                                                                                          | 33 444        | 6 221         | 33 444        | 6 052         |
| Cash collateral on securities borrowed                                                                                                                                                                                                                                                                                                 | 5 468         | 3 874         | 5 468         | 3 874         |
|                                                                                                                                                                                                                                                                                                                                        | <b>38 912</b> | <b>10 095</b> | <b>38 912</b> | <b>9 926</b>  |
| As part of the reverse repurchase and securities borrowing agreements, the group has received securities that it is allowed to sell or repledge. R13.1 billion (2015: R7.0 billion) has been resold or repledged to third parties in connection with financing activities or to comply with commitments under short sale transactions. |               |               |               |               |
| <b>Liabilities</b>                                                                                                                                                                                                                                                                                                                     |               |               |               |               |
| Repurchase agreements                                                                                                                                                                                                                                                                                                                  | 16 916        | 16 556        | 15 325        | 15 225        |
|                                                                                                                                                                                                                                                                                                                                        | <b>16 916</b> | <b>16 556</b> | <b>15 325</b> | <b>15 225</b> |
| The assets transferred and not derecognised in the above repurchase agreements are fair valued at R16.1 billion (2015: R16.0 billion). They are pledged as security for the term of the underlying repurchase agreement.                                                                                                               |               |               |               |               |



## Notes to the financial statements

(continued)

|                                                                                      | Group         |               | Company       |               |
|--------------------------------------------------------------------------------------|---------------|---------------|---------------|---------------|
| At 31 March<br>R'million                                                             | 2016          | 2015          | 2016          | 2015          |
| <b>18. Sovereign debt securities</b>                                                 |               |               |               |               |
| Bonds                                                                                | 21 212        | 11 990        | 21 212        | 11 990        |
| Government securities                                                                | 626           | 20            | 626           | –             |
| Treasury bills                                                                       | 19 487        | 19 368        | 19 487        | 19 368        |
|                                                                                      | <b>41 325</b> | <b>31 378</b> | <b>41 325</b> | <b>31 358</b> |
| The country risk of the sovereign debt securities lies in the following geographies: |               |               |               |               |
| South Africa                                                                         | 40 699        | 31 358        | 40 699        | 31 358        |
| Other                                                                                | 626           | 20            | 626           | –             |
|                                                                                      | <b>41 325</b> | <b>31 378</b> | <b>41 325</b> | <b>31 358</b> |

|                                                                                 | Group         |               | Company       |               |
|---------------------------------------------------------------------------------|---------------|---------------|---------------|---------------|
| At 31 March<br>R'million                                                        | 2016          | 2015          | 2016          | 2015          |
| <b>19. Bank debt securities</b>                                                 |               |               |               |               |
| Bonds                                                                           | 10 239        | 10 279        | 8 588         | 8 928         |
| Debentures                                                                      | –             | 967           | –             | 967           |
| Floating rate notes                                                             | 3 729         | 6 086         | 3 729         | 6 086         |
|                                                                                 | <b>13 968</b> | <b>17 332</b> | <b>12 317</b> | <b>15 981</b> |
| The country risk of the bank debt securities lies in the following geographies: |               |               |               |               |
| South Africa                                                                    | 5 440         | 6 600         | 5 440         | 6 600         |
| United Kingdom                                                                  | 5 012         | 5 886         | 4 234         | 5 235         |
| Europe (excluding UK)                                                           | –             | 397           | –             | 397           |
| United States of America                                                        | 3 360         | 4 288         | 2 486         | 3 588         |
| Other                                                                           | 156           | 161           | 157           | 161           |
|                                                                                 | <b>13 968</b> | <b>17 332</b> | <b>12 317</b> | <b>15 981</b> |

(continued)

|                                                                                  | Group         |               | Company       |               |
|----------------------------------------------------------------------------------|---------------|---------------|---------------|---------------|
| At 31 March<br>R'million                                                         | 2016          | 2015          | 2016          | 2015          |
| <b>20. Other debt securities</b>                                                 |               |               |               |               |
| Bonds                                                                            | 11 150        | 7 654         | 9 869         | 6 821         |
| Commercial paper                                                                 | 84            | 75            | 84            | 75            |
| Floating rate notes                                                              | 1 103         | 4 850         | 1 103         | 6 494         |
| Liquid asset bills                                                               | 298           | –             | 298           | –             |
| Other investments                                                                | 126           | 170           | –             | –             |
|                                                                                  | <b>12 761</b> | <b>12 749</b> | <b>11 354</b> | <b>13 390</b> |
| The country risk of the other debt securities lies in the following geographies: |               |               |               |               |
| South Africa                                                                     | 7 797         | 10 275        | 7 022         | 11 264        |
| United Kingdom                                                                   | 1 148         | 1 466         | 789           | 1 429         |
| Europe (excluding UK)                                                            | 2 655         | 177           | 2 509         | –             |
| Australia                                                                        | 210           | 209           | 84            | 75            |
| Other                                                                            | 951           | 622           | 950           | 622           |
|                                                                                  | <b>12 761</b> | <b>12 749</b> | <b>11 354</b> | <b>13 390</b> |

## 21. Derivative financial instruments

The group enters into various contracts for derivatives both as principal for trading purposes and as customer for hedging foreign exchange and interest rate exposures. These include financial futures, options, swaps and forward rate agreements.

The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations.

In the tables that follow, notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair value of a derivative financial instrument represents the present value of future positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out by the group in an orderly market transaction at balance sheet date.

|                                           | 2016                             |                        |                        | 2015                             |                        |                        |
|-------------------------------------------|----------------------------------|------------------------|------------------------|----------------------------------|------------------------|------------------------|
| At 31 March<br>R'million                  | Notional<br>principal<br>amounts | Positive<br>fair value | Negative<br>fair value | Notional<br>principal<br>amounts | Positive<br>fair value | Negative<br>fair value |
| <b>Group</b>                              |                                  |                        |                        |                                  |                        |                        |
| <b>Foreign exchange derivatives</b>       |                                  |                        |                        |                                  |                        |                        |
| Forward foreign exchange contracts        | 171 801                          | 5 616                  | 6 711                  | 10 110                           | 295                    | 388                    |
| Currency swaps                            | 35 137                           | 3 524                  | 9 973                  | 120 532                          | 6 948                  | 12 934                 |
| OTC options bought and sold               | 52 367                           | 403                    | 315                    | 10 001                           | 206                    | 165                    |
| Other foreign exchange contracts          | –                                | –                      | –                      | 4 212                            | 65                     | 87                     |
|                                           | <b>259 305</b>                   | <b>9 543</b>           | <b>16 999</b>          | <b>144 855</b>                   | <b>7 514</b>           | <b>13 574</b>          |
| <b>Interest rate derivatives</b>          |                                  |                        |                        |                                  |                        |                        |
| Caps and floors                           | 1 058                            | 9                      | 21                     | 2 647                            | 7                      | 6                      |
| Swaps                                     | 238 643                          | 2 172                  | 3 737                  | 332 442                          | 3 178                  | 4 484                  |
| Forward rate agreements                   | 9 931                            | 74                     | 73                     | 311 225                          | 167                    | 159                    |
| OTC options bought and sold               | 100                              | 19                     | 15                     | 1 600                            | 27                     | 27                     |
| Other interest rate contracts             | 130                              | 115                    | 30                     | 500                              | 175                    | 92                     |
|                                           | <b>249 862</b>                   | <b>2 389</b>           | <b>3 876</b>           | <b>648 414</b>                   | <b>3 554</b>           | <b>4 768</b>           |
| <b>Equity and stock index derivatives</b> |                                  |                        |                        |                                  |                        |                        |
| OTC options bought and sold               | 44 464                           | 4 669                  | 703                    | 30 039                           | 4 253                  | 887                    |
| Equity swaps and forwards                 | 31 723                           | 399                    | 721                    | 15 599                           | 89                     | 255                    |
| OTC derivatives                           | 76 187                           | 5 068                  | 1 424                  | 45 638                           | 4 342                  | 1 142                  |
| Exchange traded futures                   | 1 473                            | 1                      | –                      | 585                              | 2                      | –                      |
| Exchange traded options                   | 7 006                            | 3                      | –                      | 5 328                            | 5                      | –                      |
| Warrants                                  | 4 210                            | –                      | 4 151                  | 1 799                            | –                      | 2 511                  |
|                                           | <b>88 876</b>                    | <b>5 072</b>           | <b>5 575</b>           | <b>53 350</b>                    | <b>4 349</b>           | <b>3 653</b>           |
| <b>Commodity derivatives</b>              |                                  |                        |                        |                                  |                        |                        |
| OTC options bought and sold               | 4                                | ^                      | ^                      | 1 717                            | ^                      | ^                      |
| Commodity swaps and forwards              | 997                              | 101                    | 132                    | 3                                | 174                    | 190                    |
|                                           | <b>1 001</b>                     | <b>101</b>             | <b>132</b>             | <b>1 720</b>                     | <b>174</b>             | <b>190</b>             |
| <b>Credit derivatives</b>                 | <b>8 472</b>                     | <b>39</b>              | <b>211</b>             | <b>5 608</b>                     | <b>2</b>               | <b>36</b>              |
| <b>Embedded derivatives*</b>              |                                  | <b>237</b>             | <b>–</b>               |                                  | <b>299</b>             | <b>–</b>               |
| <b>Cash collateral</b>                    |                                  | <b>(1 538)</b>         | <b>(13 369)</b>        |                                  | <b>(714)</b>           | <b>(9 820)</b>         |
| <b>Derivatives per balance sheet</b>      |                                  | <b>15 843</b>          | <b>13 424</b>          |                                  | <b>15 178</b>          | <b>12 401</b>          |

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

^ Less than R1 million.



(continued)

## 21. Derivative financial instruments (continued)

| At 31 March<br>R'million                  | 2016                             |                        |                        | 2015                             |                        |                        |
|-------------------------------------------|----------------------------------|------------------------|------------------------|----------------------------------|------------------------|------------------------|
|                                           | Notional<br>principal<br>amounts | Positive<br>fair value | Negative<br>fair value | Notional<br>principal<br>amounts | Positive<br>fair value | Negative<br>fair value |
| <b>Company</b>                            |                                  |                        |                        |                                  |                        |                        |
| <b>Foreign exchange derivatives</b>       |                                  |                        |                        |                                  |                        |                        |
| Forward foreign exchange contracts        | 171 801                          | 5 616                  | 6 711                  | 10 108                           | 295                    | 388                    |
| Currency swaps                            | 35 137                           | 3 524                  | 9 973                  | 120 532                          | 6 948                  | 12 934                 |
| OTC options bought and sold               | 52 367                           | 403                    | 315                    | 10 001                           | 206                    | 165                    |
| Other foreign exchange contracts          | –                                | –                      | –                      | 4 212                            | 65                     | 87                     |
|                                           | <b>259 305</b>                   | <b>9 543</b>           | <b>16 999</b>          | <b>144 853</b>                   | <b>7 514</b>           | <b>13 574</b>          |
| <b>Interest rate derivatives</b>          |                                  |                        |                        |                                  |                        |                        |
| Caps and floors                           | 1 058                            | 9                      | 21                     | 2 647                            | 7                      | 6                      |
| Swaps                                     | 238 643                          | 2 172                  | 3 737                  | 332 442                          | 3 178                  | 4 484                  |
| Forward rate agreements                   | 9 931                            | 74                     | 73                     | 311 225                          | 167                    | 159                    |
| OTC options bought and sold               | 100                              | 19                     | 15                     | 1 600                            | 27                     | 27                     |
| Other interest rate contracts             | 130                              | 115                    | 30                     | 330                              | 174                    | 92                     |
|                                           | <b>249 862</b>                   | <b>2 389</b>           | <b>3 876</b>           | <b>648 244</b>                   | <b>3 553</b>           | <b>4 768</b>           |
| <b>Equity and stock index derivatives</b> |                                  |                        |                        |                                  |                        |                        |
| OTC options bought and sold               | 44 464                           | 4 669                  | 703                    | 30 039                           | 4 253                  | 887                    |
| Equity swaps and forwards                 | 31 723                           | 399                    | 721                    | 15 599                           | 89                     | 255                    |
| OTC derivatives                           | 76 187                           | 5 068                  | 1 424                  | 45 638                           | 4 342                  | 1 142                  |
| Exchange traded futures                   | 1 473                            | 1                      | –                      | 585                              | 2                      | –                      |
| Exchange traded options                   | 7 006                            | 3                      | –                      | 5 328                            | 5                      | –                      |
| Warrants                                  | 4 210                            | –                      | 4 151                  | 1 799                            | –                      | 2 511                  |
|                                           | <b>88 876</b>                    | <b>5 072</b>           | <b>5 575</b>           | <b>53 350</b>                    | <b>4 349</b>           | <b>3 653</b>           |
| <b>Commodity derivatives</b>              |                                  |                        |                        |                                  |                        |                        |
| OTC options bought and sold               | 4                                | ^                      | ^                      | 1 717                            | ^                      | ^                      |
| Commodity swaps and forwards              | 997                              | 101                    | 132                    | 3                                | 174                    | 190                    |
|                                           | <b>1 001</b>                     | <b>101</b>             | <b>132</b>             | <b>1 720</b>                     | <b>174</b>             | <b>190</b>             |
| <b>Credit derivatives</b>                 | <b>8 472</b>                     | <b>39</b>              | <b>211</b>             | <b>5 608</b>                     | <b>2</b>               | <b>36</b>              |
| <b>Embedded derivatives*</b>              |                                  | <b>10</b>              | <b>–</b>               |                                  | <b>91</b>              | <b>–</b>               |
| <b>Cash collateral</b>                    |                                  | <b>(1 538)</b>         | <b>(13 369)</b>        |                                  | <b>(714)</b>           | <b>(9 820)</b>         |
| <b>Derivatives per balance sheet</b>      |                                  | <b>15 616</b>          | <b>13 424</b>          |                                  | <b>14 969</b>          | <b>12 401</b>          |

