

## **Annual Report**

2017

Investec plc silo (excluding Investec Limited) annual financial statements





A22

01/07/2017 COMPANIES HOUSE #369







#### **Corporate information**

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#### **Registration number**

Reg. No. 3633621

#### **Auditors**

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#### **Transfer secretaries**

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#### **Directorate**



Refer to pages 127 to 132.



For contact details for Investec offices refer to pages 270.

#### For queries regarding information in this document

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#### Ongoing and statutory information

The sale of certain group businesses during the 2015 financial year had a significant effect on the comparability of our statutory financial position and results, particularly in financial years 2015 and 2016.

In order to present a more meaningful view of our performance, additional management information is presented on our ongoing businesses. This information is set out on pages 35 to 41. The additional information presented on an ongoing basis excludes items that in management's view could distort the comparison of performance between periods.

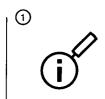
Based on this principle, the following items are excluded from underlying statutory profit to derive ongoing operating profit:

- The results of the businesses sold in the 2015 financial year, i.e. Investec Bank (Australia) Limited, Kensington Group plc and Start Mortgage Holdings Limited
- The remaining legacy business (as set out on page 42).

This basis of presentation is consistent with the approach adopted for the year ended 31 March 2016.

A reconciliation between the statutory and ongoing income statement is provided on pages 36 and 37. All information in our annual report is based on our statutory accounts unless otherwise indicated.

#### Cross reference tools



#### Audited information

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





#### Page references

Refers readers to information elsewhere in this report





#### Website

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





#### Sustainability

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

(5)



#### Reporting standard

Denotes our consideration of a reporting standard

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Investec plc in perspective

## Overview of the Investec group's and Investec plc's organisational structure

01

Investec plc, which houses our non-Southern African businesses, has been listed on the London Stock Exchange since 2002.

#### **Operating structure**

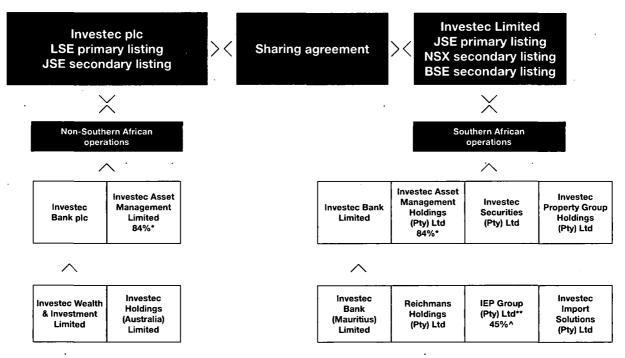
During July 2002 Investec Group Limited (since renamed Investec Limited) implemented a dual listed companies (DLC) structure and listed its offshore business on the London Stock Exchange.



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

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

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



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

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

#### Salient features of the DLC structure

- Investec pic 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.

# 01

## Overview of the activities of Investec plc

#### **Asset Management**

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

Established in South Africa in 1991, we have grown to become a successful global investment management firm from the emerging markets. We continue to develop an owner culture and are committed to building a long-term intergenerational business.

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

We manage £95.3 billion assets globally.

#### Wealth & Investment

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

The UK operation is conducted through Investec Wealth & Investment Limited. The other Wealth & Investment operations are conducted through Investec Bank Switzerland, Investec Wealth & Investment Ireland, Investec Wealth & Investment Channel Islands and in Hong Kong, through Investec Capital Asia Limited.

Over 1 300 staff operate from offices located throughout the above jurisdictions, with combined funds under management of £35.6 billion. Investec Wealth & Investment is one of the UK's leading providers of private client investment management services.

## Investments and savings

- Discretionary and advisory portfolio management services for private clients
- Specialist investment management services for charities, pension schemes and trusts
- Independent financial planning advice for private clients
- Specialist portfolio management services for international clients.

## Pensions and retirement

- Discretionary investment management for company pension and Self Invested Personal Pensions (SIPPs)
- Advice and guidance on pension schemes and life assurance.

## Financial planning

- Succession planning
- ISAs
- Retirement planning.

#### **Specialist Banking**

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

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

A highly valued partner and adviser to our clients

Focus on helping our clients create and preserve wealth

#### Corporates/government/institutional clients

High-income and high net worth private clients

## Investment activities

Principal investments

Property investment and fund management

Australia Hong Kong UK and Europe

Our principal investments businesses focus on providing capital to entrepreneurs and management teams to allow them to further their growth ambitions. Investments are assessed on a case-by-case basis, with the aim to deliver returns on a risk-adjusted basis.

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

#### Corporate and Institutional Banking activities

Treasury and trading services

Specialised lending, funds and debt capital markets Institutional research, sales and trading

Advisory and equity capital markets

Australia Hong Kong India UK and Europe USA

Our Corporate and Institutional Banking division is a client-focused business concentrating on traditional lending and debt origination activities, as well as the provision of advisory services and treasury and trading services that are customer flow-related.

Our target market includes small, mid-sized and listed corporates, private equity community and institutions.

In addition we provide niche, specialist solutions in aircraft, project and resource finance.

## Private Banking activities

Transactional banking and foreign exchange

Lending

Deposits

Investments

**UK and Europe** 

High-tech and high touch private client offering providing day-to-day banking, savings, financing and foreign exchange tailored to suit our clients' needs.

Our target market includes high net worth individuals, wealthy entrepreneurs, high-income professionals, owner managers in mid-market companies and sophisticated investors.

Natural linkages between the private client and corporate business

#### **Asset Management**

#### Value proposition

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

#### Wealth & Investment

#### Value proposition

- Investec Wealth & Investment has been built via the acquisition and integration of businesses and organic growth over a long period of time
- Well-established platforms in the UK, Switzerland, Republic of Ireland and Guernsey
- The business currently has four distinct channels: direct, intermediaries, charities and international, and is nearing completion of the development of its fifth online distribution channel, Click & Invest
- Strategy to internationalise within jurisdictions where the Investec group already has an established business
- Focus is on organic growth in our key markets and enhancing our range of services for the benefit of our clients.

#### Specialist Banking

#### Value proposition

- High-quality specialist banking solutions to corporate and private clients with leading positions in selected areas
- Provide high touch personalised service - supported by high tech and ability to execute quickly
- Ability to leverage international, cross-border platforms
- Well positioned to capture opportunities between the developed and the emerging world - internationally mobile
- Strong ability to originate, manufacture and distribute
- Balanced business model with good business depth and . breadth.

#### **Business leaders:**

Asset Management Wealth & Investment Specialist Banking

**HENDRIK DU TOIT** STEVE ELLIOTT **DAVID VAN DER WALT** CIARAN WHELAN



Further information on our management structures is available on our website.

#### Where we operate



#### North America

Distribution platform Focus on advisory and institutional securities

> private client investment managers Proven ability to attract

One of the leading

**UK and Europe** 

products

Brand well established

Leading asset manage: with market leading

and recruit investment managers Sustainable specialist

banking business focused on corporate and private banking

#### Singapore

Distribution platform

Taiwan

Distribution platform

#### India

Established a presence in 2010

Facilitates the link between India, UK and South Africa

#### Australia

Experienced local team expertise

Focus is on entrenching position as a boutique operation

# Strong client activity levels supporting underlying performance

- Strong performance against a backdrop of continued macro uncertainty and volatility.
- The Asset Management and Wealth & Investment businesses have benefited from higher funds under management supported by rising market levels.
- The Specialist Banking business reported results ahead of the prior year supported by sound levels of corporate and private client activity.
- Growth in costs primarily reflects planned investment in growing the client franchise businesses.
- The group has successfully leveraged its ability to provide clients an international offering, increasing its client base and deepening its core franchise.

#### Statutory financial performance

2017 | 2016 £224.9mn | £182.9mn

Operating profit\* increased 23.0%

2017 | 2016 £173.9mn | £137.3mn

Adjusted attributable earnings<sup>^</sup> increased 26.7%

We continued to actively manage down the UK legacy portfolio...

- The legacy portfolio reduced from £583 million at 31 March 2016 to £476 million through asset sales, redemptions and write-offs.
- The legacy business reported a loss before taxation of £64.6 million (2016: £78.3 million) with impairments on the legacy portfolio reducing 20.3% from £68.1 million to £54.3 million.

Before goodwill, acquired intangibles, non-operating items, taxation and after other non-controlling interests.

Before goodwill, acquired intangibles, non-operating items and after non-controlling interests.

Investec plc in perspective

## Solid performance from the ongoing business

2017 | 2016 £289.5mn | £261.2mn

Operating profit\* increased 10.8%

2017 2016 £227.3mn £200.1mn

Adjusted attributable earnings<sup>^</sup> increased 13.6%

2017 | 66.7% | 2016 **71.3**%

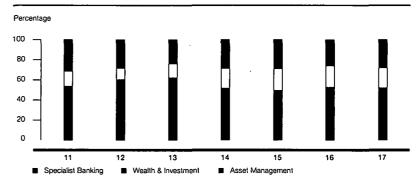
Recurring income as a % of total operating income

2017 0.27% 2016 **0.26**%

Credit loss charge as a % of average gross core loans and advances

#### We have a diversified business model...

% contribution of operating profit before taxation of the ongoing business (excluding group costs)\*

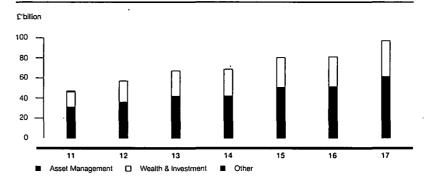


#### We continued to grow our key earnings drivers...



Funds under management up 19.9% to £97.3 billion

#### Funds under management

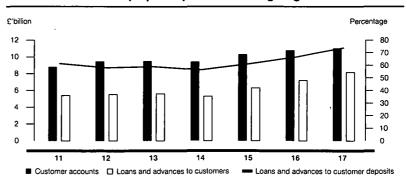




Customer accounts (deposits) increased 2.0% to £11.0 billion

Core loans and advances increased 12.8% to £8.1 billion – an increase of 8.8% on a currency neutral basis\*\*

#### Customer accounts (deposits) and loans ongoing business

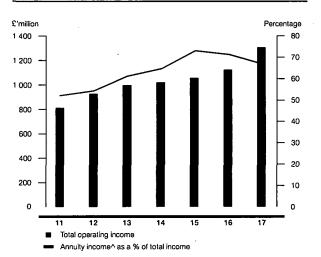


- Before goodwill, acquired intangibles, non-operating items, taxation and after other non-controlling interests.
- Before goodwill, acquired intangibles, non-operating items and after non-controlling interests.
- \*\* Currency neutral basis: calculation assumes that the group's relevant closing exchange rates at 31 March 2017 remain the same as those at 31 March 2016.

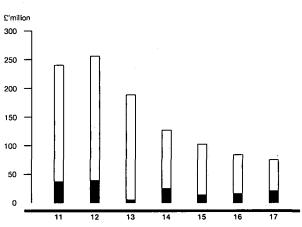
#### Supporting growth in operating income...

#### Impairments continued to decline...

#### Total operating income ongoing business



#### **Impairments**



- UK and Other
- UK legacy business and businesses sold\*\*
- Refers to the remaining UK legacy business and group assets that were sold in the 2015 financial year.