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

^ Less than R1 million.

|                                                       | Group      |              | Company    |              |
|-------------------------------------------------------|------------|--------------|------------|--------------|
| At 31 March<br>R'million                              | 2016       | 2015         | 2016       | 2015         |
| <b>22. Securities arising from trading activities</b> |            |              |            |              |
| Bonds                                                 | 595        | 978          | 595        | 978          |
| Floating rate notes                                   | –          | 40           | –          | 40           |
| Listed equities                                       | 397        | 271          | 397        | 271          |
|                                                       | <b>992</b> | <b>1 289</b> | <b>992</b> | <b>1 289</b> |

|                                 | Group        |              | Company      |              |
|---------------------------------|--------------|--------------|--------------|--------------|
| At 31 March<br>R'million        | 2016         | 2015         | 2016         | 2015         |
| <b>23. Investment portfolio</b> |              |              |              |              |
| Listed equities                 | 3 557        | 2 913        | 3 307        | 2 664        |
| Unlisted equities*              | 2 803        | 7 059        | 2 616        | 6 917        |
|                                 | <b>6 360</b> | <b>9 972</b> | <b>5 923</b> | <b>9 581</b> |

\* Unlisted equities includes loan instruments that are convertible into equity. Refer to note 26 for unlisted equities now shown as interests in associated undertakings.

|                                                                         | Group          |                | Company        |                |
|-------------------------------------------------------------------------|----------------|----------------|----------------|----------------|
| At 31 March<br>R'million                                                | 2016           | 2015           | 2016           | 2015           |
| <b>24. Loans and advances to customers and other loans and advances</b> |                |                |                |                |
| Gross loans and advances to customers                                   | 208 182        | 174 132        | 195 250        | 159 971        |
| Impairments of loans and advances to customers                          | (910)          | (1 139)        | (672)          | (943)          |
| <b>Net loans and advances to customers</b>                              | <b>207 272</b> | <b>172 993</b> | <b>194 578</b> | <b>159 028</b> |
| Gross other loans and advances                                          | 398            | 490            | 452            | 528            |
| Impairments of other loans and advances                                 | (31)           | (18)           | (79)           | (52)           |
| <b>Net other loans and advances</b>                                     | <b>367</b>     | <b>472</b>     | <b>373</b>     | <b>476</b>     |



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

(continued)

| At 31 March<br>R'million                                                | Group      |              | Company    |            |
|-------------------------------------------------------------------------|------------|--------------|------------|------------|
|                                                                         | 2016       | 2015         | 2016       | 2015       |
| <b>24. Loans and advances to customers and other loans and advances</b> |            |              |            |            |
| <i>(continued)</i>                                                      |            |              |            |            |
| <b>Specific and portfolio impairments</b>                               |            |              |            |            |
| Reconciliation of movements in specific and portfolio impairments:      |            |              |            |            |
| <b>Loans and advances to customers</b>                                  |            |              |            |            |
| <b>Specific impairment</b>                                              |            |              |            |            |
| Balance at the beginning of the year                                    | 970        | 1 076        | 853        | 1 053      |
| Charge to the income statement                                          | 832        | 648          | 782        | 538        |
| Reversals and recoveries recognised in the income statement             | (378)      | (149)        | (363)      | (126)      |
| Utilised                                                                | (744)      | (605)        | (740)      | (612)      |
| <b>Balance at the end of the year</b>                                   | <b>680</b> | <b>970</b>   | <b>532</b> | <b>853</b> |
| <b>Portfolio impairment</b>                                             |            |              |            |            |
| Balance at the beginning of the year                                    | 169        | 172          | 90         | 86         |
| Charge/(release) to the income statement                                | 65         | (17)         | 69         | 4          |
| Transfers                                                               | (19)       | –            | (19)       | –          |
| Exchange adjustment                                                     | 15         | 14           | –          | –          |
| <b>Balance at the end of the year</b>                                   | <b>230</b> | <b>169</b>   | <b>140</b> | <b>90</b>  |
| <b>Other loans and advances</b>                                         |            |              |            |            |
| <b>Specific impairment</b>                                              |            |              |            |            |
| Balance at the beginning of the year                                    | 17         | 44           | 52         | –          |
| (Release)/charge to the income statement                                | (6)        | (27)         | 8          | 52         |
| <b>Balance at the end of the year</b>                                   | <b>11</b>  | <b>17</b>    | <b>60</b>  | <b>52</b>  |
| <b>Portfolio impairment</b>                                             |            |              |            |            |
| Balance at the beginning of the year                                    | 1          | 1            | –          | –          |
| Transfers                                                               | 19         | –            | 19         | –          |
| <b>Balance at the end of the year</b>                                   | <b>20</b>  | <b>1</b>     | <b>19</b>  | <b>–</b>   |
| Total specific impairments                                              | 691        | 987          | 592        | 905        |
| Total portfolio impairments                                             | 250        | 170          | 159        | 90         |
| <b>Total impairments</b>                                                | <b>941</b> | <b>1 157</b> | <b>751</b> | <b>995</b> |
| <b>Reconciliation of income statement charge:</b>                       |            |              |            |            |
| <b>Loans and advances to customers</b>                                  | <b>519</b> | <b>482</b>   | <b>488</b> | <b>416</b> |
| Specific impairment charge to income statement                          | 454        | 499          | 419        | 412        |
| Portfolio impairment charge/(release) to income statement               | 65         | (17)         | 69         | 4          |
| <b>Securitised assets (refer to note 25)</b>                            | <b>4</b>   | <b>–</b>     | <b>–</b>   | <b>–</b>   |
| Portfolio impairment charge to income statement                         | 4          | –            | –          | –          |
| <b>Other loans and advances</b>                                         | <b>(6)</b> | <b>(27)</b>  | <b>8</b>   | <b>52</b>  |
| Specific impairment charge to income statement                          | (6)        | (27)         | 8          | 52         |
| <b>Total income statement charge</b>                                    | <b>517</b> | <b>455</b>   | <b>496</b> | <b>468</b> |

|                                                                                                               | Group        |              | Company  |            |
|---------------------------------------------------------------------------------------------------------------|--------------|--------------|----------|------------|
| At 31 March<br>R'million                                                                                      | 2016         | 2015         | 2016     | 2015       |
| <b>25. Securitised assets and liabilities arising on securitisation</b>                                       |              |              |          |            |
| Gross own originated loans and advances to customers securitised                                              | 7 973        | 4 537        | –        | –          |
| Impairments of own originated loans and advances to customers securitised                                     | (6)          | (2)          | –        | –          |
| <b>Net own originated loans and advances to customers securitised</b>                                         | <b>7 967</b> | <b>4 535</b> | <b>–</b> | <b>–</b>   |
| Other securitised assets are made up of the following categories of assets:                                   |              |              |          |            |
| Cash and cash equivalents                                                                                     | 115          | 544          | –        | –          |
| Other debt securities                                                                                         | –            | 74           | –        | 137        |
| <b>Total other securitised assets</b>                                                                         | <b>115</b>   | <b>618</b>   | <b>–</b> | <b>137</b> |
| The associated liabilities are recorded on balance sheet in the following line items:                         |              |              |          |            |
| <b>Liabilities arising on securitisation of own originated loans and advances</b>                             | <b>809</b>   | <b>1 089</b> | <b>–</b> | <b>–</b>   |
| <b>Specific and portfolio impairments</b>                                                                     |              |              |          |            |
| Reconciliation of movements in group-specific and portfolio impairments of assets that have been securitised: |              |              |          |            |
| <b>Specific impairment</b>                                                                                    |              |              |          |            |
| Balance at the beginning of the year                                                                          | 1            | 1            | –        | –          |
| <b>Balance at the end of the year</b>                                                                         | <b>1</b>     | <b>1</b>     | <b>–</b> | <b>–</b>   |
| <b>Portfolio impairment</b>                                                                                   |              |              |          |            |
| Balance at the beginning of the year                                                                          | 1            | 1            | –        | –          |
| Charge to the income statement                                                                                | 4            | –            | –        | –          |
| <b>Balance at the end of the year</b>                                                                         | <b>5</b>     | <b>1</b>     | <b>–</b> | <b>–</b>   |
| <b>Total portfolio and specific impairments on balance sheet</b>                                              | <b>6</b>     | <b>2</b>     | <b>–</b> | <b>–</b>   |

(continued)

|                                                                     | Group        |           | Company      |          |
|---------------------------------------------------------------------|--------------|-----------|--------------|----------|
| At 31 March<br>R'million                                            | 2016         | 2015      | 2016         | 2015     |
| <b>26. Interest in associated undertakings</b>                      |              |           |              |          |
| Interests in associated undertakings consist of:                    |              |           |              |          |
| Net asset value                                                     | 5 145        | 60        | 5 086        | –        |
| <b>Investment in associated undertakings</b>                        | <b>5 145</b> | <b>60</b> | <b>5 086</b> | <b>–</b> |
| Associated undertakings comprise unlisted investments.              |              |           |              |          |
| <b>Analysis of the movement in our share of net assets:</b>         |              |           |              |          |
| At the beginning of the year                                        | 60           | 52        | –            | –        |
| Acquisitions*                                                       | 5 090        | –         | 5 086        | –        |
| Operating loss from associates (included in other operating income) | (11)         | –         | –            | –        |
| Exchange adjustments                                                | 6            | 8         | –            | –        |
| <b>At the end of the year</b>                                       | <b>5 145</b> | <b>60</b> | <b>5 086</b> | <b>–</b> |

\* Investec Bank Limited sold R5.8 billion of its unlisted equity portfolio to an investment vehicle, Investec Equity Partners (Pty) Ltd (IEP) on 11 January 2016 for R0.7 billion in cash and a 45% stake in IEP to the value of R5.1 billion. Investec Bank holds 45% of the voting rights and representation on the board does not constitute control over the entity. As a result IEP has been accounted for as an equity accounted associate.

At reporting date, summarised financial information of IEP is not available and the purchase price allocation is provisional.

|                                                                      | Group      |           | Company  |             |
|----------------------------------------------------------------------|------------|-----------|----------|-------------|
| At 31 March<br>R'million                                             | 2016       | 2015      | 2016     | 2015        |
| <b>27. Deferred taxation</b>                                         |            |           |          |             |
| Deferred taxation assets                                             | 116        | 88        | –        | –           |
| Deferred taxation liabilities                                        | (122)      | (76)      | –        | (36)        |
| <b>Net deferred taxation (liabilities)/assets</b>                    | <b>(6)</b> | <b>12</b> | <b>–</b> | <b>(36)</b> |
| <b>The net deferred taxation assets arise from:</b>                  |            |           |          |             |
| Deferred capital allowances                                          | (6)        | –         | –        | –           |
| Income and expenditure accruals                                      | 24         | 642       | –        | 663         |
| Unrealised fair value adjustments on financial instruments           | –          | (625)     | –        | (625)       |
| Tax relief from assessed losses                                      | 1          | 1         | –        | –           |
| Deferred taxation on acquired intangibles                            | (104)      | –         | –        | –           |
| Impairment of loans and advances to customers                        | 13         | 7         | –        | –           |
| Fair value on cash flow hedges                                       | –          | (74)      | –        | (74)        |
| Finance lease accounting                                             | 56         | 61        | –        | –           |
| Other temporary differences                                          | 10         | –         | –        | –           |
| <b>Net deferred taxation (liabilities)/assets</b>                    | <b>(6)</b> | <b>12</b> | <b>–</b> | <b>(36)</b> |
| <b>Reconciliation of net deferred taxation (liabilities)/assets:</b> |            |           |          |             |
| At the beginning of the year                                         | 12         | 14        | (36)     | (54)        |
| Reversal/(charge) to income statement – current year taxation        | 25         | 141       | (35)     | 150         |
| Reversal/(charge) directly in other comprehensive income             | 71         | (132)     | 71       | (132)       |
| Acquisitions                                                         | (115)      | –         | –        | –           |
| Prior year tax adjustments                                           | 1          | (11)      | –        | –           |
| <b>At year end</b>                                                   | <b>(6)</b> | <b>12</b> | <b>–</b> | <b>(36)</b> |

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.



## Notes to the financial statements

(continued)

|                                   | Group        |              | Company      |            |
|-----------------------------------|--------------|--------------|--------------|------------|
| At 31 March<br>R'million          | 2016         | 2015         | 2016         | 2015       |
| <b>28. Other assets</b>           |              |              |              |            |
| Settlement debtors                | 521          | 17           | 521          | 16         |
| Trading properties                | 176          | 209          | 41           | 39         |
| Prepayments and accruals          | 316          | 280          | 246          | 196        |
| Trading initial margins           | 324          | 204          | 324          | 204        |
| Investec Import Solutions debtors | 1 456        | –            | –            | –          |
| Fee debtors                       | 17           | 83           | 17           | 83         |
| Other                             | 846          | 469          | 585          | 456        |
|                                   | <b>3 656</b> | <b>1 262</b> | <b>1 734</b> | <b>994</b> |

| At 31 March<br>R'million              | Leasehold<br>improvements | Furniture<br>and vehicles | Equipment    | Total        |
|---------------------------------------|---------------------------|---------------------------|--------------|--------------|
| <b>29. Property and equipment</b>     |                           |                           |              |              |
| <b>Group</b>                          |                           |                           |              |              |
| <b>2016</b>                           |                           |                           |              |              |
| <b>Cost</b>                           |                           |                           |              |              |
| At the beginning of the year          | 34                        | 160                       | 618          | 812          |
| Acquisition of subsidiary undertaking | –                         | 1                         | 24           | 25           |
| Additions                             | 2                         | 6                         | 107          | 115          |
| Disposals                             | –                         | (4)                       | (68)         | (72)         |
| <b>At the end of the year</b>         | <b>36</b>                 | <b>163</b>                | <b>681</b>   | <b>880</b>   |
| <b>Accumulated depreciation</b>       |                           |                           |              |              |
| At the beginning of the year          | (21)                      | (113)                     | (486)        | (620)        |
| Disposals                             | –                         | 3                         | 54           | 57           |
| Depreciation                          | (3)                       | (8)                       | (70)         | (81)         |
| <b>At the end of the year</b>         | <b>(24)</b>               | <b>(118)</b>              | <b>(502)</b> | <b>(644)</b> |
| <b>Net carrying value</b>             | <b>12</b>                 | <b>45</b>                 | <b>179</b>   | <b>236</b>   |
| <b>2015</b>                           |                           |                           |              |              |
| <b>Cost</b>                           |                           |                           |              |              |
| At the beginning of the year          | 24                        | 152                       | 582          | 758          |
| Additions                             | 11                        | 9                         | 39           | 59           |
| Disposals                             | (1)                       | (1)                       | (3)          | (5)          |
| <b>At the end of the year</b>         | <b>34</b>                 | <b>160</b>                | <b>618</b>   | <b>812</b>   |
| <b>Accumulated depreciation</b>       |                           |                           |              |              |
| At the beginning of the year          | (20)                      | (105)                     | (414)        | (539)        |
| Disposals                             | –                         | –                         | 1            | 1            |
| Depreciation                          | (1)                       | (8)                       | (73)         | (82)         |
| <b>At the end of the year</b>         | <b>(21)</b>               | <b>(113)</b>              | <b>(486)</b> | <b>(620)</b> |
| <b>Net carrying value</b>             | <b>13</b>                 | <b>47</b>                 | <b>132</b>   | <b>192</b>   |

(continued)

| At 31 March<br>R'million                             | Leasehold<br>improvements | Furniture<br>and vehicles | Equipment    | Total        |
|------------------------------------------------------|---------------------------|---------------------------|--------------|--------------|
| <b>29. Property and equipment</b> <i>(continued)</i> |                           |                           |              |              |
| <b>Company</b>                                       |                           |                           |              |              |
| <b>2016</b>                                          |                           |                           |              |              |
| <b>Cost</b>                                          |                           |                           |              |              |
| At the beginning of the year                         | 34                        | 147                       | 621          | 802          |
| Additions                                            | 2                         | 5                         | 95           | 102          |
| Disposals                                            | –                         | (4)                       | (67)         | (71)         |
| <b>At the end of the year</b>                        | <b>36</b>                 | <b>148</b>                | <b>649</b>   | <b>833</b>   |
| <b>Accumulated depreciation</b>                      |                           |                           |              |              |
| At the beginning of the year                         | (22)                      | (113)                     | (480)        | (615)        |
| Disposals                                            | –                         | 2                         | 53           | 55           |
| Depreciation                                         | (3)                       | (7)                       | (65)         | (75)         |
| <b>At the end of the year</b>                        | <b>(25)</b>               | <b>(118)</b>              | <b>(492)</b> | <b>(635)</b> |
| <b>Net carrying value</b>                            | <b>11</b>                 | <b>30</b>                 | <b>157</b>   | <b>198</b>   |
| <b>2015</b>                                          |                           |                           |              |              |
| <b>Cost</b>                                          |                           |                           |              |              |
| At the beginning of the year                         | 24                        | 141                       | 586          | 751          |
| Additions                                            | 11                        | 7                         | 36           | 54           |
| Disposals                                            | (1)                       | (1)                       | (1)          | (3)          |
| <b>At the end of the year</b>                        | <b>34</b>                 | <b>147</b>                | <b>621</b>   | <b>802</b>   |
| <b>Accumulated depreciation</b>                      |                           |                           |              |              |
| At the beginning of the year                         | (21)                      | (107)                     | (408)        | (536)        |
| Depreciation                                         | (1)                       | (6)                       | (72)         | (79)         |
| <b>At the end of the year</b>                        | <b>(22)</b>               | <b>(113)</b>              | <b>(480)</b> | <b>(615)</b> |
| <b>Net carrying value</b>                            | <b>12</b>                 | <b>34</b>                 | <b>141</b>   | <b>187</b>   |

| At 31 March<br>R'million         | Group    |           | Company  |           |
|----------------------------------|----------|-----------|----------|-----------|
|                                  | 2016     | 2015      | 2016     | 2015      |
| <b>30. Investment properties</b> |          |           |          |           |
| At the beginning of the year     | 80       | 84        | 80       | 84        |
| Disposals                        | (79)     | –         | (79)     | –         |
| Exchange adjustment              | –        | (4)       | –        | (4)       |
| <b>At the end of the year</b>    | <b>1</b> | <b>80</b> | <b>1</b> | <b>80</b> |

Investment properties are carried at fair value and are classified as level 3.

Revaluations are recognised in investment income on the income statement and are unrealised.

The group values its investment properties twice annually. The properties are valued by directors. The valuation is performed by capitalising the annual net income of a property at a market-related yield applicable at the time.



| At 31 March<br>R'million                        | Group                |                                     |                              |              | Company              |                                     |              |
|-------------------------------------------------|----------------------|-------------------------------------|------------------------------|--------------|----------------------|-------------------------------------|--------------|
|                                                 | Acquired<br>software | Internally<br>generated<br>software | Client<br>relation-<br>ships | Total        | Acquired<br>software | Internally<br>generated<br>software | Total        |
| <b>31. Intangible assets</b>                    |                      |                                     |                              |              |                      |                                     |              |
| <b>2016</b>                                     |                      |                                     |                              |              |                      |                                     |              |
| <b>Cost</b>                                     |                      |                                     |                              |              |                      |                                     |              |
| At the beginning of the year                    | 559                  | 112                                 | –                            | 671          | 552                  | 99                                  | 651          |
| Acquisitions of a subsidiary undertaking        | –                    | –                                   | 412                          | 412          | –                    | –                                   | –            |
| Additions                                       | 26                   | 8                                   | –                            | 34           | 25                   | –                                   | 25           |
| <b>At the end of the year</b>                   | <b>585</b>           | <b>120</b>                          | <b>412</b>                   | <b>1 117</b> | <b>577</b>           | <b>99</b>                           | <b>676</b>   |
| <b>Accumulated amortisation and impairments</b> |                      |                                     |                              |              |                      |                                     |              |
| At the beginning of the year                    | (384)                | (97)                                | –                            | (481)        | (377)                | (97)                                | (474)        |
| Amortisation                                    | (68)                 | (5)                                 | (39)                         | (112)        | (68)                 | (1)                                 | (69)         |
| <b>At the end of the year</b>                   | <b>(452)</b>         | <b>(102)</b>                        | <b>(39)</b>                  | <b>(593)</b> | <b>(445)</b>         | <b>(98)</b>                         | <b>(543)</b> |
| <b>Net carrying value</b>                       | <b>133</b>           | <b>18</b>                           | <b>373</b>                   | <b>524</b>   | <b>132</b>           | <b>1</b>                            | <b>133</b>   |
| <b>2015</b>                                     |                      |                                     |                              |              |                      |                                     |              |
| <b>Cost</b>                                     |                      |                                     |                              |              |                      |                                     |              |
| At the beginning of the year                    | 428                  | 104                                 | –                            | 532          | 421                  | 99                                  | 520          |
| Additions                                       | 155                  | 10                                  | –                            | 165          | 154                  | 2                                   | 156          |
| Disposals                                       | (24)                 | (2)                                 | –                            | (26)         | (23)                 | (2)                                 | (25)         |
| <b>At the end of the year</b>                   | <b>559</b>           | <b>112</b>                          | <b>–</b>                     | <b>671</b>   | <b>552</b>           | <b>99</b>                           | <b>651</b>   |
| <b>Accumulated amortisation and impairments</b> |                      |                                     |                              |              |                      |                                     |              |
| At the beginning of the year                    | (336)                | (94)                                | –                            | (430)        | (329)                | (95)                                | (424)        |
| Disposals                                       | 5                    | –                                   | –                            | 5            | 5                    | –                                   | 5            |
| Amortisation                                    | (53)                 | (3)                                 | –                            | (56)         | (53)                 | (2)                                 | (55)         |
| <b>At the end of the year</b>                   | <b>(384)</b>         | <b>(97)</b>                         | <b>–</b>                     | <b>(481)</b> | <b>(377)</b>         | <b>(97)</b>                         | <b>(474)</b> |
| <b>Net carrying value</b>                       | <b>175</b>           | <b>15</b>                           | <b>–</b>                     | <b>190</b>   | <b>175</b>           | <b>2</b>                            | <b>177</b>   |

## 32. Acquisitions

### 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.

As import regulations and complexities increase, Investec Import Solutions offers a compelling value proposition to clients by simplifying the import process, and Investec foresees exciting benefits unfolding in offering Investec Import Solutions services to more of Investec's existing client base. The group believes that the full integration of the business offers the opportunity to unlock substantial benefits and will allow Investec Import Solutions to accelerate its growth.

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                                  |
| <b>Assets</b>                                                                  | <b>1 993</b>                         |
| Deferred taxation liabilities                                                  | 121                                  |
| Other liabilities                                                              | 256                                  |
| <b>Liabilities</b>                                                             | <b>377</b>                           |
| <b>Net fair value of assets acquired</b>                                       | <b>1 616</b>                         |
| Fair value of existing 48.5% equity interest held in Investec Import Solutions | 370                                  |
| Cash consideration                                                             | 367                                  |
| Loan eliminated on consolidation                                               | 1 050                                |
| <b>Fair value of consideration</b>                                             | <b>1 787</b>                         |
| <b>Goodwill</b>                                                                | <b>171</b>                           |

For the post acquisition period 1 July 2015 to 31 March 2016, the operating income of Investec Import Solutions was R204.9 million and the profit before taxation amounted to R68.2 million. If the acquisition of Investec Import Solutions had occurred at the beginning of the current year, the increase in operating income and profit before taxation of the group would be R269.5 million and R93.1 million respectively.

As at 31 March 2016 goodwill has not been impaired.

During the year the group acquired an interest in associated undertakings. For further information on this associate please refer to note 26.



## Notes to the financial statements

(continued)

| At 31 March<br>R'million                           | Group        |              | Company      |              |
|----------------------------------------------------|--------------|--------------|--------------|--------------|
|                                                    | 2016         | 2015         | 2016         | 2015         |
| <b>33. Loans to group companies</b>                |              |              |              |              |
| Loans from holding company – Investec Limited      | (523)        | (682)        | (523)        | (774)        |
| Loans to fellow subsidiaries                       | 6 828        | 3 608        | 5 759        | 2 515        |
| Preference share investment in Investec Limited    | 319          | 319          | –            | –            |
| Preference share investment in fellow subsidiaries | (1 063)      | 174          | 1 087        | 1 084        |
| Intergroup derivative instruments                  | (101)        | (151)        | –            | –            |
|                                                    | <b>5 460</b> | <b>3 268</b> | <b>6 323</b> | <b>2 825</b> |

R6.2 billion (2015: R2.8 billion) is unsecured interest-bearing, with no fixed terms of repayment.

There were no subordinated loan amounts included in the loans to group companies.

|                                                              |                                    |                         |           | Shares at book value |            | Net indebtedness |              |
|--------------------------------------------------------------|------------------------------------|-------------------------|-----------|----------------------|------------|------------------|--------------|
| At 31 March                                                  | Nature of business                 | Issued ordinary capital | Holding % | 2016                 | 2015       | 2016             | 2015         |
|                                                              |                                    |                         |           | R'million            | R'million  | R'million        | R'million    |
| <b>34. Investment in subsidiaries</b>                        |                                    |                         |           |                      |            |                  |              |
| <b>Material direct subsidiaries of Investec Bank Limited</b> |                                    |                         |           |                      |            |                  |              |
| Investec Bank (Mauritius) Limited <sup>^</sup>               | Banking                            | \$56 478 463            | 100       | 534                  | 535        | (1 270)          | 1 874        |
| Reichmans Holdings (Pty) Ltd                                 | Trade and asset financing          | R15                     | 100       | 112                  | 112        | 4 296            | 2 930        |
| Sechold Finance Services (Pty) Ltd                           | Investment holding                 | R1 000                  | 100       | *                    | *          | (519)            | 119          |
| KWJ Investments (Pty) Ltd                                    | Investment holding                 | R100                    | 100       | *                    | *          | (403)            | (199)        |
| AEL Investment Holdings (Pty) Ltd                            | Investment holding                 | R1 000                  | 100       | *                    | *          | 7                | 773          |
| Investpref Limited                                           | Investment holding                 | R1 000                  | 100       | *                    | *          | 23               | (190)        |
| Copperleaf Country Estate (Pty) Ltd                          | Property developer                 | R100                    | 100       | 11                   | *          | 180              | 205          |
| Investec Import Solutions (Pty) Ltd                          | Import logistics and trade finance | R240                    | 100       | 737                  | –          | 1 464            | –            |
| Other                                                        |                                    |                         |           | 259                  | 258        | 201              | 13           |
|                                                              |                                    |                         |           | <b>1 653</b>         | <b>905</b> | <b>3 979</b>     | <b>5 525</b> |

Details of subsidiary and associated companies which are not material to the financial position of the group are not reflected above.

Loans to/(from) group companies are unsecured interest-bearing, with no fixed terms of repayment.

<sup>^</sup> Mauritius.

\* Less than R1 million.

**34. Investment in subsidiaries** (continued)**CONSOLIDATED STRUCTURED ENTITIES**

Investec Bank Limited has no subordinated investment interest in the following structured entities which are consolidated.