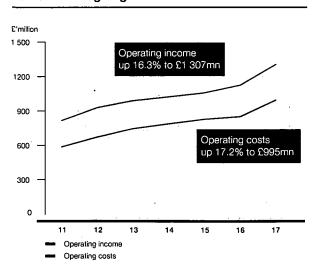
#### Where annuity income is net interest income and annuity fees.

#### Costs increased largely due to planned investment across the business...

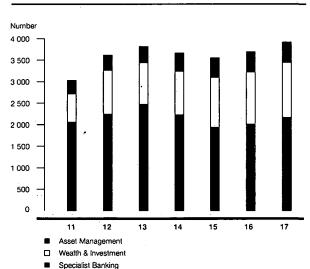


Operating costs increased reflecting: planned spend on IT infrastructure and headcount across divisions to support increased activity levels and growth initiatives (notably the build out of the UK private client offering); additional UK premises expenses; an increase in variable remuneration given improved profitability across the group.

#### Jaws ratio ongoing business



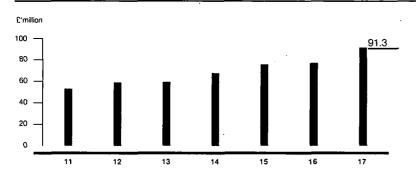
#### Headcount^^



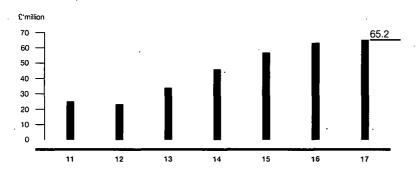
^ Permanent headcount and includes acquisitions.

#### Resulting in a solid performance from our ongoing business...

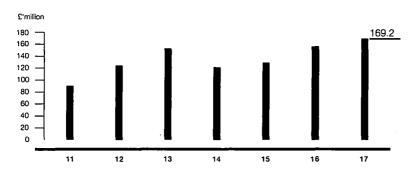
#### Operating profit\* - Asset Management



#### Operating profit\* - Wealth & Investment



#### Operating profit\* - Specialist Banking ongoing business



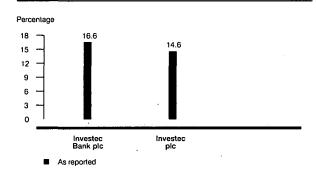
Before goodwill, acquired intangibles, non-operating items, taxation and after other non-controlling interests.

#### Maintained a sound balance sheet...

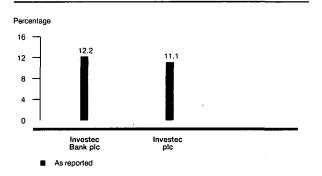


Total capital adequacy: 14.0% – 17.0% Common equity tier 1 ratio: > 10.0% Total tier 1 ratio: > 11.0% Leverage ratio: > 6.0%

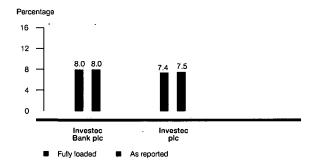
#### Capital adequacy



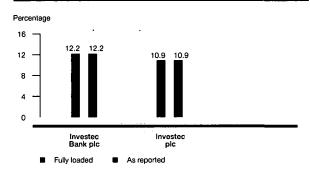
#### Tier 1



#### Leverage ratios



Common equity tier 1



Note: Refer to pages 113 to 117 for further details.

#### Sound capital and liquidity principles maintained...

#### Continue to focus on:

- Maintaining a high level of readily available, high-quality liquid assets targeting a minimum cash to customer deposit ratio of 25.0%
- Diversifying funding sources
- Maintaining an appropriate mix of term funding
- Limiting concentration risk.

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

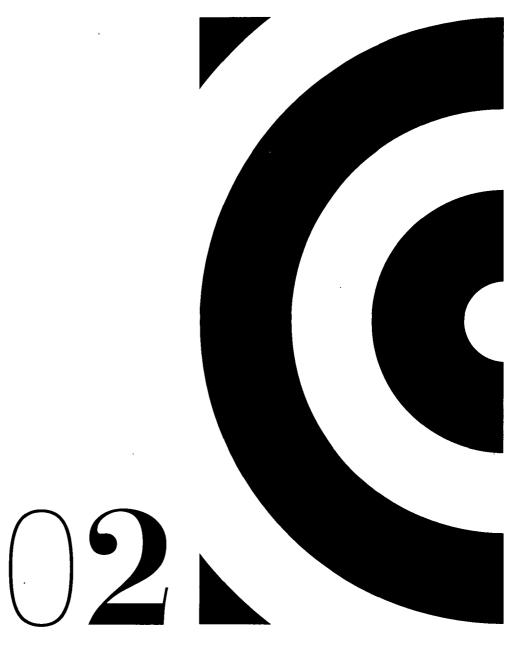
A well-established liquidity management philosophy remains in place

Investec plc's loan to deposit ratio is: 78.2% (2016: 72.2%)

Liquidity remains strong with cash and near cash balances amounting to £5.0 billion (2016: £5.1 billion)

Capital remained in excess of current regulatory requirements

We are comfortable with our common equity tier 1 ratio target at a 10% level as our current leverage ratio is 7.5%.





Financial review

#### An overview of the operating environment impacting our business



GDP grew by 0.5% and 0.7% in the third and fourth quarters of 2016, respectively.

That helped the unemployment rate fall to 4.7% in January and held there in February, the lowest level seen since 2005.

#### **Our views**

The UK economy has remained surprisingly resilient.

2.0% 1.9% 2015/16 Economic growth 2017 2016

£28 768

GDP per capita has risen

£29 580

This fiscal year saw the UK vote to leave the European Union. Since the shock result of the 23 June 2016 referendum, it has become increasingly clear that, as part of Brexit, the British government will relinquish the UK's membership of the EU Single Market in exchange for powers to tighten immigration rules. But it remains unclear what Brexit will actually look like - the government only gave formal notice of its intention to leave the EU (by triggering Article 50 of the Lisbon Treaty) on 29 March 2017. The triggering of Article 50 begins a two-year negotiation period, at the end of which time the UK will have formally left the EU. We think that a bilateral UK/EU free trade deal is achievable, but it will take several years to negotiate. We therefore suspect that the UK will enter some sort of transitional arrangement between March 2019 and the point at which a longer term deal is finalised.

From a market perspective, there were two notable reactions to the Brexit vote. First, the Pound fell sharply and, by the end of the financial year, sat more than 15% below pre-referendum levels, in trade weighted terms. Second, the Bank of England (BoE) cut the Bank rate from 0.50% to 0.25% in August 2016 in order to guard against a post-referendum economic slowdown. In addition the BoE also undertook additional purchases of government bonds as part of its. Quantitative Easing (QE) programme, and began a programme of corporate bond purchases.

But in spite of these cautionary responses to the Brexit vote, the UK economy has remained surprisingly resilient. By and large, households and businesses shrugged off the uncertainty associated with the UK's new economic relationship with the rest of Europe.

Towards the end of the year, though, economic momentum appeared to have slowed. The main reason is that weakness in the Pound was beginning to push up on import prices and broader consumer price inflation. The rate of CPI inflation rose above the BoE's 2% target in February 2017, with further increases in prospect. There is evidence that higher inflation was beginning to drag on household spending while underlying levels of uncertainty probably weighed somewhat on business investment. Granted, the weaker Pound provided a competitiveness boost to exporters, but that might not be enough to offset the headwinds to household and business spending. A (mild) slowdown in economic growth could in turn lead to a marginally higher unemployment rate and a somewhat slower pace of house price growth. All told, this points to a somewhat more challenging economic environment in prospect.

The 8 June 2017 General Election saw the Conservative Party fail to recapture its overall majority. While there may be agreements made with other parties, the government's effective majority would be small and there remains uncertainty over how any partnerships would play out.

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



**Australia** 

#### Our views

## The Australian economy expanded by 2.5% in 2016.

The pace of growth, however, was far from steady throughout the year, with the economy actually recording a period of contraction in the third quarter, with output falling by 0.5%, the first quarterly drop in output since March 2011 and only the fourth in 25 years. Australia managed to escape a technical recession, however, with the economy bouncing back robustly in the final quarter of the year, expanding by 1.1% quarter on quarter. The recovery was driven by a surge in exports in the fourth quarter of 2016 as commodity exports picked up robustly and as commodity prices firmed.

The unemployment rate has held relatively steady over the past year, holding in a range of 5.6% to 5.9% according to the fiscal year-to-date numbers published so far; the most recent reading, for March 2017, stood at the upper end of this range at 5.9%. Inflation has remained relatively subdued through this period with CPI inflation reaching a low of 1.0% in the second quarter of 2016 and ending 2016 at 1.5% year-over-year, whilst core inflation has also been subdued.

In light of this and reflecting headwinds to growth in the early part of the fiscal year, the Reserve Bank of Australia cut the official policy rate (cash rate) to a new record low, from 2.00% to 1.75% in April 2016 and again to 1.50% in August 2016. The cash rate has remained at these levels since then. Australia has maintained its triple-A rating with all of the major rating agencies during the period. However, Standard and Poor's has Australia's sovereign rating on a negative rating outlook, given its pessimism over the government's ability to close existing budget deficits.



**United States** 

#### **Our views**

# The US economy expanded by 1.6% in calendar year 2016, the softest pace of growth since 2011.

One major drag was the weak investment backdrop which suffered in part following falls in oil prices; this story looks set to reverse somewhat and provide a foot-up to growth in 2017 with oil investment already showing signs of improvement.

Household consumption remained more robust, reflecting the improvements in the US labour market through the course of 2016. The US unemployment rate fell from 5.0% in April 2016 to stand at 4.5% in March 2017 and is now consistent with 'longer-term' unemployment rates as defined by the US Federal Reserve, whilst wage growth has also firmed.

The major political event of 2016 was of course Donald Trump's November 2016 election victory which led to a pick-up in business and consumer confidence on hopes of promised tax cuts and significant infrastructure spending. Since being sworn in as President on 20 January 2017, President Trump has rubbed up against congressional restraints which have delayed him enacting these changes quickly, but overall the President is still likely to enact a fiscally supportive policy mix which is likely to be positive, on balance, for 2017 growth and more so in 2018.

Following more than seven years of record low interest rates, the Federal Reserve began tightening policy in December 2015 and enacted two subsequent hikes in interest rates in December 2016 and March 2017. Those policy moves took the federal

funds rate to 0.75% to 1.00% at the end of the financial year, from a 0.25% to 0.50% starting point. Further policy tightening over the forthcoming period will be driven by the evolution of the economy and inflation, tied in part to the delivery of Presidents Trump's economic plans. The Federal Reserve's current policy guidance points to the prospect of two further federal funds hikes in calendar year 2017. Note that inflation remained below the Federal Reserve's 2% goal for almost all of 2016, though it moved above it in the early part of 2017, reflecting the dissipating drag of past falls in energy prices.



Eurozone

#### **Our views**

The fiscal year has seen the Euro area economic backdrop improve on several fronts and most notably with a decline in deflationary risks. In April 2016 headline HICP inflation stood at -0.2%, a considerable distance below the ECB's price stability target of 'below, but close to 2%'. However, much of this decline in inflation was due to a fall in wholesale energy prices. Those effects have started to fade and as such headline inflation has recovered somewhat; in March 2017 HICP inflation stood at 1.5%.