Typically a structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control.

The judgements to assess whether the group has control over these structures include assessing the purpose and design of the entity, considering whether the group or another involved party with power over the relevant activities is acting as a principal in its own right or as an agent on behalf of others.

| Name of principal structured entity        | Type of structured entity                                |
|--------------------------------------------|----------------------------------------------------------|
| Private Mortgages 1 (RF) (Pty) Ltd         | Securitised residential mortgages                        |
| Private Residential Mortgages (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 |

Grayston Conduit 1 (RF) Limited has been wound up.



*For additional detail on the assets and liabilities arising on securitisation refer to note 25. For details of the risks to which the group is exposed through all of its securitisations are included in the risk management report on pages 53 and 54.*

The key assumptions for the main types of structured entities which the group consolidates are summarised below:

**Securitised residential mortgages**

The group has securitised residential mortgages in order to provide investors with exposure to residential mortgage risk and to raise funding. These structured entities are consolidated due to the group's holdings of subordinated notes. The group is not required to fund any losses above those incurred on the notes it has retained, such losses are reflected in any impairment of securitised mortgages as those assets have not been derecognised.

**Securitised third party originated residential mortgages**

The group has a senior and subordinated investment in a third party originated structured entity. The structured entity is consolidated due to the group's exposure to residual economic benefits. The group is not required to fund any losses above those incurred on the investments made.

| At 31 March<br>R'million             | Group        |              | Company      |              |
|--------------------------------------|--------------|--------------|--------------|--------------|
|                                      | 2016         | 2015         | 2016         | 2015         |
| <b>35. Other trading liabilities</b> |              |              |              |              |
| Deposits                             | 829          | 797          | 829          | 797          |
| Short positions – gilts              | 576          | 826          | 576          | 826          |
|                                      | <b>1 405</b> | <b>1 623</b> | <b>1 405</b> | <b>1 623</b> |

| At 31 March<br>R'million            | Group        |              | Company      |              |
|-------------------------------------|--------------|--------------|--------------|--------------|
|                                     | 2016         | 2015         | 2016         | 2015         |
| <b>36. Debt securities in issue</b> |              |              |              |              |
| Repayable in:                       |              |              |              |              |
| Less than three months              | 2 267        | 77           | 2 167        | 77           |
| Three months to one year            | 170          | 1 149        | 170          | 319          |
| One to five years                   | 5 228        | 4 291        | 4 333        | 4 126        |
|                                     | <b>7 665</b> | <b>5 517</b> | <b>6 670</b> | <b>4 522</b> |



## Notes to the financial statements

(continued)

|                                        | Group        |              | Company      |              |
|----------------------------------------|--------------|--------------|--------------|--------------|
| At 31 March<br>R'million               | 2016         | 2015         | 2016         | 2015         |
| <b>37. Other liabilities</b>           |              |              |              |              |
| Settlement liabilities                 | 1 021        | 885          | 683          | 788          |
| Other creditors and accruals           | 2 730        | 2 267        | 2 575        | 2 161        |
| Other non-interest-bearing liabilities | 1 291        | 589          | 779          | 543          |
|                                        | <b>5 042</b> | <b>3 741</b> | <b>4 037</b> | <b>3 492</b> |

|                                                                                                                  | Group         |               | Company       |               |
|------------------------------------------------------------------------------------------------------------------|---------------|---------------|---------------|---------------|
| At 31 March<br>R'million                                                                                         | 2016          | 2015          | 2016          | 2015          |
| <b>38. Subordinated liabilities</b>                                                                              |               |               |               |               |
| <b>Issued by Investec Bank Limited</b>                                                                           |               |               |               |               |
| IV08 13.735% subordinated unsecured callable upper tier 2 bonds                                                  | 200           | 200           | 200           | 200           |
| IV09 variable rate subordinated unsecured callable upper tier 2 bonds                                            | 200           | 200           | 200           | 200           |
| IV013 variable rate subordinated unsecured callable bonds                                                        | –             | 50            | –             | 50            |
| IV014 10.545% subordinated unsecured callable bonds                                                              | –             | 125           | –             | 125           |
| IV015 variable rate subordinated unsecured callable bonds                                                        | 601           | 1 350         | 601           | 1 350         |
| IV016 variable rate subordinated unsecured callable bonds                                                        | 325           | 325           | 325           | 325           |
| IV017 indexed rate subordinated unsecured callable bonds                                                         | 2 194         | 2 063         | 2 194         | 2 063         |
| IV019 indexed rate subordinated unsecured callable bonds                                                         | 92            | 86            | 92            | 86            |
| IV019A indexed rate subordinated unsecured callable bonds                                                        | 339           | 317           | 339           | 317           |
| IV022 variable rate subordinated unsecured callable bonds                                                        | 638           | 997           | 638           | 997           |
| IV023 variable rate subordinated unsecured callable bonds                                                        | 860           | 860           | 860           | 860           |
| IV024 variable rate subordinated unsecured callable bonds                                                        | 106           | 106           | 106           | 106           |
| IV025 variable rate subordinated unsecured callable bonds                                                        | 1 000         | 1 000         | 1 000         | 1 000         |
| IV026 variable rate subordinated unsecured callable bonds                                                        | 750           | 750           | 750           | 750           |
| IV030 indexed rate subordinated unsecured callable bonds                                                         | 365           | 342           | 365           | 342           |
| IV030A indexed rate subordinated unsecured callable bonds                                                        | 392           | 368           | 392           | 368           |
| IV031 variable rate subordinated unsecured callable bonds                                                        | 500           | 500           | 500           | 500           |
| IV032 variable rate subordinated unsecured callable bonds                                                        | 810           | 810           | 810           | 810           |
| IV033 variable rate subordinated unsecured callable bonds                                                        | 159           | –             | 159           | –             |
| IV034 fixed rate subordinated unsecured callable bonds                                                           | 101           | –             | 101           | –             |
| IV035 variable rate subordinated unsecured callable bonds                                                        | 1 100         | –             | 1 100         | –             |
|                                                                                                                  | <b>10 732</b> | <b>10 449</b> | <b>10 732</b> | <b>10 449</b> |
| All subordinated debt issued by Investec Bank Limited and its subsidiaries is denominated in South African Rand. |               |               |               |               |
| Remaining maturity:                                                                                              |               |               |               |               |
| In one year or less, or on demand                                                                                | –             | 175           | –             | 175           |
| In more than one year, but not more than two years                                                               | –             | –             | –             | –             |
| In more than two years, but not more than five years                                                             | 400           | 400           | 400           | 400           |
| In more than five years                                                                                          | 10 332        | 9 874         | 10 332        | 9 874         |
|                                                                                                                  | <b>10 732</b> | <b>10 449</b> | <b>10 732</b> | <b>10 449</b> |

The only event of default in relation to the subordinated debt is the non-payment of principal or interest. The only remedy available to the holders of the subordinated debt in the event of default is to petition for the winding up of the issuing entity. In a winding up no amount will be paid in respect of the subordinated debt until all other creditors have been paid in full.

**38. Subordinated liabilities** (continued)**IV08 13.735% SUBORDINATED UNSECURED CALLABLE UPPER TIER 2 BONDS**

R200 million Investec Bank Limited IV08 locally registered subordinated unsecured callable bonds without a maturity date. Interest is paid six-monthly in arrears on 31 October and 30 April at a rate of 13.735% per annum until 30 April 2018. The company has the option to call the bonds from 30 April 2013 or on any interest payment date falling after 30 April 2018. If not called by 30 April 2018, the bonds will pay interest of 5.625% above JIBAR payable quarterly in arrears until called.

**IV09 VARIABLE RATE SUBORDINATED UNSECURED CALLABLE UPPER TIER 2 BONDS**

R200 million Investec Bank Limited IV09 locally registered subordinated unsecured callable bonds without a maturity date. Interest is paid quarterly in arrears on 31 July, 31 October, 31 January and 30 April at a rate equal to three-month JIBAR plus 3.75% until 30 April 2018. The company has the option to call the bonds from 30 April 2013 or on any interest payment date falling after 30 April 2018. If not called by 30 April 2018, the bonds will pay interest of 5.625% above JIBAR payable quarterly in arrears until called.

**IV013 VARIABLE RATE SUBORDINATED UNSECURED CALLABLE BONDS**

Rnil (2015: R50 million) Investec Bank Limited IV013 locally registered subordinated unsecured callable bonds are due in June 2020. Interest is payable quarterly in arrears on 22 March, 22 June, 22 September and 22 December at a rate equal to three-month JIBAR plus 2.75% until 22 June 2015. From and including 22 June 2015, up to and excluding 22 June 2020, interest is paid at a rate equal to three-month JIBAR plus 5.50%. The maturity date is 22 June 2020, but the company has the option to call the bonds from 22 June 2015. The bonds were called on 22 June 2015.

**IV014 10.545% SUBORDINATED UNSECURED CALLABLE BONDS**

Rnil (2015: R125 million) Investec Bank Limited IV014 locally registered subordinated unsecured callable bonds are due in June 2020. Interest is payable six-monthly in arrears on 22 June and 22 December at a fixed rate of 10.545% until 22 June 2015. From and including 22 June 2015, up to and excluding 22 June 2020, interest is paid quarterly in arrears on 22 June, 22 September, 22 December and 22 March at a rate equal to three-month JIBAR plus 5.50%. The maturity date is 22 June 2020, but the company has the option to call the bonds from 22 June 2015. The bonds were called on 22 June 2015.

**IV015 VARIABLE RATE SUBORDINATED UNSECURED CALLABLE BONDS**

R601 million (2015: R1 350 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. R749 million IV015 bonds were repurchased by Invested Bank Limited during the current year.

**IV016 VARIABLE RATE SUBORDINATED UNSECURED CALLABLE BONDS**

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.

**IV017 INDEXED RATE SUBORDINATED UNSECURED CALLABLE BONDS**

R2 194 million (2015: R2 063 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.

**IV019 INDEXED RATE SUBORDINATED UNSECURED CALLABLE BONDS**

R92 million (2015: R86 million) Investec Bank Limited IV019 locally registered subordinated unsecured callable bonds are due in March 2028. Interest on these inflation-linked bonds is payable semi-annually on 31 March and 30 September at a rate of 2.60%. The IV019 is a replica of the R210 South African government bond. The maturity date is 31 March 2028, but the company has the option to call the bonds upon regulatory capital disqualification or from 3 April 2023.

**IV019A INDEXED RATE SUBORDINATED UNSECURED CALLABLE BONDS**

R339 million (2015: R317 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.

## 38. Subordinated liabilities (continued)

### IV022 VARIABLE RATE SUBORDINATED UNSECURED CALLABLE BONDS

R638 million (2015: R997 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. R359 million IV022 bonds were repurchased by Investec Bank Limited during the current year.

### 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.

### IV025 VARIABLE RATE SUBORDINATED UNSECURED CALLABLE BONDS

R1 000 million Investec Bank Limited IV025 locally registered subordinated unsecured callable bonds are due in September 2024. Interest is payable quarterly on 12 December, 12 March, 12 June and 12 September at a rate equal to the three-month JIBAR plus 2.50% up to and excluding 12 September 2024. The maturity date is 12 September 2024, but the company has the option to call the bonds upon regulatory capital disqualification or from 12 September 2019.

### IV026 VARIABLE RATE SUBORDINATED UNSECURED CALLABLE BONDS

R750 million Investec Bank Limited IV026 locally registered subordinated unsecured callable bonds are due in September 2024. Interest is payable quarterly on 27 December, 27 March, 27 June and 27 September at a rate equal to the three-month JIBAR plus 2.45% up to and excluding 27 September 2024. The maturity date is 27 September 2024, but the company has the option to call the bonds upon regulatory capital disqualification or from 27 September 2019.

### IV030 INDEXED RATE SUBORDINATED UNSECURED CALLABLE BONDS

R365 million (2015: R342 million) Investec Bank Limited IV030 locally registered subordinated unsecured callable bonds are due in January 2025. Interest on these inflation-linked bonds is payable semi-annually on 31 January and 31 July at a rate of 2.00%. The IV030 is a replica of the I2025 South African government bond. The maturity date is 31 January 2025, but the company has the option to call the bonds upon regulatory capital disqualification or from 31 January 2020.

### IV030A INDEXED RATE SUBORDINATED UNSECURED CALLABLE BONDS

R392 million (2015: R368 million) Investec Bank Limited IV030A locally registered subordinated unsecured callable bonds are due in January 2025. Interest on these inflation-linked bonds is payable semi-annually on 31 January and 31 July at a rate of 2.00%. The IV030A is a replica of the I2025 South African government bond. The maturity date is 31 January 2025, but the company has the option to call the bonds upon regulatory capital disqualification or from 31 January 2020.

### IV031 VARIABLE RATE SUBORDINATED UNSECURED CALLABLE BONDS

R500 million Investec Bank Limited IV031 locally registered subordinated unsecured callable bonds are due in March 2025. Interest is payable quarterly on 11 December, 11 March, 11 June and 11 September at a rate equal to the three-month JIBAR plus 2.95% up to and excluding 11 March 2025. The maturity date is 11 March 2025, but the company has the option to call the bonds upon regulatory capital disqualification or from 11 March 2020.

### IV032 VARIABLE RATE SUBORDINATED UNSECURED CALLABLE BONDS

R810 million Investec Bank Limited IV032 locally registered subordinated unsecured callable bonds are due in August 2023. Interest is payable quarterly on 14 November, 14 February, 14 May, 14 August at a rate equal to the three-month JIBAR plus 2.95%. The maturity date is 14 August 2023, but the company has the option to call the bonds upon regulatory capital disqualification or from 14 August 2018.

### IV033 VARIABLE RATE SUBORDINATED UNSECURED CALLABLE BONDS

R159 million (2015: Rnil) 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.

**38. Subordinated liabilities** (continued)**IV034 FIXED RATE SUBORDINATED UNSECURED CALLABLE BONDS**

R101 million (2015: Rnil) 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 100 million (2015: Rnil) 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.

| At 31 March<br>R'million                                         | Group |      | Company |      |
|------------------------------------------------------------------|-------|------|---------|------|
|                                                                  | 2016  | 2015 | 2016    | 2015 |
| <b>39. Ordinary share capital</b>                                |       |      |         |      |
| <b>Authorised</b>                                                |       |      |         |      |
| 105 000 000 (2015: 105 000 000) ordinary shares of 50 cents each |       |      |         |      |
| <b>Issued</b>                                                    |       |      |         |      |
| 63 019 022 (2015: 63 019 022) ordinary shares of 50 cents each   | 32    | 32   | 32      | 32   |

| At 31 March<br>R'million                                                                                                                                                         | Group |       | Company |       |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------|---------|-------|
|                                                                                                                                                                                  | 2016  | 2015  | 2016    | 2015  |
| <b>40. Perpetual preference shares</b>                                                                                                                                           |       |       |         |       |
| <b>Authorised</b>                                                                                                                                                                |       |       |         |       |
| 70 000 000 (2015: 70 000 000) non-redeemable, non-cumulative, non-participating preference shares of one cent each                                                               |       |       |         |       |
| 20 000 000 (2015: 20 000 000) non-redeemable, non-cumulative, non-participating preference shares with a par value of one cent each (non-redeemable programme preference shares) |       |       |         |       |
| 50 000 000 (2015: 50 000 000) redeemable, non-participating preference shares with a par value of one cent each (redeemable programme preference shares)                         |       |       |         |       |
| <b>Issued</b>                                                                                                                                                                    |       |       |         |       |
| 15 447 630 (2015: 15 447 630) non-redeemable, non-cumulative non-participating preference shares of one cent each, issued at a premium of between R96.46 and R99.99 per share.   | 1 534 | 1 534 | 1 534   | 1 534 |
| – Perpetual preference share capital                                                                                                                                             | *     | *     | *       | *     |
| – Perpetual preference share premium                                                                                                                                             | 1 534 | 1 534 | 1 534   | 1 534 |

\* Less than R1 million.

Share premium on perpetual preference shares is included in the line item share premium on the balance sheet. Refer to note 41.

Preference shareholders will be entitled to receive dividends, if declared, at a rate limited to 83.33% of the South African prime interest rate on R100 being the deemed value of the issue price of the preference share held.

Preference shareholders receive dividends in priority to any payment of dividends to the holder of any other class of shares in the capital of the company not ranking prior or *pari passu* with the preference shares.

An ordinary dividend will not be declared by Investec Bank Limited unless the preference dividend has been declared. If declared, preference dividends are payable semi-annually at least seven business days prior to the date on which Investec Bank Limited pays its ordinary dividends, if any, but shall be payable no later than 120 business days after 31 March and 30 September, respectively.



|                                                                 | Group         |               | Company       |               |
|-----------------------------------------------------------------|---------------|---------------|---------------|---------------|
| At 31 March<br>R'million                                        | 2016          | 2015          | 2016          | 2015          |
| <b>41. Share premium</b>                                        |               |               |               |               |
| Share premium on ordinary shares                                | 13 366        | 13 366        | 13 366        | 13 366        |
| Share premium on perpetual preference shares (refer to note 40) | 1 534         | 1 534         | 1 534         | 1 534         |
| Share issue expenses written off                                | (15)          | (15)          | (15)          | (15)          |
|                                                                 | <b>14 885</b> | <b>14 885</b> | <b>14 885</b> | <b>14 885</b> |

|                                                                       | Group                               |                  |                                     |                  |
|-----------------------------------------------------------------------|-------------------------------------|------------------|-------------------------------------|------------------|
|                                                                       | 2016                                |                  | 2015                                |                  |
| At 31 March<br>R'million                                              | Total future<br>minimum<br>payments | Present<br>value | Total future<br>minimum<br>payments | Present<br>value |
| <b>42. Finance lease disclosures</b>                                  |                                     |                  |                                     |                  |
| Finance lease receivables included in loans and advances to customers |                                     |                  |                                     |                  |
| Lease receivables due in:                                             |                                     |                  |                                     |                  |
| Less than one year                                                    | 731                                 | 590              | 666                                 | 543              |
| One to five years                                                     | 717                                 | 616              | 634                                 | 561              |
|                                                                       | <b>1 448</b>                        | <b>1 206</b>     | <b>1 300</b>                        | <b>1 104</b>     |
| Unearned finance income                                               | <b>242</b>                          |                  | <b>196</b>                          |                  |

At 31 March 2016 and 31 March 2015, there were no unguaranteed residual values.

(continued)

|                                                                                        | Group           |                 | Company         |                 |
|----------------------------------------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|
| At 31 March<br>R'million                                                               | 2016            | 2015            | 2016            | 2015            |
| <b>43. Notes to cash flow statement</b>                                                |                 |                 |                 |                 |
| Profit before taxation adjusted for non-cash items is derived as follows:              |                 |                 |                 |                 |
| Profit before taxation                                                                 | 4 295           | 3 673           | 4 467           | 3 090           |
| Adjustments for non-cash items included in net income before taxation:                 |                 |                 |                 |                 |
| Amortisation of acquired intangible assets                                             | 39              | –               | –               | –               |
| Depreciation, amortisation and impairment of property, equipment and intangibles       | 154             | 138             | 144             | 134             |
| Impairment of loans and advances                                                       | 517             | 455             | 496             | 468             |
| Operating loss from associates                                                         | 11              | –               | –               | –               |
| Write down of non-current assets held for sale                                         | 131             | –               | 131             | –               |
| Gain on realisation of fixed assets                                                    | (1)             | –               | (1)             | –               |
| Gain on realisation of available-for-sale assets recycled through the income statement | (13)            | –               | (13)            | –               |
| <b>Profit before taxation adjusted for non-cash items</b>                              | <b>5 133</b>    | <b>4 266</b>    | <b>5 224</b>    | <b>3 692</b>    |
| <b>Increase in operating assets</b>                                                    |                 |                 |                 |                 |
| Loans and advances to banks                                                            | 8 499           | 744             | 8 428           | 745             |
| Reverse repurchase agreements and cash collateral on securities borrowed               | (28 794)        | (3 639)         | (28 986)        | (3 484)         |
| Sovereign debt securities                                                              | (10 000)        | 3 466           | (10 023)        | 3 484           |
| Bank debt securities                                                                   | 3 251           | 4 182           | 3 261           | 4 045           |
| Other debt securities                                                                  | 180             | (757)           | 2 034           | (448)           |
| Derivative financial instruments                                                       | (460)           | (3 232)         | (505)           | (3 394)         |
| Securities arising from trading activities                                             | 297             | 27              | 297             | 27              |
| Investment portfolio                                                                   | (2 067)         | (781)           | (1 740)         | (597)           |
| Loans and advances to customers                                                        | (32 395)        | (23 509)        | (36 045)        | (24 958)        |
| Own originated loans and advances to customers securitised                             | (3 432)         | (1 713)         | –               | –               |
| Other loans and advances                                                               | 105             | 80              | 103             | (476)           |
| Other securitised assets                                                               | 503             | 885             | 137             | 390             |
| Other assets                                                                           | (949)           | 515             | (740)           | 498             |
| Investment properties                                                                  | 79              | 4               | 79              | 4               |
| Loans to group companies                                                               | (3 441)         | (1 388)         | (3 498)         | 173             |
| Non-current assets held for sale                                                       | 601             | (1)             | 601             | (1)             |
|                                                                                        | <b>(68 023)</b> | <b>(25 117)</b> | <b>(66 597)</b> | <b>(23 992)</b> |
| <b>Increase in operating liabilities</b>                                               |                 |                 |                 |                 |
| Deposits by banks                                                                      | 7 450           | 7 385           | 7 456           | 7 386           |
| Derivative financial instruments                                                       | 1 023           | 3 142           | 1 023           | 3 142           |
| Other trading liabilities                                                              | (218)           | 192             | (218)           | 192             |
| Repurchase agreements and cash collateral on securities lent                           | 77              | (1 310)         | 100             | (1 182)         |
| Customer accounts (deposits)                                                           | 56 105          | 15 223          | 51 864          | 15 737          |
| Debt securities in issue                                                               | 2 148           | 151             | 2 148           | 136             |
| Liabilities arising on securitisation of own originated loans and advances             | (280)           | (280)           | –               | –               |
| Liabilities arising on securitisation of other assets                                  | –               | (156)           | –               | –               |
| Other liabilities                                                                      | 997             | 517             | 545             | 819             |
|                                                                                        | <b>67 302</b>   | <b>24 864</b>   | <b>62 918</b>   | <b>26 230</b>   |

| At 31 March<br>R'million                                                                                                                                                               | Group         |               | Company       |               |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|---------------|---------------|
|                                                                                                                                                                                        | 2016          | 2015          | 2016          | 2015          |
| <b>44. Commitments</b>                                                                                                                                                                 |               |               |               |               |
| Undrawn facilities                                                                                                                                                                     | 44 533        | 43 479        | 42 855        | 41 513        |
|                                                                                                                                                                                        | <b>44 533</b> | <b>43 479</b> | <b>42 855</b> | <b>41 513</b> |
| 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. |               |               |               |               |
| <b>Operating lease commitments</b>                                                                                                                                                     |               |               |               |               |
| <b>Future minimum lease payments under non-cancellable operating leases:</b>                                                                                                           |               |               |               |               |
| Less than one year                                                                                                                                                                     | 373           | 423           | 369           | 423           |
| One to five years                                                                                                                                                                      | 1 883         | 1 873         | 1 880         | 1 873         |
| Greater than five years                                                                                                                                                                | 749           | 1 123         | 749           | 1 123         |
|                                                                                                                                                                                        | <b>3 005</b>  | <b>3 419</b>  | <b>2 998</b>  | <b>3 419</b>  |

At 31 March 2016, Investec was obligated under a number of operating leases for properties, computer equipment and office equipment for which the future minimum lease payments extend over a number of years. The annual escalation clauses range between 7.0% and 10.0% per annum. The majority of the leases have renewal options. Contingent rent represents payments made to landlords for operating, tax and other escalation expenses.

| At 31 March<br>R'million                                                 | 2016                             |                                                                                                  | 2015                             |                                                                                                  |
|--------------------------------------------------------------------------|----------------------------------|--------------------------------------------------------------------------------------------------|----------------------------------|--------------------------------------------------------------------------------------------------|
|                                                                          | Carrying amount of pledged asset | Carrying value of related liability Repurchase agreements and cash collateral on securities lent | Carrying amount of pledged asset | Carrying value of related liability Repurchase agreements and cash collateral on securities lent |
| <b>Pledged assets</b>                                                    |                                  |                                                                                                  |                                  |                                                                                                  |
| <b>Group</b>                                                             |                                  |                                                                                                  |                                  |                                                                                                  |
| Sovereign debt securities                                                | –                                | –                                                                                                | 5 055                            | 8 220                                                                                            |
| Bank debt securities                                                     | 6 947                            | 6 317                                                                                            | 7 466                            | 4 144                                                                                            |
| Other debt securities                                                    | 9 178                            | 7 455                                                                                            | 3 083                            | 1 712                                                                                            |
| Securities arising from trading activities                               | 49                               | 1 553                                                                                            | 357                              | 1 146                                                                                            |
| Reverse repurchase agreements and cash collateral on securities borrowed | –                                | –                                                                                                | 698                              | 472                                                                                              |
|                                                                          | <b>16 174</b>                    | <b>15 325</b>                                                                                    | <b>16 659</b>                    | <b>15 694</b>                                                                                    |
| <b>Company</b>                                                           |                                  |                                                                                                  |                                  |                                                                                                  |
| Sovereign debt securities                                                | –                                | –                                                                                                | 5 055                            | 8 220                                                                                            |
| Bank debt securities                                                     | 6 947                            | 6 317                                                                                            | 7 466                            | 4 144                                                                                            |
| Other debt securities                                                    | 9 178                            | 7 455                                                                                            | 3 083                            | 1 712                                                                                            |
| Securities arising from trading activities                               | 49                               | 1 553                                                                                            | 357                              | 1 146                                                                                            |
| Reverse repurchase agreements and cash collateral on securities borrowed | –                                | –                                                                                                | 698                              | 472                                                                                              |
|                                                                          | <b>16 174</b>                    | <b>15 325</b>                                                                                    | <b>16 659</b>                    | <b>15 694</b>                                                                                    |

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 reverse repurchase agreements and cash collateral on securities borrowed.

(continued)

|                                                              | Group         |               | Company       |               |
|--------------------------------------------------------------|---------------|---------------|---------------|---------------|
| At 31 March<br>R'million                                     | 2016          | 2015          | 2016          | 2015          |
| <b>45. Contingent liabilities</b>                            |               |               |               |               |
| <b>Guarantees and assets pledged as collateral security:</b> |               |               |               |               |
| – Guarantees and irrevocable letters of credit               | 21 905        | 19 757        | 22 602        | 20 353        |
|                                                              | <b>21 905</b> | <b>19 757</b> | <b>22 602</b> | <b>20 353</b> |

The amounts shown above are intended only to provide an indication of the volume of business outstanding at the balance sheet date.

Guarantees are issued by Investec Bank Limited on behalf of third parties and other group companies. The guarantees are issued as part of the banking business.