The economy continued to experience a gradual recovery over the year, with quarter four 2016 registering the 15th consecutive quarter of positive growth. As the fiscal year drew to a close there were further positive economic signs with the most recent economic indicators pointing to a firming in the pace of economic activity. Other economic highlights of the fiscal year included a 2.5 million drop in unemployment, as the unemployment rate fell to 9.5% in February 2017, its lowest level since May 2009. The availability of credit, as well as lending growth also witnessed improvements during the year.

Despite the gradual improvement in the economic backdrop, European Central Bank (ECB) policy has remained ultraloose, in part due to the continued

subdued nature of 'core' CPI inflation, which averaged just +0.8% across the fiscal year. ECB policy rates remained at record low levels throughout the period, with the main refinancing rate held at 0.00% and the deposit rate at -0.40%. December 2016 saw the ECB announce an extension of its asset purchase programme. From April 2017 the ECB will continue to purchase sovereign and other debt instruments until December 2017, but at the slower pace of €60 billion per month rather than the previous pace of €80 billion per month.

Away from the economy, political risks became more evident towards the end of the under review year as elections loomed in a number of major Euro area economies. However, March's Dutch election result provided some reassurance as the populist anti-EU candidate failed to gain the foothold some had feared. Moreover in early May 2017, centrist Emmanuel Macron was elected President of France, convincingly defeating far-right candidate Marine Le Pen in the second round of voting. Elections to Germany's Bundestag are set to take place in September 2017.

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



Global stock markets

#### **Our views**

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

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

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

However, global equity markets and risk assets more broadly witnessed the largest gains in the second half of the year, following the US election. Republican nominee Donald Trump's win in November propelled equity markets and commodity prices higher as investors focused on the fiscally stimulative impact of Mr Trump's policy promises including big ticket tax cuts and increased infrastructure spending.

The S&P 500 gained 11.5% across the remainder of the financial year following the election, whilst major commodity benchmarks such as iron ore and copper gained 25% and 15% on the expectation of infrastructure related demand.

Emerging market equity indices underperformed their developed market peers following the US election as the MSCI Emerging market index notched up gains of 7%.

02

(continued)

#### **Operating environment**

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

	Year ended 31 March 2017	Year ended 31 March 2016	% change	Average over the year 1 April 2016 to 31 March 2017
Market indicators				
FTSE All share	3 990	3 395	17.5%	3 699
S&P	2 363	2 060	14.7%	2 186
Nikkei	18 909	16 759	12.8%	17 516
Dow Jones	20 663	17 685	16.8%	18 846
Rates				
UK overnight	0.17%	0.41%		0.30%
UK 10 year	1.07%	1.42%		1.18%
UK clearing banks base rate	0.25%	0.50%		0.33%
LIBOR - three month	0.34%	0.59%		0.44%
US 10 year	2.40%	1.79%		1.97%
Commodities				
Gold	US\$1 247/oz	US\$1 233/oz	1.1%	US\$1 258/oz
Brent crude oil	US\$58/bbl	US\$40/bbl	45.0%	US\$50/bbl
Platinum	US\$940/oz	US\$976/oz	(3.7%)	US\$1 003/oz
Macro-economic				
UK GDP (% change over the period)	2.0%	1.9%		
UK per capita GDP (£, calendar year)	29 580	28 768	2.8%	

Sources: Datastream, Bloomberg, Office for National Statistics.

#### Key income drivers

We provide a wide range of financial products and services to a select client base, principally in the UK. We have a number of other distribution and origination channels which support our underlying core businesses, for example in Australia, Channel Islands, Hong Kong, India, Ireland, Singapore, Switzerland, Taiwan and the USA. We are organised as a network comprising three principal business divisions: Asset Management, Wealth & Investment and Specialist Banking.

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

#### **Asset Management**

#### Key income drivers

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

#### Income statement – primarily reflected as

- Fees and commissions.

#### Income impacted primarily by

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

#### Wealth & Investment

#### Key income drivers

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

## Income statement – primarily reflected as

Fees and commissions.

#### Income impacted primarily by

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

02

(continued)

#### **Specialist Banking**

Key income drivers	Income impacted primarily by	Income statement – primarily reflected as		
<ul> <li>Lending activities.</li> </ul>	<ul> <li>Size of loan portfolio</li> <li>Clients' capital and infrastructural investments</li> <li>Client activity</li> <li>Credit spreads</li> <li>Interest rate environment.</li> </ul>	<ul> <li>Net interest income</li> <li>Fees and commissions</li> <li>Investment income.</li> </ul>		
- Cash and near cash balances.	<ul> <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> <li>Interest rate environment.</li> </ul>	Net interest income     Trading income arising from balance sheet management activities.		
Deposit and product structuring and distribution.	<ul> <li>Distribution channels</li> <li>Ability to create innovative products</li> <li>Regulatory requirements</li> <li>Credit spreads</li> <li>Interest rate environment.</li> </ul>	Net interest income     Fees and commissions.		
<ul> <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> <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> <li>Credit spreads.</li> </ul>	Net interest income     Investment income     Share of post taxation operating profit of associates.		
- Advisory services.	<ul> <li>The demand for our specialised advisory services, which, in turn, is affected by applicable regulatory and other macro- and micro-economic fundamentals.</li> </ul>	<ul> <li>Fees and commissions.</li> </ul>		
<ul> <li>Derivative sales, trading and hedging.</li> </ul>	<ul> <li>Client activity, including lending activity</li> <li>Market conditions/volatility</li> <li>Asset and liability creation</li> <li>Product innovation.</li> </ul>	- Fees and commissions - Trading income arising from customer flow.		
<ul> <li>Transactional banking services.</li> </ul>	<ul> <li>Levels of activity</li> <li>Ability to create innovative products</li> <li>Appropriate systems infrastructure.</li> </ul>	Net interest income     Fees and commissions.		

#### Financial review

(continued)

#### An overview of the principal risks relating to our operations

The most material and significant risks we face, which the board and senior management believe could have an impact on our operations, financial performance, viability and prospects are summarised briefly below with further details provided in section three of this annual report. The board, through its various sub-committees, has performed a robust assessment of these principal risks. For additional information pertaining to the management and monitoring of these principal risks, see the references provided. Regular reporting of these risks is made to senior management, the executives and the board at the group risk and capital committee (GRCC) and board risk and capital committee (BRCC).

The group's board approved risk appetite framework is provided on page 51. The board recognises even with sound appetite and judgement that extreme events can happen that are completely outside of the board's control. It is however, necessary to assess these events and their impact and how they may be mitigated by changing the risk appetite framework if necessary. It is policy to regularly carry out multiple stress testing scenarios which in theory test extreme, but plausible events and from that assess and plan what can be done to mitigate the potential outcome.

Key mitigating actions	Further information provided
	·
<ul> <li>Independent credit committees exist in each geography where we assume credit risk. These committees operate under board-approved delegated limits, policies and procedures.</li> <li>There is a high level of executive involvement and non-executive review and oversight in the credit decision-making forums.</li> <li>Our credit exposures are to a select target market comprising high-income and high net worth individuals, established corporates, and medium-sized enterprises.</li> <li>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.</li> <li>Investec has a limited appetite for unsecured debt, thus the credit risk mitigation technique most commonly used is the taking of collateral, with a strong preference for tangible assets.</li> <li>Portfolio reviews (including stress testing analyses) are undertaken on all material businesses, where the portfolios are analysed to assess any migration in portfolio quality, highlight any vulnerabilities,</li> </ul>	Pages 53 to 78.
	<ul> <li>Independent credit committees exist in each geography where we assume credit risk. These committees operate under board-approved delegated limits, policies and procedures.</li> <li>There is a high level of executive involvement and non-executive review and oversight in the credit decision-making forums.</li> <li>Our credit exposures are to a select target market comprising high-income and high net worth individuals, established corporates, and medium-sized enterprises.</li> <li>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.</li> <li>Investec has a limited appetite for unsecured debt, thus the credit risk mitigation technique most commonly used is the taking of collateral, with a strong preference for tangible assets.</li> <li>Portfolio reviews (including stress testing analyses) are undertaken on all material businesses, where the portfolios are analysed to</li> </ul>

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Principal risks	Key mitigating actions	Further information provided
Country risk		
Country risk refers to the risk of lending to a counterparty operating in a particular country or the risk inherent in sovereign exposure, i.e. the risk of exposure to loss caused by events in other countries. Country risk covers all forms of lending or investment activity whether to/with individuals, corporates, banks or governments.	<ul> <li>Exposures are only to politically stable jurisdictions that we understand and have preferably operated in before.</li> <li>There is little appetite for exposures outside of the group's preexisting core geographies or target markets.</li> <li>The legal environment should be tested, have legal precedent in line with OECD standards and have good corporate governance.</li> <li>In certain cases, we may make use of political risk insurance to mitigate exposure where deemed necessary.</li> </ul>	Page 54.
Investment risk		
Investment risk in the banking book arises primarily from the group's principal investments (private equity) and property investment activities, where the group invests in largely unlisted companies and select property investments, with risk taken directly on the group's balance sheet.	<ul> <li>Independent credit and investment committees exist in each geography where we assume investment risk.</li> <li>Risk appetite limits and targets are set to limit our exposure to equity and investment risk.</li> <li>As a matter of course, concentration risk is avoided and investments are well spread across geographies and industries.</li> </ul>	Pages 79 to 81.



#### Financial review

Principal risks	Key mitigating actions	Further information provided
Market risk in the tradi	ng book	
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.	<ul> <li>To manage, measure and mitigate market risk, we have independent market risk management teams in our core geographies where we assume market risk.</li> <li>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.</li> <li>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.</li> <li>Measurement techniques used to quantify market risk arising from</li> </ul>	Pages 85 to 88.
	our trading activities include sensitivity analysis, value at risk (VaR), stressed VaR (sVaR), expected shortfall (ES) and extreme value theory (EVT). Stress testing and scenario analysis are used to simulate extreme conditions to supplement these core measures.	
Liquidity risk		
Liquidity risk refers to the possibility that, despite being solvent, we have insufficient capacity to fund increases in assets or are unable to meet our payment obligations as they fall due, without incurring unacceptable losses. This includes repaying depositors or maturing wholesale debt. This risk is inherent in all banking operations and can be impacted by a range of institution specific and market-wide events.	<ul> <li>Our banking entities in South Africa and the UK are ring-fenced from one another and are required to meet the regulatory liquidity requirements in the jurisdictions in which they operate.</li> <li>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.</li> <li>The maintenance of sustainable prudent liquidity resources takes precedence over profitability.</li> <li>We target a diversified funding base, avoiding undue concentrations by investor type, maturity, market source, instrument and currency.</li> <li>Stable customer deposits must fully fund our core loan book, with little reliance therefore placed on wholesale funding.</li> <li>The group does not rely on committed funding lines for protection against unforeseen interruptions to cash flow.</li> <li>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.</li> <li>Daily liquidity stress tests are carried out.</li> </ul>	Pages 89 to 94.

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Principal risks	Key mitigating actions	Further information provided
Capital risk		
The risk that we do not have sufficient capital to meet regulatory requirements or that capital is inefficiently deployed across the group.	<ul> <li>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.</li> <li>The determination of target capital is driven by our risk profile, strategy and risk appetite, taking into account the regulatory and market factors applicable to the group.</li> <li>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.</li> <li>Our internal capital framework is designed to manage and achieve this balance.</li> <li>The framework has been approved by the board and is managed by the DLC capital committee, which is responsible for oversight of the management of capital on a regulatory and an internal capital basis.</li> </ul>	Pages 104 to 118.
Non-trading interest ra	nte risk	
Non-trading interest rate risk, otherwise known as interest rate risk in the banking book, arises from the impact of adverse movements in interest rates on both net interest earnings and economic value of equity of adverse movements in interest rates.	The daily management of interest rate risk in the banking book is centralised within the Central Treasury function of each geographic entity and is subject to local independent risk and Asset and Liability committee (ALCO) review.  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 the ALCO.	Pages 95 to 97.
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.	<ul> <li>Our non-trading interest rate risk policy and risk appetite dictates that long-term (&gt;1 year) non-trading interest rate risk is materially eliminated. Where natural hedges between banking book items do not suffice to reduce the exposure within defined limits, interest rate swaps are used to transform fixed rate assets and liabilities into variable rate items.</li> <li>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.</li> </ul>	



### Financial review

Principal risks	Key mitigating actions	Further information provided
Operational risk		
Operational risk is defined as the potential or actual impact to the group as a result of failures relating to internal processes, people, systems or from external events. The impacts can be financial as well as non-financial such as customer detriment, reputational or regulatory consequences.  Operational risk includes key aspects such as: cybersecurity; information security; financial crime; technology; outsourcing and process failure; business continuity; Regulatory and compliance.	<ul> <li>An independent Group Operational Risk Management function ensures that operational risk policies and procedures are developed and applied consistently and effectively throughout the group.</li> <li>Business unit management, supported by operational risk managers who operate at a business unit level, are responsible for embedding and implementing operational risk practices and policies.</li> <li>All personnel are adequately skilled at both a business unit and a group level.</li> </ul>	Pages 99 to 102.
Reputational and strat	egic 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.	<ul> <li>We have various policies and practices to mitigate reputational risk, including strong values that are regularly and proactively reinforced.</li> <li>Strategic and reputational risk is mitigated as much as possible through detailed processes and governance/escalation procedures from business units to the board, and from regular, clear communication with shareholders, customers and all stakeholders.</li> <li>A disclosure and public communications policy has been approved by the board.</li> </ul>	Page 102 to 103.

Principal risks	Key mitigating actions	Further information provided
Conduct risk means the risk that detriment is caused to the group, its customers, its counterparties or the market, as a result of inappropriate execution of business activities.	Investec's approach to conduct risk is driven by our values and philosophies, ensuring that Investec operates in the wholesale arena and markets with integrity and puts the well-being of Investec clients at the heart of how the business is run. Investec ensures that its products and services are scrutinised and regularly reviewed to identify any issues early on and to make sure they are escalated for appropriate resolution and, where necessary, remedial action. Investec's conduct risk policy aims to create an environment for consumer protection and market integrity within the business, supported with the right conduct risk management framework.  Customer and market conduct committees exist with the objective of ensuring that Investec maintains a client-focused and fair outcomes-based culture.	Page 103.
Compliance, governan	ce and regulatory risk	
The risks of changing legislation, regulation, policies, voluntary codes of practice and their interpretation in the markets in which we operate can have a significant impact on the group's operations, business prospects, costs, liquidity and capital requirements.	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.  We have independent compliance functions in each of our core operating jurisdictions, which ensure that the group implements the required processes, practices and policies to adhere to applicable regulations and legislation.  A global compliance forum exists which establishes and standardises group standards where applicable.	Pages 122 to 123.



## Financial review

Principal risks	Key mitigating actions	Further information provided
Legal risk		
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.	A legal risk forum is constituted in each significant legal entity within the group 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.  We have a central independent in-house legal team with embedded business units' legal officers where business volumes or needs dictate.  This is supplemented by a pre-approved panel of third party firms to be utilised where necessary.	Page 103.
Business risk		
Business risk means the risk that external market factors create income volatility.	The risk of loss caused by income volatility is mitigated through diversification of income sources, reducing concentration of income from any one type of business or geography and maintaining a flexible cost base. Group strategy is directed towards generating and sustaining a diversified income base for the group. In the instance where income falls we retain the flexibility to reduce costs (particularly variable remuneration), thereby maintaining a competitive cost to income ratio.	Pages 15 to 19.
Environmental, social	and economic risk	
The risk that our lending and investment activities give rise to unintended environmental, social and economic consequences.	Investec has a broad-based approach to corporate responsibility, which runs beyond recognising our own footprint on the environment and includes our many corporate social investment activities and our funding and investing activities.  This is not merely for business reasons but also our recognition of a broader responsibility to our environment and society.  Accordingly, corporate responsibility risk considerations are considered by the credit committee and investment committee when making lending or investment decisions.  There is also oversight by the social and ethics committee on social and environmental issues, including climate-related impact considerations.	Page 166 to 168 and in our corporate responsibility report.
People risk		<u> </u>
The risk that we may be unable to recruit, retain and motivate key personnel.	<ul> <li>We focus on building a strong, diverse and capable workforce by providing a workplace that stimulates and rewards distinctive performance.</li> <li>We invest significantly in a number of opportunities for developing and upskilling employees, and in leadership programmes to develop current and future leaders of the group.</li> <li>Our internal people activities involve dedicated divisions such as Human Resources (HR) and Organisation Development (OD), which serve to supplement the ongoing people focus of our individual business units.</li> <li>The Investec careers and HR teams are mandated to enable the attraction, development and retention of talent who can perform in a manner consistent with our culture and values. OD acts to strengthen the culture of the business, ensure its values are lived, build capability and contribute to the long-term sustainability of the organisation.</li> </ul>	Page 167 and in our corporate responsibility report.

## **Emerging and other** risks

In addition to the principal risks outlined above, the risks below may have the potential to impact and/or influence our principal risks and consequently the operations, financial performance, viability and prospects of the group. A number of these risks are beyond the group's control and are considered in our capital plans, stress testing analyses and budget processes, where applicable. These emerging risks are briefly highlighted below and should be read in the context of our approach to risk management and our overall group risk appetite framework (refer to section three of this report).

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.

 Macro-economic and geopolitical risks: The group is subject to inherent risks arising from general macroeconomic and geopolitical conditions in the countries in which it operates, including in particular the UK, as well as global economic and geopolitical conditions.



A macro-economic overview is provided on pages 15 to 19, and the impact of changes in the external environment during our financial year is discussed for each of the divisions on pages 43 to 45.

Fluctuations in exchange rates could have an adverse impact on the group's results of operations: The group's reporting currency is Pounds Sterling. Certain of our operations are conducted by entities outside the UK. The results of operations and the financial position of individual companies are reported in the local currencies of the countries in which they are domiciled, including Australian Dollars, Euros and US Dollars. These results are then translated into Pounds Sterling at the applicable foreign currency exchange rates for inclusion in the group's financial statements. In the case of the income statement, the weighted average rate for the relevant period is applied and, in the case of

the balance sheet, the relevant closing rate is used. Exchange rates between local currencies and Pounds Sterling have fluctuated significantly during recent periods.

- The group's borrowing costs and its access to debt capital markets depend significantly on its credit ratings: Rating agencies have, in the past, altered their ratings of all or a majority of the participants in a given industry as a result of the risks affecting that industry. A reduction in the group's respective banking entities long- or short-term credit ratings could increase their borrowing costs, limit their access to capital markets and trigger additional collateral requirements in derivative contracts and other secured funding arrangements.
- The group may be exposed to pension risk in relation to its UK operations: Pension risk arises from obligations arising from defined benefit pension schemes where the group is required to fund any deficit in the schemes. There are two defined benefit pension schemes within the group and both are closed to new business.



Refer to page 103 for further information.

The financial services industry in which the group operates is intensely competitive: The financial services industry is competitive and the group faces substantial competition in all aspects of its business. The group has developed leading positions in many of its core areas of activity, but does not take competition lightly, and our strategic objectives continue to focus on building business depth; providing the best integrated solution to our clients; and leveraging our digitisation strategy in order to remain competitive.



Refer to pages 15 to 19 for further information.

Impairment requirements:

The introduction of the impairment requirements of IFRS 9 Financial Instruments, due to be implemented by the group on 1 April 2018, will shift impairment methodology from an incurred loss to an expected loss

methodology which could impact the level and timing of impairment 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. The regulatory capital impact of IFRS 9 is dependent on the regulatory capital treatment of potential increased reserves which is the subject of ongoing discussion with regulators and across the industry, but there is potential for adverse impact on regulatory capital ratios.

The group has established an IFRS 9 steering committee comprising of executive representation and key management from Risk, Finance, Analytics and IT. The group continues to assess the impact of this standard, but expects that the recognition and measurement basis of the majority of the group's financial assets will be largely unchanged on application of IFRS 9.

Credit risk methodologies have been defined and model build and approval is underway and nearing completion. Investec intends to perform a parallel run during 2017; models and credit risk processes will be tested during this period to embed the changes and help improve the understanding of the new impairment models.

The group will incorporate IFRS 9 requirements into our group credit risk classification and provisioning policy.

It will not be practical to disclose reliable financial impact estimates until the implementation programme and validation and testing is further advanced. The group intends to disclose this in the 2018 annual financial statements.



Further information is provided on pages 191 to 192.

#### Financial review

(continued)

Emerging risks which attracted particular attention during the year, and which are included in our stress tests include:

The UK's exit from the European Union: On 23 June 2016 the UK voted to leave the European Union (EU) and the formal exit process commenced on 29 March 2017 when the UK triggered Article 50. Although negotiations between the UK and the EU have yet to formally commence, the group faces certain risks associated with the UK's decision to exit the EU.

For example, because a significant proportion of the regulatory regime applicable to the group in the UK and anticipated regulatory reform is derived from EU directives and regulations, the UK's exit from the EU could materially change the legal framework applicable to the group's UK operations, including

in relation to its regulatory capital requirements. In addition, the UK's exit from the EU could result in restrictions on the movement of capital and the mobility of personnel.

Furthermore, the UK's vote in favour of leaving the EU may alter the legal framework applicable to the group's European operations, including in relation to our current branch structure in Ireland and our ability to provide certain services from London to European clients.

We have established a Brexit working group to monitor the Brexit negotiations, continuously evaluate the impact of the proposals on our business; and ultimately propose a revised operating model for servicing European clients once the UK leaves the EU.

#### Overview of our statutory results

Investec plc reported a 23.0% increase in operating profit before goodwill, acquired intangibles, non-operating items and taxation and after other non-controlling interests to £224.9 million for the year ended 31 March 2017 (2016: £182.9 million). The balance sheet remains strong, supported by sound capital, leverage and liquidity ratios.

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

#### Statutory income statement analysis

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

#### Total operating income

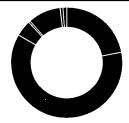
Total operating income before impairment losses on loans and advances of  $\mathfrak{L}1$  306.9 million is 15.8% higher than the prior year. The various components of total operating income are analysed below.