#### LEGAL PROCEEDINGS

Investec operates in a legal and regulatory environment that exposes it to litigation risks. As a result, Investec is involved in disputes and legal proceedings which arise in the ordinary course of business. Investec does not expect the ultimate resolution of any of the proceedings to which Investec is a party to have a significant adverse effect on the financial position of the group. These claims, if any, cannot be reasonably estimated at this time.

|                                                                                                                                                                                         | Group and company |              |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|--------------|
| For the year to 31 March<br>R'million                                                                                                                                                   | 2016              | 2015         |
| <b>46. Related party transactions</b>                                                                                                                                                   |                   |              |
| <b>Transactions, arrangements and agreements involving directors and others:</b>                                                                                                        |                   |              |
| Transactions, arrangements and agreements involving directors with directors and connected persons and companies controlled by them, and with officers of the company, were as follows: |                   |              |
| <b>Directors, key management and connected persons and companies controlled by them:</b>                                                                                                |                   |              |
| <b>Loans</b>                                                                                                                                                                            |                   |              |
| At the beginning of the year                                                                                                                                                            | 614               | 531          |
| Increase in loans                                                                                                                                                                       | 96                | 250          |
| Repayment of loans                                                                                                                                                                      | (140)             | (173)        |
| Exchange adjustment                                                                                                                                                                     | 97                | 6            |
| <b>At the end of the year</b>                                                                                                                                                           | <b>667</b>        | <b>614</b>   |
| <b>Guarantees</b>                                                                                                                                                                       |                   |              |
| At the beginning of the year                                                                                                                                                            | 75                | 77           |
| Additional guarantees granted                                                                                                                                                           | 78                | 30           |
| Guarantees cancelled                                                                                                                                                                    | (26)              | (33)         |
| Exchange adjustments                                                                                                                                                                    | 2                 | 1            |
| <b>At the end of the year</b>                                                                                                                                                           | <b>129</b>        | <b>75</b>    |
| <b>Deposits</b>                                                                                                                                                                         |                   |              |
| At the beginning of the year                                                                                                                                                            | (621)             | (554)        |
| Increase in deposits                                                                                                                                                                    | (265)             | (399)        |
| Decrease in deposits                                                                                                                                                                    | 461               | 344          |
| Exchange adjustment                                                                                                                                                                     | (83)              | (12)         |
| <b>At the end of the year</b>                                                                                                                                                           | <b>(508)</b>      | <b>(621)</b> |

The above transactions were made in the ordinary course of business and on substantially 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<br>R'million                                                                                                                                                                                                                                                                                                                                                                                                                                    | Group and company |       |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------|
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 2016              | 2015  |
| <b>46. Related party transactions</b> <i>(continued)</i>                                                                                                                                                                                                                                                                                                                                                                                                                 |                   |       |
| <b>Transactions with Investec plc and its subsidiaries</b>                                                                                                                                                                                                                                                                                                                                                                                                               |                   |       |
| <b>Assets</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                   |       |
| Loans and advances to banks                                                                                                                                                                                                                                                                                                                                                                                                                                              | 907               | 234   |
| Loans and advances to customers                                                                                                                                                                                                                                                                                                                                                                                                                                          | 8                 | –     |
| Other debt securities                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 2 677             | 2 882 |
| Derivative financial instruments                                                                                                                                                                                                                                                                                                                                                                                                                                         | 356               | 1 782 |
| Other assets                                                                                                                                                                                                                                                                                                                                                                                                                                                             | –                 | –     |
| <b>Liabilities</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                   |       |
| Deposits from banks                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 195               | 63    |
| Customer accounts (deposits)                                                                                                                                                                                                                                                                                                                                                                                                                                             | –                 | 31    |
| Repurchase agreements and cash collateral on securities lent                                                                                                                                                                                                                                                                                                                                                                                                             | 2 326             | 4 193 |
| Derivative financial instruments                                                                                                                                                                                                                                                                                                                                                                                                                                         | 132               | 696   |
| Debt securities in issue                                                                                                                                                                                                                                                                                                                                                                                                                                                 | 149               | 125   |
| Other liabilities                                                                                                                                                                                                                                                                                                                                                                                                                                                        | 59                | 55    |
| <b>Income statement</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                   |       |
| Interest income                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 136               | 157   |
| Interest expense                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 59                | 26    |
| <p>The above outstanding balances arose from the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties.</p> <p>In the normal course of business, services are rendered between Investec plc and Investec Bank Limited. In the year to 31 March 2016, this resulted in a net payment by Investec plc group of R331.6 million (2015: R377.7 million).</p> |                   |       |
| <b>Transactions with other related parties</b>                                                                                                                                                                                                                                                                                                                                                                                                                           |                   |       |
| Loan from Investec Bank (Mauritius) Limited to Forty Two Point Two                                                                                                                                                                                                                                                                                                                                                                                                       | 676               | 463   |
| <p>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</p>                                                                                                                                                                                                                                                                                                           |                   |       |



Refer to pages 92 to 103 in the directors' remuneration report for other transactions relating to directors.



Refer to note 33 for loans to group companies and note 34 for loans to/(from) subsidiary companies.

## 47. Liquidity analysis of financial liabilities based on undiscounted cash flows

The balances in the below table will not agree directly to the balances in the consolidated balance sheet as the table incorporates all cash flow on an undiscounted basis relating to both principal and those associated with all future coupon payments (except for trading liabilities and trading derivatives). Furthermore loan commitments are generally not recognised on the balance sheet. Trading liabilities and trading derivatives have been included in the 'Demand' time bucket and not by contractual maturity because trading liabilities are typically held for short periods of time.



For an unaudited analysis based on discounted cash flows, please refer to page 64.

| At 31 March<br>R'million                                                            | Demand         | Up to<br>one<br>month | One<br>month<br>to three<br>months | Three<br>months<br>to six<br>months | Six<br>months<br>to one<br>year | One<br>year<br>to five<br>years | > Five<br>years | Total          |
|-------------------------------------------------------------------------------------|----------------|-----------------------|------------------------------------|-------------------------------------|---------------------------------|---------------------------------|-----------------|----------------|
| <b>Group</b>                                                                        |                |                       |                                    |                                     |                                 |                                 |                 |                |
| <b>2016</b>                                                                         |                |                       |                                    |                                     |                                 |                                 |                 |                |
| <b>Liabilities</b>                                                                  |                |                       |                                    |                                     |                                 |                                 |                 |                |
| Deposits by banks                                                                   | 736            | 5 550                 | 1 886                              | 2 331                               | 9 167                           | 17 779                          | –               | 37 449         |
| Derivative financial<br>instruments                                                 | 13 110         | –                     | 1                                  | 3                                   | 1                               | 92                              | 218             | 13 425         |
| – held for trading                                                                  | 12 899         | –                     | 1                                  | 3                                   | 1                               | 92                              | 218             | 13 214         |
| – held for hedging risk                                                             | 211            | –                     | –                                  | –                                   | –                               | –                               | –               | 211            |
| Other trading liabilities                                                           | 1 405          | –                     | –                                  | –                                   | –                               | –                               | –               | 1 405          |
| Repurchase agreements<br>and cash collateral on<br>securities lent                  | 1 553          | 3 316                 | 1 256                              | 4                                   | 6 135                           | 4 791                           | –               | 17 055         |
| Customer accounts<br>(deposits)                                                     | 120 833        | 31 022                | 53 092                             | 21 879                              | 24 027                          | 29 500                          | 2 617           | 282 970        |
| Debt securities in issue                                                            | –              | 1 302                 | 965                                | –                                   | 172                             | 5 395                           | –               | 7 834          |
| Liabilities arising on<br>securitisation of own<br>originated loans and<br>advances | –              | 7                     | 16                                 | 17                                  | 33                              | 327                             | 802             | 1 202          |
| Other liabilities                                                                   | 2 203          | 154                   | 1 494                              | 64                                  | 132                             | 416                             | 582             | 5 045          |
| Subordinated liabilities                                                            | –              | 87                    | 98                                 | 216                                 | 1 256                           | 10 169                          | 1 130           | 12 956         |
| <b>Total on balance sheet<br/>liabilities</b>                                       | <b>139 840</b> | <b>41 438</b>         | <b>58 808</b>                      | <b>24 514</b>                       | <b>40 923</b>                   | <b>68 469</b>                   | <b>5 349</b>    | <b>379 341</b> |
| Contingent liabilities                                                              | 1 210          | 156                   | 6 799                              | 252                                 | 1 228                           | 11 816                          | 1 947           | 23 408         |
| Commitments                                                                         | 6 217          | 750                   | 5 494                              | 1 815                               | 4 209                           | 10 129                          | 16 076          | 44 690         |
| <b>Total liabilities</b>                                                            | <b>147 267</b> | <b>42 344</b>         | <b>71 101</b>                      | <b>26 581</b>                       | <b>46 360</b>                   | <b>90 414</b>                   | <b>23 372</b>   | <b>447 439</b> |

## 47. Liquidity analysis of financial liabilities based on undiscounted cash flows

(continued)

| At 31 March<br>R'million                                                            | Demand         | Up to<br>one<br>month | One<br>month<br>to three<br>months | Three<br>months<br>to six<br>months | Six<br>months<br>to one<br>year | One<br>year<br>to five<br>years | > Five<br>years | Total          |
|-------------------------------------------------------------------------------------|----------------|-----------------------|------------------------------------|-------------------------------------|---------------------------------|---------------------------------|-----------------|----------------|
| <b>Group</b>                                                                        |                |                       |                                    |                                     |                                 |                                 |                 |                |
| <b>2015</b>                                                                         |                |                       |                                    |                                     |                                 |                                 |                 |                |
| <b>Liabilities</b>                                                                  |                |                       |                                    |                                     |                                 |                                 |                 |                |
| Deposits by banks                                                                   | 710            | 1 643                 | 742                                | 10                                  | 12 188                          | 14 499                          | –               | 29 792         |
| Derivative financial<br>instruments                                                 | 12 390         | –                     | –                                  | –                                   | –                               | –                               | 21              | 12 411         |
| – held for trading                                                                  | 12 354         | –                     | –                                  | –                                   | –                               | –                               | –               | 12 354         |
| – held for hedging risk                                                             | 36             | –                     | –                                  | –                                   | –                               | –                               | 21              | 57             |
| Other trading liabilities                                                           | 1 623          | –                     | –                                  | –                                   | –                               | –                               | –               | 1 623          |
| Repurchase agreements<br>and cash collateral on<br>securities lent                  | 1 237          | 9 493                 | 2                                  | 681                                 | 1 340                           | 3 931                           | –               | 16 684         |
| Customer accounts<br>(deposits)                                                     | 88 651         | 27 923                | 39 490                             | 13 919                              | 20 091                          | 28 596                          | 2 729           | 221 399        |
| Debt securities in issue                                                            | –              | –                     | 77                                 | 81                                  | 1 068                           | 4 291                           | –               | 5 517          |
| Liabilities arising on<br>securitisation of own<br>originated loans and<br>advances | –              | –                     | –                                  | 8                                   | 2                               | 4 229                           | 1 014           | 5 253          |
| Other liabilities                                                                   | 679            | 518                   | 894                                | 516                                 | 68                              | 512                             | 608             | 3 795          |
| Subordinated liabilities                                                            | –              | 61                    | 315                                | 163                                 | 356                             | 5 993                           | 7 277           | 14 165         |
| <b>Total on balance sheet<br/>liabilities</b>                                       | <b>105 290</b> | <b>39 638</b>         | <b>41 520</b>                      | <b>15 378</b>                       | <b>35 113</b>                   | <b>62 051</b>                   | <b>11 649</b>   | <b>310 639</b> |
| Contingent liabilities                                                              | 5 447          | 54                    | 5 405                              | 303                                 | 320                             | 7 404                           | 1 289           | 20 222         |
| Commitments                                                                         | 3 169          | 43                    | 10 246                             | 1 141                               | 3 627                           | 11 438                          | 14 088          | 43 752         |
| <b>Total liabilities</b>                                                            | <b>113 906</b> | <b>39 735</b>         | <b>57 171</b>                      | <b>16 822</b>                       | <b>39 060</b>                   | <b>80 893</b>                   | <b>27 026</b>   | <b>374 613</b> |

(continued)

## 47. Liquidity analysis of financial liabilities based on undiscounted cash flows

(continued)

| At 31 March<br>R'million                                           | Demand         | Up to<br>one<br>month | One<br>month<br>to three<br>months | Three<br>months<br>to six<br>months | Six<br>months<br>to one<br>year | One<br>year<br>to five<br>years | > Five<br>years | Total          |
|--------------------------------------------------------------------|----------------|-----------------------|------------------------------------|-------------------------------------|---------------------------------|---------------------------------|-----------------|----------------|
| <b>Company</b>                                                     |                |                       |                                    |                                     |                                 |                                 |                 |                |
| <b>2016</b>                                                        |                |                       |                                    |                                     |                                 |                                 |                 |                |
| <b>Liabilities</b>                                                 |                |                       |                                    |                                     |                                 |                                 |                 |                |
| Deposits by banks                                                  | 602            | 5 550                 | 1 886                              | 2 331                               | 9 167                           | 17 779                          | –               | 37 315         |
| Derivative financial<br>instruments                                | 13 109         | –                     | 1                                  | 3                                   | 1                               | 92                              | 218             | 13 424         |
| – held for trading                                                 | 12 898         | –                     | 1                                  | 3                                   | 1                               | 92                              | 218             | 13 213         |
| – held for hedging risk                                            | 211            | –                     | –                                  | –                                   | –                               | –                               | –               | 211            |
| Other trading liabilities                                          | 1 405          | –                     | –                                  | –                                   | –                               | –                               | –               | 1 405          |
| Repurchase agreements<br>and cash collateral on<br>securities lent | 1 553          | 3 316                 | 1 254                              | –                                   | 6 128                           | 3 184                           | –               | 15 435         |
| Customer accounts<br>(deposits)                                    | 107 553        | 30 495                | 51 889                             | 21 734                              | 23 548                          | 29 154                          | 2 617           | 266 990        |
| Debt securities in issue                                           | –              | 1 202                 | 965                                | –                                   | 172                             | 4 362                           | –               | 6 701          |
| Other liabilities                                                  | 1 846          | (145)                 | 1 265                              | 61                                  | 50                              | 381                             | 582             | 4 040          |
| Subordinated liabilities                                           | –              | 87                    | 98                                 | 216                                 | 1 256                           | 10 169                          | 1 130           | 12 956         |
| <b>Total on balance sheet<br/>liabilities</b>                      | <b>126 068</b> | <b>40 505</b>         | <b>57 358</b>                      | <b>24 345</b>                       | <b>40 322</b>                   | <b>65 121</b>                   | <b>4 547</b>    | <b>358 266</b> |
| Contingent liabilities                                             | 1 210          | 137                   | 6 648                              | 165                                 | 1 100                           | 11 723                          | 1 947           | 22 930         |
| Commitments                                                        | 6 217          | 749                   | 5 312                              | 1 672                               | 3 713                           | 9 537                           | 15 812          | 43 012         |
| <b>Total liabilities</b>                                           | <b>133 495</b> | <b>41 391</b>         | <b>69 318</b>                      | <b>26 182</b>                       | <b>45 135</b>                   | <b>86 381</b>                   | <b>22 306</b>   | <b>424 208</b> |