£'000	31 March 2017	% of total income	31 March 2016	% of total income	% change
Net interest income	289 181	22.1%	260 945	23.1%	10.8%
Net fee and commission income	803 863	61.5%	709 758	62.9%	13.3%
Investment income	59 975	4.6%	62 120	5.5%	(3.5%)
Share of post taxation operating profit of associates	2 349	0.2%	2 321	0.2%	1.2%
Trading income arising from		1	İ	•	
~ customer flow	129 706	9.9%	92 681	8.2%	39.9%
~ balance sheet management and other trading activities	8 672	0.7%	(7 983)	(0.7%)	>100%
Other operating income	13 195	1.0%	8 532	0.8%	54.7%
Total operating income before impairments	1 306 941	100.0%	1 128 374	100.0%	15.8%

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

£'000	31 March 2017	% of total income	31 March 2016	% of total income	% change
Asset Management	316 729	24.2%	276 063	24.5%	14.7%
Wealth & Investment	276 848	21.2%	256 634	22.7%	7.9%
Specialist Banking	713 364	54.6%	595 677	52.8%	19.8%
Total operating income before impairments	1 306 941	100.0%	1 128 374	100.0%	15.8%

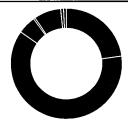
#### % of total operating income before impairments



#### 31 March 2017

£1 306.9 million total operating income before impairments

_	Net interest income	22.1%
_	Net fee and commission income	61.5%
_	Investment income	4.6%
_	Share of post taxation operating profit of associates	0.2%
_	Trading income arising from customer flow	9.9%
_	Trading income arising from balance sheet management and other trading activities	0.7%
-	Other operating income	1.0%



#### 31 March 2016

£1 128.4 million total operating income before impairments

		,
_	Net interest income	23.1%
_	Net fee and commission income	62.9%
_	Investment income	5.5%
_	Share of post taxation operating profit of associates	0.2%
_	Trading income arising from customer flow	8.2%
_	Trading income arising from balance sheet management and other trading activities	(0.7%)
_	Other operating income	0.8%

## 02

#### Financial review

(continued)

#### Net interest income

Net interest income increased by 10.8% to £289.2 million (2016: £260.9 million) supported by sound levels of lending activity across the banking business.

£'000	31 March 2017	31 March 2016	Variance	% change
Asset Management	111	290	(179)	(61.7%)
Wealth & Investment	4 368	4 064	304	7.5%
Specialist Banking	284 702	256 591	28 111	11.0%
Net interest income	289 181	260 945	28 236	10.8%



For a further analysis of interest received and interest paid refer to page 194.

#### Net fee and commission income

Net fee and commission income increased by 13.3% to £803.9 million (2016: £709.8 million) as a result of higher average funds under management in the Asset Management and Wealth Management businesses. The Specialist Banking business benefited from a solid performance from the corporate and advisory businesses.

£'000	31 March 2017	31 March 2016	Variance	% change
Asset Management	308 084	275 252	32 832	11.9%
Wealth & Investment	267 847	244 993	22 854	9.3%
Specialist Banking	227 932	189 513	38 419	20.3%
Net fees and commissions	803 863	709 758	94 105	13.3%



For a further analysis on net fee and commission income refer to page 195.

#### Investment income

Investment income decreased by 3.5% to £60.0 million (2016: £62.1 million). The group's unlisted investment portfolio delivered a sound performance; however, this was offset by realisations from the debt securities portfolio not repeated in the current year, as well as the write down of an investment in the Hong Kong portfolio.

£'000	31 March 2017	31 March 2016	Variance	% change
Asset Management	_	_	-	_
Wealth & Investment	2 169	5 817	(3 648)	(62.7%)
Specialist Banking	57 806	56 303	1 503	2.7%
Investment income	59 975	62 120	(2 145)	(3.5%)



For a further analysis on investment income refer to pages 195 to 196.

#### Share of post taxation operating profit of associates

Share of post taxation operating profit of associates of  $\Omega$ 2.3 million (2016:  $\Omega$ 2.3 million) relates to income earned on strategic investments held which are classified as associates.

#### **Trading income**

Trading income from customer flow increased considerably to £129.7 million (2016: £92.7 million) supported by robust client activity levels and market volatility; while trading income from other trading activities amounted to £8.7 million (2016: loss of £8.0 million).

#### Arising from customer flow

£'000	31 March 2017	31 March 2016	Variance	% change
Asset Management	_	-	-	
Wealth & Investment	740	333	407	>100%
Specialist Banking	128 966	92 348	36 618	39.7%
Trading income arising from customer flow	129 706	92 681	37 025	39.9%

#### Arising from balance sheet management and other trading activities

£,000	31 March 2017	31 March 2016	Variance	% change
Asset Management	3 221	1 656	1 565	94.5%
Wealth & Investment	215	236	(21)	(8.9%)
Specialist Banking	5 236	(9 875)	15 111	>100%
Trading income arising from balance sheet management				
and other trading activities	8 672	(7 983)	16 655	>100%

#### Other operating income

Other operating income includes income earned on operating lease rentals.

#### Impairment losses on loans and advances

Impairments on loans and advances decreased from £84.2 million to £75.0 million. Since 31 March 2016, gross defaults have improved from £313.9 million to £260.3 million. The percentage of default loans (net of impairments but before taking collateral into account) to net core loans and advances amounted to 1.55% (2016: 2.19%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.44 times (2016: 1.19 times).



For further information on asset quality refer to page 69.

#### **Operating costs**

The cost to income ratio amounted to 77.0% (2016: 76.7%). Total operating costs grew by 16.3% to £1 007.3 million (2016: £865.8 million) reflecting planned investment in IT infrastructure and headcount to support increased activity and growth initiatives, notably the build out of the private client offering. Costs are also impacted by additional premises expenses relating to the London office's future premises move and an increase in variable remuneration given improved profitability across the group.

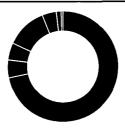
The various components of total operating costs are analysed below.

€,000	31 March 2017	% of total operating costs	31 March 2016	% of total operating costs	% change
Staff costs (including directors' remuneration)	(726 614)	72.1%	(618 475)	71.4%	17.5%
Premises expenses (excluding depreciation)	(52 979)	5.3%	(35 998)	4.2%	47.2%
Equipment expenses (excluding depreciation)	(48 379)	4.8%	(31 328)	3.6%	54.4%
Business expenses	(122 714)	12.2%	(128 769)	14.9%	(4.7%)
Marketing expenses	(42 744)	4.2%	(38 012)	4.4%	12.4%
Depreciation and impairment of property, plant,					
equipment and software	(11 700)	1.2%	(11 066)	1.3%	5.7%
Depreciation on operating leased assets	(2 141)	0.2%	(2 149)	0.2%	(0.4%)
Total operating costs	(1 007 271)	100.0%	(865 797)	100.0%	16.3%

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

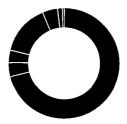
€'000	31 March 2017	% of total operating costs	31 March 2016	% of total operating costs	% change
Asset Management	(225 466)	22.4%	(199 210)	23.0%	13.2%
Wealth & Investment	(211 658)	21.0%	(193 507)	22.3%	9.4%
Specialist Banking	(533 984)	53.0%	(437 920)	50.6%	21.9%
Group costs	(36 163)	3.6%	(35 160)	4.1%	2.9%
Total operating costs	(1 007 271)	100.0%	(865 797)	100.0%	16.3%

#### % of total operating costs



#### **31 March 2017** £1 007.3 million total operating costs

_	Staff costs	72.1%
_	Premises expenses	5.3%
_	Equipment expenses	4.8%
_	Business expenses	12.2%
_	Marketing expenses	4.2%
-	Depreciation and impairment of property, plant, equipment and software	1.2%
_	Depreciation on operating leased assets	0.2%



#### 31 March 2016 £865.8 million total operating costs

		ı
-	Staff costs	71.4%
-	Premises expenses	4.2%
-	Equipment expenses	3.6%
_	Business expenses	14.9%
_	Marketing expenses	4.4%
-	Depreciation and impairment of property, plant, equipment and software	1.3%
-	Depreciation on operating leased assets	0.2%

#### Impairment of goodwill

The current year's goodwill impairment of £3.1 million relates to a historic acquisition in the Specialist Banking business.

#### Amortisation of acquired intangibles

Amortisation of acquired intangibles of £14.4 million largely relates to the Wealth & Investment business and mainly comprises amortisation of amounts attributable to client relationships.

#### Net profit attributable to non-controlling interests

Net profit attributable to non-controlling interests mainly comprises:

• £11.8 million profit attributable to non-controlling interests in the Asset Management business.

#### Statutory balance sheet analysis

#### Since 31 March 2016:

- Total shareholders' equity (including non-controlling interests) increased by 8.0% to £2.0 billion largely due to an increase in retained earnings and the issuance of shares during the period.
- Total assets remained in line with the prior year at £18.8 billion.

(continued)

### Overview of our ongoing results

In order to present a more meaningful view of the group's performance, additional management information is presented on the group's ongoing businesses. This information is set out on pages 35 to 41.

The additional information presented on an ongoing basis excludes items that in management's view could distort the comparison of performance between periods. Based on this principle, the remaining legacy business in the UK (as set out on page 42) has been excluded from underlying statutory profit to derive the group's ongoing operating profit.

This basis of presentation is consistent with the approach adopted for the year ended 31 March 2016.

A reconciliation between the statutory and ongoing income statement is provided on pages 36 to 37.

All information in our annual report is based on our statutory accounts unless otherwise indicated.

### Consolidated summarised ongoing income statement

### For the year to 31 March

£'000	2017	2016	Variance	% change
Net interest income	289 825	259 105	30 720	11.9%
Net fee and commission income	803 930	706 473	97 457	13.8%
Investment income	59 403	61 627	(2 224)	(3.6%)
Share of post taxation operating profit of associates	2 349	2 321	28	1.2%
Trading income arising from				
- customer flow	129 711	93 333	36 378	39.0%
- balance sheet management and other trading activities	8 532	(7 743)	16 275	>100%
Other operating income	12 870	8 532	4 338	50.8%
Total operating income before impairment losses on loans				
and advances	1 306 620	1 123 648	182 972	16.3%
Impairment losses on loans and advances	(20 651)	(16 069)	(4 582)	28.5%
Operating income	1 285 969	1 107 579	178 390	16.1%
Operating costs	(994 522)	(848 735)	(145 787)	17.2%
Depreciation on operating leased assets	(2 141)	(2 149)	8	(0.4%)
Operating profit before goodwill and acquired intangibles	289 306	256 695	32 611	12.7%
Loss attributable to other non-controlling interests	180	4 503	(4 323)	(96.0%)
Profit attributable to Asset Management non-controlling interests	(11 807)	(10 263)	(1 544)	15.0%
Operating profit before goodwill, acquired intangibles			ļ	
and after non-controlling interests	277 679	250 935	26 744	10.7%
Taxation	(50 383)	(50 854)	471	(0.9%)
Attributable earnings before goodwill, acquired intangibles			]	•
and non-operating items	227 296	200 081	27 215	13.6%
Cost to income ratio	76.2%	75.7%		

(continued)

### Reconciliation from statutory summarised income statement to ongoing summarised income statement

For the year to 31 March 2017 £'000	Statutory as disclosed^	UK legacy business	Ongoing business
Net interest income	289 181	(644)	289 825
Net fee and commission income	803 863	(67)	803 930
Investment income	59 975	572	59 403
Share of post taxation operating profit of associates	2 349	-	2 349
Trading income arising from			
- customer flow	129 706	(5)	129 711
- balance sheet management and other trading activities	8 672	140	8 532
Other operating income	13 195	325	12 870
Total operating income before impairment losses			
on loans and advances	1 306 941	321	1 306 620
Impairment losses on loans and advances	(74 956)	(54 305)	(20 651)
Operating income	1 231 985	(53 984)	1 285 969
Operating costs	(1 005 130)	(10 608)	(994 522)
Depreciation on operating leased assets	(2 141)	-	(2 141)
Operating profit/(loss) before goodwill and acquired intangibles	224 714	(64 592)	289 306
Loss attributable to other non-controlling interests	180	-	180
Profit attributable to Asset Management non-controlling interests	(11 807)		(11 807)
Operating profit/(loss) before goodwill, acquired intangibles		•	
and after non-controlling interests	213 087	(64 592)	277 679
Taxation*	(39 144)	11 239	(50 383)
Attributable earnings before goodwill, acquired intangibles			
and non-operating items	173 943	(53 353)	227 296
Cost to income ratio	77.0%		76.2%

Applying Investec plc's effective statutory taxation rate of 17.4%. Refer to page 179.

(continued)

### Reconciliation from statutory summarised income statement to ongoing summarised income statement (continued)

For the year to 31 March 2016 £'000	Statutory as disclosed^	UK legacy business	Ongoing business
Net interest income	260 945	1 840	259 105
Net fees and commission income	709 758	3 285	706 473
Investment income	62 120	493	61 627
Share of post taxation operating profit of associates	2 321	-	2 321
Trade income arising from			
- customer flow	92 681	(652)	93 333
- balance sheet management and other trading activities	(7 983)	(240)	(7 743)
Other operating income	8 532	-	8 532
Total operating income before impairment losses			
on loans and advances	1 128 374	4 726	1 123 648
Impairment losses on loans and advances	(84 217)	(68 148)	(16 069)
Operating income	1 044 157	(63 422)	1 107 579
Operating costs	(863 648)	(14 913)	(848 735)
Depreciation on operating leased assets	(2 149)	-·[	(2 149)
Operating profit/(loss) before goodwill and acquired intangibles	178 360	(78 335)	256 695
Loss attributable to other non-controlling interests	4 503	-	4 503
Profit attributable to Asset Management non-controlling interests	(10 263)	-	(10 263)
Operating profit/(loss) before goodwill, acquired intangibles			
and after non-controlling interests	172 600	(78 335)	250 935
Taxation*	(35 335)	15 519	(50 854)
Attributable earnings before goodwill, acquired intangibles			
and non-operating items	137 265	(62 816)	200 081
Cost to income ratio	76.7%		75.7%

Applying Investec pic's statutory effective taxation rate of 19.8%.

<sup>^</sup> Refer to page 179.



(continued)

### Reconciliation from statutory summarised income statement to ongoing summarised income statement for the Specialist Banking business

For the year to 31 March 2017 £'000	Specialist Banking statutory as disclosed^	UK legacy business	Specialist Banking Ongoing business
Net interest income	284 702	(644)	285 346
Net fee and commission income	227 932	(67)	227 999
Investment income	57 806	572	57 234
Share of post taxation operating profit of associates	840	-	840
Trading income arising from			
- customer flow	128 966	. (5)	128 971
- balance sheet management and other trading activities	5 236	140	5 096
Other operating income	7 882	325	7 557
Total operating income before impairment losses on			
loans and advances	713 364	321	713 043
Impairment losses on loans and advances	(74 956)	(54 305)	(20 651)
Operating income	638 408	(53 984)	692 392
Operating costs	(531 843)	(10 608)	(521 235)
Depreciation on operating leased assets	(2 141)	-	(2 141)
Operating profit/(loss) before goodwill and acquired intangibles	104 424	(64 592)	169 016
Loss attributable to other non-controlling interests	180	-	180
Operating profit/(loss) before goodwill, acquired intangibles and after non-controlling interests	104 604	(64 592)	169 196

For the year to 31 March 2016 £'000	Specialist Banking statutory as disclosed^	UK legacy business	Specialist Banking Ongoing business
Net interest income	256 591	1 840	254 751
Net fees and commission income	189 513	3 285	186 228
Investment income	56 303	493	55 810
Share of post taxation operating profit of associates	1 130	-	1 130
Trading income arising from .		-	-
- customer flow	92 348	(652)	93 000
- balance sheet management and other trading activities	(9 875)	(240)	(9 635)
Other operating (loss)/income	9 667	-	9 667
Total operating income before impairment losses on loans and advances	595 677	4 726	590 951
Impairment losses on loans and advances	(84 217)	(68 148)	(16 069)
Operating income	511 460	(63 422)	574 882
Operating costs	(435 771)	(14 913)	(420 858)
Depreciation on operating leased assets	(2 149)	-	(2 149)
Operating profit/(loss) before goodwill and acquired intangibles	73 540	(78 335)	151 875
Loss attributable to other non-controlling interests	4 503	-	4 503
Operating profit/(loss) before goodwill, acquired intangibles and after non-controlling interests	78 043	(78 335)	156 378

<sup>^</sup> Refer to page 193.

(continued)

Segmental and business analysis of operating profit before goodwill, acquired intangibles, non-operating items, taxation and after other non-controlling interests – ongoing business

For the year to 31 March

€'000	2017	2016	% change
Asset Management	91 263	76 853	18.8%
Wealth & Investment	65 190	63 127	3.3%
Specialist Banking	169 196	156 378	8.2%
	325 649	296 358	9.9%
Group costs	(36 163)	(35 160)	2.9%
Total group	289 486	261 198	10.8%

### A reconciliation of Specialist Banking's operating profit: ongoing vs statutory basis

For the year to 31 Mar	rcn
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£'000	2017	2016	% change
Total ongoing Specialist Banking per above	169 196	156 378	8.2%
UK legacy remaining	(64 592)	(78 335)	(17.5%)
Total Specialist Banking per statutory accounts	104 604	78 043	34.0%

### Financial review

(continued)

### Ongoing segmental business analysis – summarised income statement

For the year to 31 March 2017 £'000	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Total group
Net interest income	111	4 368	285 346		289 825
Net fee and commission income	308 084	267 847	227 999	- 1	803 930
Investment income	_	2 169	57 234	_	59 403
Share of post taxation operating profit of associates Trading income arising from:	-	1 509	840	<del>-</del>	2 349
- customer flow	_	740	128 971	_	129 711
- balance sheet management and other trading activities	3 221	215	5 096	_	8 532
Other operating income	5 313	_	7 557	_	12 870
Total operating income before impairment losses					
on loans and advances	316 729	276 848	713 043	-	1 306 620
Impairment losses on loans and advances	-	-	(20 651)		(20 651)
Operating income	316 729	276 848	692 392	<b>–</b> 1	1 285 969
Operating costs	(225 466)	(211 658)	(521 235)	(36 163)	(994 522)
Depreciation on operating leased assets	-	-	(2 141)		(2 141)
Operating profit/(loss) before goodwill and					
acquired intangibles	91 263	65 190	169 016	(36 163)	289 306
Loss attributable to other non-controlling interests	-	_	180	_	180
Operating profit/(loss) before goodwill, acquired			l		
intangibles and after other non-controlling interests	91 263	65 190	169 196	(36 163)	289 486
Profit attributable to Asset Management					
non-controlling interests	(11 807)	-	_	_	(11 807)
Operating profit before goodwill, acquired					
intangibles and after non-controlling interests	79 456	65 190	169 196	(36 163)	277 679
Cost to income ratio	71.2%	76.5%	73.3%	n/a	76.2%

For the year to 31 March 2016 £'000	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Total group
Net interest income	290	4 064	254 751	-	259 105
Net fees and commission income	275 252	244 993	186 228	-	706 473
Investment income	- 1	5 817	55 810	-	61 627
Share of post taxation operating profit of associates	-	1 191	1 130	-	2 321
Trading income arising from		i			
- customer flow	_ [	333	93 000	-	93 333
- balance sheet management and other trading activities	1 656	236	(9 635)	- 1	(7 743)
Other operating (loss)/income	(1 135)	-	9 667	_	8 532
Total operating income before impairment losses			İ		
on loans and advances	276 063	256 634	590 951	-	1 123 648
Impairment losses on loans and advances	-	-	(16 069)	-	(16 069)
Operating income	276 063	256 634	574 882	-	1 107 579
Operating costs	(199 210)	(193 507)	(420 858)	(35 160)	(848 735)
Depreciation on operating leased assets	- \	- \	(2 149)	-	(2 149)
Operating profit/(loss) before goodwill and					
acquired intangibles	76 853	63 127	151 875	(35 160)	256 695
Loss attributable to other non-controlling interests	-	-	4 503	-	4 503
Operating profit/(loss) before goodwill, acquired			ļ.		
intangibles and after other non-controlling interests	76 853	63 127	156 378	(35 160)	261 198
Profit attributable to Asset Management non-controlling					
interests	(10 263)	-	-	-	(10 263)
Operating profit/(loss) before goodwill, acquired			Ĭ		
intangibles and after non-controlling interests	66 590	63 127	156 378	(35 160)	250 935
Cost to income ratio	72.2%	75.4%	71.5%	n/a	75.7%

(continued)

### An analysis of core loans and advances to customers and asset quality - ongoing business

£'000	31 March 2017	31 March 2016
Gross core loans and advances to customers	8 169 901	7 242 345
Total impairments	(25 356)	(21 838)
Specific impairments	(12 393)	. (20 838)
Portfolio impairments	(12 963)	(1 000)
Net core loans and advances to customers	8 144 545	7 220 507
Average gross core loans and advances to customers	7 706 123	6 810 208
Total income statement charge for impairments on core loans and advances	(20 690)	(17 806)
Gross default loans and advances to customers	34 166	49 795
Specific impairments	(12 393)	(20 838)
Portfolio impairments	(12 963)	(1 000)
Defaults net of impairments before collateral held	8 810	27 957
Collateral and other credit enhancements .	25 948	34 777
Net default loans and advances to customers (limited to zero)	-	-
Ratios:		
Total impairments as a % of gross core loans and advances to customers	0.31%	0.30%
Total impairments as a % of gross default loans	· 74.21%	43.86%
Gross defaults as a % of gross core loans and advances to customers	0.42%	0.69%
Defaults (net of impairments) as a % of net core loans and advances to customers	0.11%	0.39%
Net defaults as a % of net core loans and advances to customers	-	
Credit loss ratio (i.e. income statement impairment charge on core loans as a % of average gross core loans and advances)	0.27%	0.26%

### A reconciliation of core loans and advances: statutory basis and ongoing basis

£'000	Statutory as disclosed^	UK legacy business	Ongoing business
31 March 2017	,		
Gross core loans and advances to customers	8 747 618	577 717	8 169 901
Total impairments	(126 876)	(101 520)	(25 356)
Specific impairments	(83 488)	(71 095)	(12 393)
Portfolio impairments	(43 388)	(30 425)	(12 963)
Net core loans and advances to customers	8 620 742	476 197	8 144 545
31 March 2016		·	
Gross core loans and advances to customers	7 946 793	704 448	7 242 345
Total impairments	(143 191)	(121 353)	(21 838)
Specific impairments	(121 791)	(100 953)	(20 838)
Portfolio impairments	(21 400)	(20 400)	(1 000)
Net core loans and advances to customers	7 803 602	583 095	7 220 507

Refer to page 69.