## 47. Liquidity analysis of financial liabilities based on undiscounted cash flows

(continued)

| At 31 March<br>R'million                                           | Demand         | Up to<br>one<br>month | One<br>month<br>to three<br>months | Three<br>months<br>to six<br>months | Six<br>months<br>to one<br>year | One<br>year<br>to five<br>years | > Five<br>years | Total          |
|--------------------------------------------------------------------|----------------|-----------------------|------------------------------------|-------------------------------------|---------------------------------|---------------------------------|-----------------|----------------|
| <b>Company</b>                                                     |                |                       |                                    |                                     |                                 |                                 |                 |                |
| <b>2015</b>                                                        |                |                       |                                    |                                     |                                 |                                 |                 |                |
| <b>Liabilities</b>                                                 |                |                       |                                    |                                     |                                 |                                 |                 |                |
| Deposits by banks                                                  | 570            | 1 643                 | 742                                | 10                                  | 12 188                          | 14 499                          | –               | 29 652         |
| Derivative financial<br>instruments                                | 12 390         | –                     | –                                  | –                                   | –                               | –                               | 21              | 12 411         |
| – held for trading                                                 | 12 354         | –                     | –                                  | –                                   | –                               | –                               | –               | 12 354         |
| – held for hedging risk                                            | 36             | –                     | –                                  | –                                   | –                               | –                               | 21              | 57             |
| Other trading liabilities                                          | 1 623          | –                     | –                                  | –                                   | –                               | –                               | –               | 1 623          |
| Repurchase agreements<br>and cash collateral on<br>securities lent | 1 149          | 9 492                 | –                                  | 679                                 | 1 335                           | 2 570                           | –               | 15 225         |
| Customer accounts<br>(deposits)                                    | 81 020         | 27 347                | 38 974                             | 13 637                              | 20 032                          | 28 175                          | 2 729           | 211 914        |
| Debt securities in issue                                           | –              | –                     | 77                                 | 81                                  | 238                             | 4 126                           | –               | 4 522          |
| Other liabilities                                                  | 517            | 511                   | 821                                | 516                                 | 64                              | 512                             | 608             | 3 549          |
| Subordinated liabilities                                           | –              | 61                    | 315                                | 163                                 | 356                             | 5 993                           | 7 277           | 14 165         |
| <b>Total on balance sheet<br/>liabilities</b>                      | <b>97 269</b>  | <b>39 054</b>         | <b>40 929</b>                      | <b>15 086</b>                       | <b>34 213</b>                   | <b>55 875</b>                   | <b>10 635</b>   | <b>293 061</b> |
| Contingent liabilities                                             | 5 573          | –                     | 5 163                              | 279                                 | 220                             | 8 339                           | 1 246           | 20 820         |
| Commitments                                                        | 3 136          | 43                    | 10 219                             | 1 141                               | 3 154                           | 10 762                          | 13 330          | 41 785         |
| <b>Total liabilities</b>                                           | <b>105 978</b> | <b>39 097</b>         | <b>56 311</b>                      | <b>16 506</b>                       | <b>37 587</b>                   | <b>74 976</b>                   | <b>25 211</b>   | <b>355 666</b> |

## 48. Hedges

The group uses derivatives for the management of financial risks relating to its asset and liability portfolios, mainly associated with non-trading interest rate risks and exposures to foreign currency risk. Most non-trading interest rate risk is transferred from the originating business to the Central Treasury in the Specialist Bank. Once aggregated and netted Central Treasury, as the sole interface to the wholesale market for cash and derivative transactions, actively manages the liquidity mismatch and non-trading interest rate risk from our asset and liability portfolios. In this regard, Treasury is required to exercise tight control of funding, liquidity, concentration and non-trading interest rate risk within defined parameters.

The accounting treatment of accounting hedges is dependant on the classification between fair value hedges and cash flow hedges and in particular accounting hedges require the identification of a direct relationship between a hedged item and hedging instrument.

This relationship is established in limited circumstances based on the manner in which the group manages its risk exposure. On the following page is a description of each category of accounting hedges achieved by the group.

(continued)

**48. Hedges** (continued)**FAIR VALUE HEDGES**

Fair value hedges are entered into mainly to hedge the exposure of changes in fair value of fixed-rate financial instruments attributable to interest rates.

| At 31 March<br>R'million | Description<br>of financial<br>instrument<br>being hedged | Fair value<br>of hedging<br>instrument | Cumulative<br>gains or<br>(losses)<br>on hedging<br>instrument | Current year<br>gains/(losses)<br>on hedging<br>instrument | Cumulative<br>gains or<br>(losses) on<br>hedged<br>item | Current<br>year gains<br>or (losses)<br>on hedged<br>item |
|--------------------------|-----------------------------------------------------------|----------------------------------------|----------------------------------------------------------------|------------------------------------------------------------|---------------------------------------------------------|-----------------------------------------------------------|
| <b>Group</b>             |                                                           |                                        |                                                                |                                                            |                                                         |                                                           |
| <b>2016</b>              |                                                           |                                        |                                                                |                                                            |                                                         |                                                           |
| Interest rate swap       | Bonds                                                     | (831)                                  | (459)                                                          | (266)                                                      | 405                                                     | 206                                                       |
| <b>2015</b>              |                                                           |                                        |                                                                |                                                            |                                                         |                                                           |
| Interest rate swap       | Bonds                                                     | (635)                                  | (192)                                                          | (16)                                                       | 179                                                     | 37                                                        |
| <b>Company</b>           |                                                           |                                        |                                                                |                                                            |                                                         |                                                           |
| <b>2016</b>              |                                                           |                                        |                                                                |                                                            |                                                         |                                                           |
| Interest rate swap       | Bonds                                                     | (817)                                  | (445)                                                          | (253)                                                      | 419                                                     | 219                                                       |
| <b>2015</b>              |                                                           |                                        |                                                                |                                                            |                                                         |                                                           |
| Interest rate swap       | Bonds                                                     | (635)                                  | (192)                                                          | (16)                                                       | 179                                                     | 37                                                        |

At year end the hedges were both retrospectively and prospectively effective.

**CASH FLOW HEDGES**

The group is exposed to variability in cash flows on future liabilities arising from changes in base interest rates. The aggregate expected cash flows are hedged based on cash flow forecasts with reference to terms and conditions present in the affected contractual arrangements. Changes in fair value are initially recognised in other comprehensive income and reclassified to the income statement when the cash flow affects the income statement.

| At 31 March<br>R'million | Description<br>of financial<br>instrument<br>being hedged | Fair value<br>of hedging<br>instrument | Period cash flows are<br>expected to occur and<br>affect income statement |
|--------------------------|-----------------------------------------------------------|----------------------------------------|---------------------------------------------------------------------------|
| <b>Group and company</b> |                                                           |                                        |                                                                           |
| <b>2016</b>              |                                                           |                                        |                                                                           |
| Cross-currency swaps     | Bonds                                                     | 4 997                                  | Three months                                                              |
| <b>2015</b>              |                                                           |                                        |                                                                           |
| Cross-currency swaps     | Bonds                                                     | 4 356                                  | Three months                                                              |

There are cash flow hedges during the year to mitigate interest rate and currency risk. A reconciliation of the cash flow hedge reserve can be found in the statement of changes in equity. There was no ineffective portion recognised in the income statement.

Releases to the income statement for cash flow hedges are included in net interest income.

**HEDGES OF NET INVESTMENTS IN FOREIGN OPERATIONS**

Investec Bank Limited has entered into foreign exchange contracts to hedge its balance sheet exposure to its net investment, in US Dollars, in Investec Bank (Mauritius) Limited.

| At 31 March<br>R'million | Hedging<br>instrument<br>fair value |
|--------------------------|-------------------------------------|
| <b>Company</b>           |                                     |
| <b>2016</b>              | (958)                               |
| <b>2015</b>              | (351)                               |

There was no ineffective portion recognised in the income statement in the current and prior year.



## Notes to the financial statements

(continued)

|                                                                            | Amounts subject to enforceable netting arrangements |                 | Effects of offsetting on balance sheet    | Related amounts not offset                            |                |
|----------------------------------------------------------------------------|-----------------------------------------------------|-----------------|-------------------------------------------|-------------------------------------------------------|----------------|
|                                                                            | Gross amounts                                       | Amounts offset  |                                           |                                                       |                |
| At 31 March<br>R'million                                                   |                                                     |                 | Net amounts reported on the balance sheet | Financial instruments (including non-cash collateral) | Net amount     |
| <b>49. Offsetting</b>                                                      |                                                     |                 |                                           |                                                       |                |
| <b>2016</b>                                                                |                                                     |                 |                                           |                                                       |                |
| <b>Group</b>                                                               |                                                     |                 |                                           |                                                       |                |
| <b>Assets</b>                                                              |                                                     |                 |                                           |                                                       |                |
| Cash and balances at central banks                                         | 7 801                                               | –               | 7 801                                     | –                                                     | 7 801          |
| Loans and advances to banks                                                | 40 148                                              | (13 369)        | 26 779                                    | –                                                     | 26 779         |
| Non-sovereign and non-bank cash placements                                 | 9 858                                               | –               | 9 858                                     | –                                                     | 9 858          |
| Reverse repurchase agreements and cash collateral on securities borrowed   | 38 912                                              | –               | 38 912                                    | –                                                     | 38 912         |
| Sovereign debt securities                                                  | 41 325                                              | –               | 41 325                                    | –                                                     | 41 325         |
| Bank debt securities                                                       | 13 968                                              | –               | 13 968                                    | (6 947)                                               | 7 021          |
| Other debt securities                                                      | 12 761                                              | –               | 12 761                                    | (9 178)                                               | 3 583          |
| Derivative financial instruments                                           | 19 647                                              | (3 804)         | 15 843                                    | (7 540)                                               | 8 303          |
| Securities arising from trading activities                                 | 992                                                 | –               | 992                                       | (49)                                                  | 943            |
| Investment portfolio                                                       | 6 360                                               | –               | 6 360                                     | –                                                     | 6 360          |
| Loans and advances to customers                                            | 208 679                                             | (1 407)         | 207 272                                   | –                                                     | 207 272        |
| Own originated loans and advances to customers securitised                 | 7 967                                               | –               | 7 967                                     | –                                                     | 7 967          |
| Other loans and advances                                                   | 367                                                 | –               | 367                                       | –                                                     | 367            |
| Other securitised assets                                                   | 115                                                 | –               | 115                                       | –                                                     | 115            |
| Other assets                                                               | 3 656                                               | –               | 3 656                                     | –                                                     | 3 656          |
|                                                                            | <b>412 556</b>                                      | <b>(18 580)</b> | <b>393 976</b>                            | <b>(23 714)</b>                                       | <b>370 262</b> |
| <b>Liabilities</b>                                                         |                                                     |                 |                                           |                                                       |                |
| Deposits by banks                                                          | 38 780                                              | (1 538)         | 37 242                                    | –                                                     | 37 242         |
| Derivative financial instruments                                           | 29 059                                              | (15 635)        | 13 424                                    | (7 540)                                               | 5 884          |
| Other trading liabilities                                                  | 1 405                                               | –               | 1 405                                     | –                                                     | 1 405          |
| Repurchase agreements and cash collateral on securities lent               | 16 916                                              | –               | 16 916                                    | (15 325)                                              | 1 591          |
| Customer accounts (deposits)                                               | 281 143                                             | (1 407)         | 279 736                                   | –                                                     | 279 736        |
| Debt securities in issue                                                   | 7 665                                               | –               | 7 665                                     | –                                                     | 7 665          |
| Liabilities arising on securitisation of own originated loans and advances | 809                                                 | –               | 809                                       | –                                                     | 809            |
| Other liabilities                                                          | 5 042                                               | –               | 5 042                                     | –                                                     | 5 042          |
| Subordinated liabilities                                                   | 10 732                                              | –               | 10 732                                    | –                                                     | 10 732         |
|                                                                            | <b>391 551</b>                                      | <b>(18 580)</b> | <b>372 971</b>                            | <b>(22 865)</b>                                       | <b>350 106</b> |