### The legacy business in the UK Specialist Bank comprises:

- · Assets put on the bank's books pre-2008 where market conditions post the financial crisis materially impacted the business model
- · Assets written prior to 2008 with very low/negative margins
- Assets relating to business we are no longer undertaking.

### Legacy business - overview of results

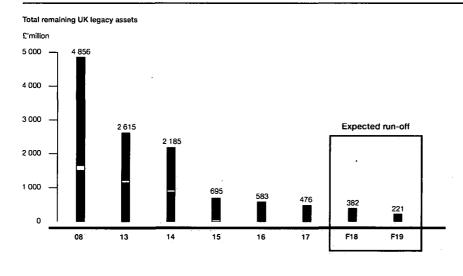
Since 31 March 2016 the group's legacy portfolio in the UK has continued to be actively managed down from £583 million to £476 million through asset sales, redemptions and write-offs. The total legacy business over the period reported a loss before taxation of £64.6 million (2016: £78.3 million), with impairments reducing 20.3% from £68.1 million to £54.3 million. The remaining legacy portfolio will continue to be managed down. Given the uncertainty in the UK following the EU referendum, the legacy book could take longer to wind down than management's original expectation of two to four years. Total net defaults in the legacy book amount to £125 million (31 March 2016: £143 million).

### An analysis of assets within the legacy business

£'million	31 March 2017 Total net assets (after impairments)	31 March 2017 Total balance sheet impairment	31 March 2016 Total net assets (after impairments)	31 March 2016 Total balance sheet impairment
Private Bank Irish planning and development assets	18	9	23	14
Other Private Bank assets	458	93	560	· 107
Total legacy assets	. 476	102	583	121
Performing	351	-	440	_
Non-performing	125	102*	143	121*

Included in balance sheet impairments is a group portfolio impairment of £30.4 million (31 March 2016: £20.4 million).

### **Expected run-off of legacy assets**



- Other Private Bank assets
- Private Bank Irish planning and development assets
- Other corporate assets and securitisation activities

### Questions and answers

### Hendrik du Toit

### **Asset Management**

Chief executive officer

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

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

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

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

Given this environment and the fact that we entered the financial year with weaker than desired performance in some of our larger offerings, we closed the year with net outflows of approximately £0.6 billion.

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

After a good start and a positive net flow number at half-year stage, the flow picture deteriorated in the second half of the year. We closed the financial year with net outflows of  $\mathfrak{L}0.6$  billion, where  $\mathfrak{L}1.7$  billion of net outflows took place in the last six months of the financial year. The net outflows were largely driven by the Asia Pacific and Americas regions, as a result of client restructurings and rebalancing, rather than performance complaints. We are pleased to report that our African business has continued its resurgence as evidenced by net inflows of  $\mathfrak{L}1.4$  billion for the year.

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

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

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

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

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

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

We remain a patient, organic and long-term business offering organically-developed investment capabilities through active

segregated mandates or mutual funds to sophisticated clients. We operate globally in both the Institutional and Advisor space through five geographically defined client groups. We have an approach to growth that is driven by sensible medium to long-term client demand and competitive investment performance.

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

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

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

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

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

### Questions and answers

### **Steve Elliott**

#### Wealth & Investment

#### Global head

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

For the UK business, the financial year has seen two major events which have been relevant to investors, being the UK's referendum on its membership of the European Union and the US presidential elections. The periods surrounding each of these events presented significant uncertainty for investors. Despite the expectations of most commentators, after some initial volatility and a notable decline in sterling. equity markets responded favourably to both the UK's decision to leave the EU and to the election of Donald Trump, with principal market indices having subsequently reached record highs. This has presented a favourable backdrop for most of the financial year, which has been beneficial for both our clients and the performance of the business

However, whilst the overall outcome of these events has so far been positive, our dedication to the individual needs of each of our clients remains as important as ever as we seek to ensure that we continue to provide the assurance and service our clients need to navigate through these periods of heightened uncertainty.

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

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

The continuing development of our digital channel, Click & Invest, has made good progress, with some important milestones in the development being achieved during the year. The final stages of development are now being undertaken as we prepare for the forthcoming launch of this new digital service.

The UK business has continued the process of rationalising its non-core operations. The business took the decision during the year to cease the provision of its Traded Options service, and this was fully completed during the financial year.

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

The most significant change to regulations that we have seen for some time will come into effect over the corning months in the form of MiFID II and new data protection requirements in the UK. Planning for the implementation of these substantial changes has, and continues to be, a significant theme for the business, with considerable IT development and other work being undertaken to accommodate the new requirements. These developments further reinforce the important role that our scale plays in our current and future success in the investment management industry.

While continuing to progress its financial planning offering and strengthen all aspects of the client engagement, Wealth & Investment Ireland has seen significant growth in the conversion of new and existing clients to discretionary management. The recognition of the wealth side of Investec Ireland has continued to expand with the opening of the office in Cork.

In terms of our Swiss operation, a full strategy review has been completed and this has identified an opportunity to consider Switzerland as a multi-jurisdiction platform.

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

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

Our focus on servicing the ever expanding global investment needs of our private clients and in navigating the complex landscape of asset allocation, goal-based investing, fiduciary and tax information, alternative investments and the financial plans to help

our clients achieve their financial plans, remains a key strategy for us.

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

The development of our digital capability will continue to be a principal strategic theme. The launch of Click & Invest is a key component of this, and achieving the successful delivery of this new service to the market will be a significant point of focus for the business. However, our digital development goes beyond the new Click & Invest service. We are committed to developing digital enhancements to our core investment management offering and make these available to those clients of the core business for whom they are suited.

The development and expansion of the UK business' financial planning capability remains an important part of our strategy and an aspect of our service that we continue to build as the complexity of the personal financial world continues to increase. We are also continuing to see growth in the use of our international service centres by those international clients who seek UK-based investment expertise.

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

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

We have seen some significant events over the last financial year and others remain on the horizon which have the potential to unsettle the markets, not least the detailed negotiations of the UK's exit from the EU. These continuing uncertainties present a challenge to investors, particularly in an environment where returns from traditionally lower-risk asset classes remain low. We are focused on maintaining the quality of our client service and possess the expertise and resources to navigate through the uncertainties that may lie ahead, whilst continuing to invest in our capabilities, digital and otherwise, to build for the future.

### Questions and answers

### David van der Walt and Ciaran Whelan

**Specialist Banking** 

Geographical business leaders

**United Kingdom** 

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

The year ended 31 March 2017 was marked by surprise outcomes in political events in the UK and abroad. Despite these surprise results and bouts of volatility, major global equity indices witnessed double digit gains, energy prices rebounded and deflationary concerns faded. Global growth remained below historic averages, but there were signs of a pickup in many key geographies. UK economic growth remained surprisingly resilient following June's referendum, despite the uncertainty over future trade arrangements with the EU, although as the financial year closed there were some signs of a slowing in UK economic activity.

In the main the above conditions proved to be a positive environment for our clients, and as a consequence for our business, with robust activity levels across the board.

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

The Specialist Bank recorded robust levels of activity with a very strong performance by the corporate business. The private banking business continued to invest in people and infrastructure to position itself for future growth.

The Corporate and Institutional banking business saw a strong performance from our flow trading businesses, coupled with good activity across our lending, aviation and advisory businesses. Deal flow has been very good and the impact of the Brexit vote has not been felt on activity levels as yet.

Flow trading was driven by the increased volatility in markets which saw more active hedging strategies from our clients. The investment banking and advisory business had a record year and the aviation business completed a number of significant transactions. Our continued focus on building our client base and reputation in our specialist activities is reaping rewards.

The Private Banking division continues building its UK franchise and developing its client base. The change in our target market to focus on high net worth and high income earners rather than more generally on professionals, continues to prove successful and enables us to focus more clearly.

The past year has seen a continuation of this strategy, especially with increased investment in the products, people and infrastructure required for long-term success. The structured property finance business continued to successfully support selected high net worth, seasoned property investors and developers.

Our Private Capital business which can simply be described as 'investment banking for individuals' was established during the year and has completed a few deals already. This validates our view that this is a complementary addition to the services we offer our selected client base.

Overall, we continue to make good progress in the development of our niched Private Banking offering. We have seen strong flow from our South African Private Banking clients, which again affirms the attraction of our multi-geographical approach.

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

We will continue to apply our strategy of building and developing our client franchises in the UK, with the primary focus on entrepreneurs, corporates and high net worth clients. We want to grow the client base, expand our funds and investment product business, and ensure ongoing high levels of service to existing clients across our offering.

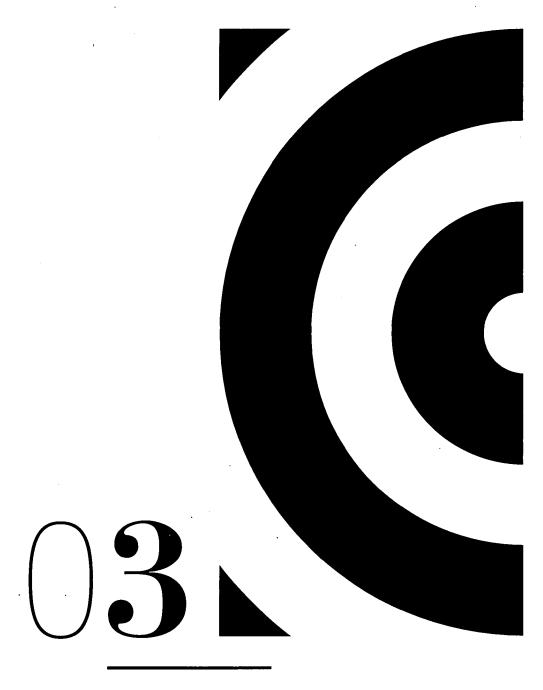
We are strengthening the infrastructure required to make sure our technology and digital offering matches the high standards of service we are targeting. We plan to complete the major investment we have made in the private banking infrastructure during the coming year which will then allow us to focus on client acquisition and retention.

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

The current global political uncertainty provides a difficult backdrop for both clients and markets, which to date have proven to be more resilient than expected. On the basis that this scenario continues we are cautiously optimistic that we can deliver another strong underlying performance.

We are anticipating a relatively large one off increase in costs that will not be matched in revenue. The costs relate to a new office move during the year and the completion of the private banking build out.

Our focus is, however, on our long term success and building scale in our business. We are measuring this by the growth in our client base and growth of recurring revenue as we build scale and are confident that in the medium term we will deliver the returns and growth on the investment.





Risk management and corporate governance

### Overview of disclosure requirements



Risk disclosures provided in line with the requirements of International Financial Reporting Standard 7 Financial Instruments: Disclosures (IFRS 7) and disclosures on capital required by International Accounting Standard 1 Presentation of Financial Statements (IAS 1) are included within this section of the annual report on pages 50 to 119 with further disclosures provided in the annual financial statements section on pages 179 to 260.

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

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

The risk disclosures comprise the majority of the bank's Pillar III disclosures as required under the Capital Requirements Regulation pertaining to banks in the UK.

### Statement from the chairman of the Investec DLC group risk and capital committee

### Philosophy and approach to risk management

The board risk and capital committee (comprising both executive and nonexecutive directors) meets six times per annum and approves the overall risk appetite for the Investec group. The group's risk appetite statement sets broad parameters relating to the board's expectations around performance, business stability and risk management. The board ensures that there are appropriate resources to manage the risk arising from running our businesses.