(continued)

| At 31 March<br>R'million                                                      | Amounts subject to enforceable<br>netting arrangements |                   | Effects of offsetting on balance sheet             | Related<br>amounts<br>not offset                                  | Net<br>amount  |
|-------------------------------------------------------------------------------|--------------------------------------------------------|-------------------|----------------------------------------------------|-------------------------------------------------------------------|----------------|
|                                                                               | Gross<br>amounts                                       | Amounts<br>offset |                                                    |                                                                   |                |
|                                                                               |                                                        |                   | Net amounts<br>reported on<br>the balance<br>sheet | Financial<br>instruments<br>(including<br>non-cash<br>collateral) |                |
| <b>49. Offsetting</b> <i>(continued)</i>                                      |                                                        |                   |                                                    |                                                                   |                |
| <b>2015</b>                                                                   |                                                        |                   |                                                    |                                                                   |                |
| <b>Group</b>                                                                  |                                                        |                   |                                                    |                                                                   |                |
| <b>Assets</b>                                                                 |                                                        |                   |                                                    |                                                                   |                |
| Cash and balances at central banks                                            | 6 261                                                  | –                 | 6 261                                              | –                                                                 | 6 261          |
| Loans and advances to banks                                                   | 43 242                                                 | (9 820)           | 33 422                                             | –                                                                 | 33 422         |
| Non-sovereign and non-bank<br>cash placements                                 | 10 540                                                 | –                 | 10 540                                             | –                                                                 | 10 540         |
| Reverse repurchase agreements and cash collateral<br>on securities borrowed   | 10 095                                                 | –                 | 10 095                                             | –                                                                 | 10 095         |
| Sovereign debt securities                                                     | 31 378                                                 | –                 | 31 378                                             | (8 220)                                                           | 23 158         |
| Bank debt securities                                                          | 17 332                                                 | –                 | 17 332                                             | (4 144)                                                           | 13 188         |
| Other debt securities                                                         | 12 749                                                 | –                 | 12 749                                             | (1 712)                                                           | 11 037         |
| Derivative financial instruments                                              | 15 892                                                 | (714)             | 15 178                                             | (6 374)                                                           | 8 804          |
| Securities arising from trading activities                                    | 1 289                                                  | –                 | 1 289                                              | (1 146)                                                           | 143            |
| Investment portfolio                                                          | 9 972                                                  | –                 | 9 972                                              | –                                                                 | 9 972          |
| Loans and advances to customers                                               | 174 839                                                | (1 846)           | 172 993                                            | –                                                                 | 172 993        |
| Own originated loans and advances to customers<br>securitised                 | 4 535                                                  | –                 | 4 535                                              | –                                                                 | 4 535          |
| Other loans and advances                                                      | 472                                                    | –                 | 472                                                | –                                                                 | 472            |
| Other securitised assets                                                      | 618                                                    | –                 | 618                                                | –                                                                 | 618            |
| Other assets                                                                  | 1 262                                                  | –                 | 1 262                                              | –                                                                 | 1 262          |
|                                                                               | <b>340 476</b>                                         | <b>(12 380)</b>   | <b>328 096</b>                                     | <b>(21 596)</b>                                                   | <b>306 500</b> |
| <b>Liabilities</b>                                                            |                                                        |                   |                                                    |                                                                   |                |
| Deposits by banks                                                             | 30 506                                                 | (714)             | 29 792                                             | –                                                                 | 29 792         |
| Derivative financial instruments                                              | 22 221                                                 | (9 820)           | 12 401                                             | (6 374)                                                           | 6 027          |
| Other trading liabilities                                                     | 1 623                                                  | –                 | 1 623                                              | –                                                                 | 1 623          |
| Repurchase agreements and cash<br>collateral on securities lent               | 16 556                                                 | –                 | 16 556                                             | (15 222)                                                          | 1 334          |
| Customer accounts (deposits)                                                  | 223 223                                                | (1 846)           | 221 377                                            | –                                                                 | 221 377        |
| Debt securities in issue                                                      | 5 517                                                  | –                 | 5 517                                              | –                                                                 | 5 517          |
| Liabilities arising on securitisation of own originated<br>loans and advances | 1 089                                                  | –                 | 1 089                                              | –                                                                 | 1 089          |
| Other liabilities                                                             | 3 741                                                  | –                 | 3 741                                              | –                                                                 | 3 741          |
| Subordinated liabilities                                                      | 10 449                                                 | –                 | 10 449                                             | –                                                                 | 10 449         |
|                                                                               | <b>314 925</b>                                         | <b>(12 380)</b>   | <b>302 545</b>                                     | <b>(21 596)</b>                                                   | <b>280 949</b> |

|                                                                          | Amounts subject to enforceable netting arrangements |                   |                                                    |                                                                   |                |
|--------------------------------------------------------------------------|-----------------------------------------------------|-------------------|----------------------------------------------------|-------------------------------------------------------------------|----------------|
|                                                                          | Effects of offsetting on balance sheet              |                   |                                                    | Related amounts not offset                                        |                |
| At 31 March<br>R'million                                                 | Gross<br>amounts                                    | Amounts<br>offset | Net amounts<br>reported on<br>the balance<br>sheet | Financial<br>instruments<br>(including<br>non-cash<br>collateral) | Net<br>amount  |
| <b>49. Offsetting</b> <i>(continued)</i>                                 |                                                     |                   |                                                    |                                                                   |                |
| <b>2016</b>                                                              |                                                     |                   |                                                    |                                                                   |                |
| <b>Company</b>                                                           |                                                     |                   |                                                    |                                                                   |                |
| <b>Assets</b>                                                            |                                                     |                   |                                                    |                                                                   |                |
| Cash and balances at central banks                                       | 7 654                                               | –                 | 7 654                                              | –                                                                 | 7 654          |
| Loans and advances to banks                                              | 34 754                                              | (13 369)          | 21 385                                             | –                                                                 | 21 385         |
| Non-sovereign and non-bank cash placements                               | 9 982                                               | –                 | 9 982                                              | –                                                                 | 9 982          |
| Reverse repurchase agreements and cash collateral on securities borrowed | 38 912                                              | –                 | 38 912                                             | –                                                                 | 38 912         |
| Sovereign debt securities                                                | 41 325                                              | –                 | 41 325                                             | –                                                                 | 41 325         |
| Bank debt securities                                                     | 12 317                                              | –                 | 12 317                                             | (6 947)                                                           | 5 370          |
| Other debt securities                                                    | 11 354                                              | –                 | 11 354                                             | (9 178)                                                           | 2 176          |
| Derivative financial instruments                                         | 19 420                                              | (3 804)           | 15 616                                             | (7 540)                                                           | 8 076          |
| Securities arising from trading activities                               | 992                                                 | –                 | 992                                                | (49)                                                              | 943            |
| Investment portfolio                                                     | 5 923                                               | –                 | 5 923                                              | –                                                                 | 5 923          |
| Loans and advances to customers                                          | 195 985                                             | (1 407)           | 194 578                                            | –                                                                 | 194 578        |
| Other loans and advances                                                 | 373                                                 | –                 | 373                                                | –                                                                 | 373            |
| Other assets                                                             | 1 734                                               | –                 | 1 734                                              | –                                                                 | 1 734          |
|                                                                          | <b>380 725</b>                                      | <b>(18 580)</b>   | <b>362 145</b>                                     | <b>(23 714)</b>                                                   | <b>338 431</b> |
| <b>Liabilities</b>                                                       |                                                     |                   |                                                    |                                                                   |                |
| Deposits by banks                                                        | 38 646                                              | (1 538)           | 37 108                                             | –                                                                 | 37 108         |
| Derivative financial instruments                                         | 29 059                                              | (15 635)          | 13 424                                             | (7 540)                                                           | 5 884          |
| Other trading liabilities                                                | 1 405                                               | –                 | 1 405                                              | –                                                                 | 1 405          |
| Repurchase agreements and cash collateral on securities lent             | 15 325                                              | –                 | 15 325                                             | (15 325)                                                          | –              |
| Customer accounts (deposits)                                             | 265 185                                             | (1 407)           | 263 778                                            | –                                                                 | 263 778        |
| Debt securities in issue                                                 | 6 670                                               | –                 | 6 670                                              | –                                                                 | 6 670          |
| Other liabilities                                                        | 4 037                                               | –                 | 4 037                                              | –                                                                 | 4 037          |
| Subordinated liabilities                                                 | 10 732                                              | –                 | 10 732                                             | –                                                                 | 10 732         |
|                                                                          | <b>371 059</b>                                      | <b>(18 580)</b>   | <b>352 479</b>                                     | <b>(22 865)</b>                                                   | <b>329 614</b> |

(continued)

|                                                                          | Amounts subject to enforceable netting arrangements |                 | Effects of offsetting on balance sheet    | Related amounts not offset                            |                |
|--------------------------------------------------------------------------|-----------------------------------------------------|-----------------|-------------------------------------------|-------------------------------------------------------|----------------|
|                                                                          | Gross amounts                                       | Amounts offset  | Net amounts reported on the balance sheet | Financial instruments (including non-cash collateral) | Net amount     |
| At 31 March<br>R'million                                                 |                                                     |                 |                                           |                                                       |                |
| <b>49. Offsetting</b> <i>(continued)</i>                                 |                                                     |                 |                                           |                                                       |                |
| <b>2015</b>                                                              |                                                     |                 |                                           |                                                       |                |
| <b>Company</b>                                                           |                                                     |                 |                                           |                                                       |                |
| <b>Assets</b>                                                            |                                                     |                 |                                           |                                                       |                |
| Cash and balances at central banks                                       | 6 148                                               | –               | 6 148                                     | –                                                     | 6 148          |
| Loans and advances to banks                                              | 40 104                                              | (9 820)         | 30 284                                    | –                                                     | 30 284         |
| Non-sovereign and non-bank cash placements                               | 10 540                                              | –               | 10 540                                    | –                                                     | 10 540         |
| Reverse repurchase agreements and cash collateral on securities borrowed | 9 926                                               | –               | 9 926                                     | –                                                     | 9 926          |
| Sovereign debt securities                                                | 31 358                                              | –               | 31 358                                    | (8 220)                                               | 23 138         |
| Bank debt securities                                                     | 15 981                                              | –               | 15 981                                    | (4 144)                                               | 11 837         |
| Other debt securities                                                    | 13 390                                              | –               | 13 390                                    | (1 712)                                               | 11 678         |
| Derivative financial instruments                                         | 156 683                                             | (714)           | 155 969                                   | (6 374)                                               | 149 595        |
| Securities arising from trading activities                               | 1 289                                               | –               | 1 289                                     | (1 146)                                               | 143            |
| Investment portfolio                                                     | 9 851                                               | –               | 9 851                                     | –                                                     | 9 851          |
| Loans and advances to customers                                          | 160 854                                             | (1 826)         | 159 028                                   | –                                                     | 159 028        |
| Other loans and advances                                                 | 476                                                 | –               | 476                                       | –                                                     | 476            |
| Other securitised assets                                                 | 137                                                 | –               | 137                                       | –                                                     | 137            |
| Other assets                                                             | 994                                                 | –               | 994                                       | –                                                     | 994            |
|                                                                          | <b>457 731</b>                                      | <b>(12 360)</b> | <b>445 371</b>                            | <b>(21 596)</b>                                       | <b>423 775</b> |
| <b>Liabilities</b>                                                       |                                                     |                 |                                           |                                                       |                |
| Deposits by banks                                                        | 30 366                                              | (714)           | 29 652                                    | –                                                     | 29 652         |
| Derivative financial instruments                                         | 22 221                                              | (9 820)         | 12 401                                    | (6 374)                                               | 6 027          |
| Other trading liabilities                                                | 1 623                                               | –               | 1 623                                     | –                                                     | 1 623          |
| Repurchase agreements and cash collateral on securities lent             | 15 225                                              | –               | 15 225                                    | (15 222)                                              | 3              |
| Customer accounts (deposits)                                             | 213 740                                             | (1 826)         | 211 914                                   | –                                                     | 211 914        |
| Debt securities in issue                                                 | 4 522                                               | –               | 4 522                                     | –                                                     | 4 522          |
| Other liabilities                                                        | 3 492                                               | –               | 3 492                                     | –                                                     | 3 492          |
| Subordinated liabilities                                                 | 10 449                                              | –               | 10 449                                    | –                                                     | 10 449         |
|                                                                          | <b>301 638</b>                                      | <b>(12 360)</b> | <b>289 278</b>                            | <b>(21 596)</b>                                       | <b>267 682</b> |

## 50. Derecognition

### TRANSFER OF FINANCIAL ASSETS THAT DO NOT RESULT IN DERECOGNITION

Investec Bank Limited has been party to securitisation transactions whereby assets continue to be recognised on balance sheet (either fully or partially) although they have been subject to legal transfer to another entity. Securitisations may, depending on the individual arrangement, result in continued recognition of the securitised assets and the recognition of the debt securities issued in the transaction.

| R'million                        | 2016                                                          |                                           | 2015                                                          |                                           |
|----------------------------------|---------------------------------------------------------------|-------------------------------------------|---------------------------------------------------------------|-------------------------------------------|
|                                  | Carrying amount of assets that are continued to be recognised | Carrying amount of associated liabilities | Carrying amount of assets that are continued to be recognised | Carrying amount of associated liabilities |
| <b>Company</b>                   |                                                               |                                           |                                                               |                                           |
| <b>No derecognition achieved</b> |                                                               |                                           |                                                               |                                           |
| Loans and advances to customers  | 7 841                                                         | 7 841                                     | 3 323                                                         | 3 323                                     |
|                                  | <b>7 841</b>                                                  | <b>7 841</b>                              | <b>3 323</b>                                                  | <b>3 323</b>                              |



*All the above derecognised assets in the company relate to Fox Street 2 (RF) Limited, Fox Street 3 (RF) Limited and Fox Street 4 (RF) Limited for the year ended 31 March 2016 and 31 March 2015. For the year ended 31 March 2016, it also includes Fox Street 5 (RF) Limited. For additional information refer to page 53 in the risk management report.*

For transfer of assets in relation to repurchase agreements see note 44.

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