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

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

Group Risk Management monitors, manages and reports on our risks to ensure that they are within the stated risk appetite mandated by the board of directors through the board risk and capital committee.

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. There are specialist divisions in the UK and smaller risk divisions in other regions tasked with promoting sound risk management practices.

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 the group's strategy and allow the group to operate within its risk appetite tolerance as set out on page 51.

This section of our annual report, explains in detail our approach to managing our business within our risk appetite tolerance, across all principal aspects of risk.

# Group Risk Management objectives are to:

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

### Risk management

(continued)

### A summary of the year in review from a risk perspective

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

Although the operating environment continues to present challenges, the group was able to maintain sound asset performance and sound risk metrics throughout the year in review. The group remained within its risk appetite limits/targets across the various risk disciplines, with only a few exceptions that were noted and approved by the board. Our risk appetite framework as set out on page 51 continues to be assessed in light of prevailing market conditions and group strategy.

In the year under review, the UK voted to leave the European Union. So far the UK economy has remained resilient, reflected in the levels of client activity we continue to see. We have benefited from increased customer flow transactions on the back of currency hedging activity in response to fluctuations in the Pound. We are closely monitoring political developments and considering any changes we may need to make to adapt to the new legal and regulatory landscape that emerges.

Investec Bank plc, the group's banking subsidiary in the UK, has a long-term rating of A2 (stable outlook) from Moody's and BBB (stable outlook) from Fitch. In April 2016, Investec plc's long-term issuer rating was upgraded one notch to Baa1 (stable outlook) from Baa2.

Our core loan book growth over the year was 10.5%. On a currency neutral basis, excluding the sharp depreciation of the Pound following the Brexit referendum, growth in the book was approximately 6.6%. Growth in our book has been diversified across our residential owner-occupied mortgage portfolio, private client and corporate client lending portfolios, with loan to values at conservative levels and gross asset margins broadly in line with the prior year.

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.

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. Our core loan book remains well diversified with commercial rent producing property loans comprising approximately 11% of the book, other lending collateralised by property 12%, high net worth and private client lending 18% and corporate lending 59% (with most industry concentrations well below 5%).

Overall net defaults continue to reduce and are at a much lower level, amounting to 9.1% of our tier 1 equity. The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounted to 1.55% (2016: 2.19%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.44 times (2016: 1.19 times).

The asset quality trends continue to reflect the solid performance of the book. Gross defaults, predominantly relating to legacy exposures, decreased to £260 million from £314 million at 31 March 2016. Impairments on our legacy portfolio continue to reduce from £68 million to £54 million with the credit loss ratio improving to 0.90%. Impairments on our core 'ongoing' book remain low and makeup only 0.27% (£21 million) of the credit loss ratio.

Our legacy portfolio has been actively reduced from £583 million at 31 March 2016 to £476 million largely through asset sales, redemptions and write-offs. Non-performing exposures are significantly impaired and total net defaults in the legacy book amount to £125 million.

The remaining legacy portfolio will continue to be managed down, although given the uncertainty in the UK, this could take longer than management's original expectation of two to four years.

Our investment portfolio has delivered a sound performance. Overall, we remain comfortable with the performance of our equity investment portfolios which comprise 3.31% of total assets.

Market risk within our trading portfolio remains modest with value at risk and stress testing scenarios remaining at prudent levels. Proprietary risk is limited. 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 approximately 0.1% of total operating income.

We continue to spend much time and effort focusing on operational, reputational, conduct, recovery and resolution risks. Current priorities include the link between remuneration and conduct, as well as how we measure risk culture and the risk assessment process from a conduct perspective.

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

We have continued to maintain a sound gearing ratio of 9.2 times and a core loans to equity ratio of 4.2 times. Our current leverage ratio is 7.5%.

We have always held capital in excess of regulatory requirements and we intend to perpetuate this philosophy. Investec plc's common equity tier 1 ratio improved to 10.9% at 31 March 2017 (31 March 2016: 9.3%). Capital continued to grow and we are comfortable that credit growth is in line with our risk appetite framework and supported by sound risk metrics. We believe that a common equity tier 1 ratio in excess of 10% is appropriate for our businesses, given our sound leverage ratios and we will continue to build our business in a manner that achieves this target.

In December 2016, the Bank of England (BoE) set the preferred resolution strategy for Investec Bank plc as the bank insolvency (special administration) procedure under the Investment Bank

(continued)

Special Administration Regulations 2011 – otherwise known as 'modified insolvency'. As the resolution strategy is 'modified insolvency', the BoE has therefore set Investec Bank plc's MREL requirement as equal to its regulatory capital requirements.

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 £5.0 billion at year end, representing 45.6% of customer deposits.

We conservatively increased our liquidity levels ahead of the Brexit referendum in June 2016, and during the second half of the year we managed this down through a combination of asset growth and liability management to achieve largely normalised balance sheet liquidity levels by 31 March 2017. Our weighted average cost of funding over the year continued to reduce. As explained in detail on page 95, the LCR reported to the PRA at 31 March 2017 was 654% for Invested plc and 616% for Investec Bank plc (solo basis). Based on our own interpretations and in line with the · BCBS' final recommendations (BCBS 295). Investec plc and Investec Bank plc (solo basis) comfortably exceeds the 100% minimum level for the NSFR.

Investec's stress testing framework is well embedded in its operations and is designed to identify and regularly test the group'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 Investecspecific 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 Invested 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.

During the year, a number of new stress scenarios were considered and incorporated into our processes. These included, for example, the impact of a global trade war resulting from political shifts in advanced economies towards protectionist policies; and a potential Brexit downside case.

The board, through its various risk and capital committees, continued to assess the impact of its principal risks and the abovementioned stress scenarios on its business. The board has concluded that the group has robust systems and processes in place to manage these risks, and that while under a severe stress scenario, business activity would be very subdued, the group would continue to maintain adequate liquidity and capital balances to support the continued operation of the group. Our viability statement is provided on pages 159 to 160.

#### Conclusion

The current regulatory, political and economic environment continues to provide new challenges to our business, however, we are comfortable that we have robust risk management processes and systems in place which provide a strong foundation to the board and the business to manage and mitigate risks within our risk appetite tolerance framework.

Signed on behalf of the board

Stephen Koseff

Chairman of the DLC group risk and capital committee

14 June 2017



(continued)

### **Salient features**

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

Year to 31 March	2017	2016
Net core loans and advances (£'million)	8 621	7 804
Total assets (£'million)	18 789	18 757
Total risk-weighted assets (£'million)	13 312	12 297
Total equity (£'million)	2 032	1 881
Cash and near cash (£'million)	5 026	5 082
Customer accounts (deposits) (£'million)	11 022	10 809
Gross defaults as a % of gross core loans and advances	2.98%	3.95%
Defaults (net of impairments) as a % of net core loans and advances	1.55%	2.19%
Net defaults (after collateral and impairments) as a % of net core loans and advances	- 1	-
Credit loss ratio <sup>⋆</sup>	0.90%	1.13%
Banking book investment and equity risk exposures as a % of total assets	3.31%	3.56%
Level 3 (fair value assets) as a % of total assets	3.65%	3.63%
Traded market risk: one day value at risk (£'million)	0.5	0.5
Core loans to equity ratio	4.2x	4.1x
Total gearing ratio**	9.2x	10.0x
Loans and advances to customers to customer deposits	78.2%	72.2%
Capital adequacy ratio <sup>o</sup>	14.6%	14.7%
Tier 1 ratio <sup>o</sup>	11.1%	· 10.3%
Common equity tier 1 ratio <sup>o</sup>	10.9%	9.3%
Leverage ratio <sup>o</sup>	7.5%	6.7%
Return on average assets*	0.92%	0.71%
Return on average risk-weighted assets*	1.36%	1.10%

Income statement impairment charge on core loans as a percentage of average advances.

Total assets to total equity.

Where return represents operating profit after taxation and non-controlling interests and after deducting preference dividends, but before goodwill, acquired intangibles and non-operating items. Average balances are calculated on a straight-line average. Takes into account the deduction of foreseeable dividends as discussed on page 113.

### Risk management

(continued)

### 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, board risk and capital committee and the board.

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

### Risk appetite and tolerance metrics

#### Investec plc positioning at 31 March 2017

- We seek to maintain an appropriate balance between revenue earned from capital light and capital intensive activities. Ideally the split in revenue should be 50:50, dependent on prevailing market conditions
- We have a solid recurring income base supported by diversified revenue streams, and target a recurring income ratio in excess of 65%
- We seek to maintain strict control over fixed costs and target a group cost to income ratio of below 70%
- We are a lowly leveraged firm and target a leverage ratio in all our banking subsidiaries in excess of 6%
- 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 we target a minimum tier 1 ratio of 11.0% and a common equity tier 1 ratio above 10.0%
- 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 7.5% of common equity 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
- There is a preference for primary exposure in Investec plc's main operating geography (i.e. the UK). The group 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
- We target a credit loss charge on core loans of less than 0.5% of average core advances (less than 1.75% under a weak economic environment/ stressed scenario), and we target defaults net of impairments less than 2.0% of net core loans (less than 4.0% under a weak economic environment/ stressed scenario)
- 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%
- 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 £5 million
- We have moderate appetite for investment risk, and set a risk tolerance of less than 30.0% of tier 1 capital for our unlisted principal investment portfolio
- Our operational risk management team focuses on improving business performance and compliance with regulatory requirements through review, challenge and escalation. We have heightened focus on financial and cybercrime.
- We have a number of policies and practices in place to mitigate reputational, legal and conduct risks

Capital light activities contributed 63% to total operating income and capital intensive activities contributed 37%

Recurring income amounted to 66.6% of total operating income.

The cost to income ratio amounted to 77.0%.

We achieved this internal target; refer to page 116 for further information

We meet these targets; Our total capital adequacy ratio was 14.6% and our common equity tier 1 ratio improved to 10.9%, refer to page 116 for further information

We maintained this risk tolerance level in place throughout the year

Refer to page 54 for further information

The credit loss charge on core loans amounted to 0.90% (of which only 0.27% relates to the ongoing book) and defaults net of impairments amounted to 1.55% of total core loans (0.11% for the ongoing book). Refer to page 69 for further information Total cash and near cash balances amounted to

£5.0 billion representing 45.6% of customer deposits. Refer to page 92 for further information

We meet these internal limits; refer to page 86 for further information

Our unlisted investment portfolio amounted to £383 million representing 26.0% of tier 1 capital. Refer to page 81 for further information

Refer to pages 99 to 102 for further information

Refer to pages 102 and 103 for further information

(continued)

### An overview of our principal risks

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



These principal risks have been highlighted on pages 22 to 29.

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, as shown in the diagram below. These committees and forums operate together with Group Risk Management and are mandated by the board. Our governance framework is highlighted below.

### Investec plc and Investec Limited board of directors

#### **DLC Audit** Committees

Oversight of the group's financial reporting, risk management, external and internal audit

#### DLC **Nominations** and Directors' **Affairs** Committee

**Ensures that** the board and the governance structure of the good corporate governance

#### **DLC Board Risk** and Capital Committee

Determines categories of risk, specific risk and the extent of such risks which the group basis, and its banks on a solo basis, should undertake

#### **DLC Social and Ethics** Committee

Monitors the group's activities with regard to social and economic development, good corporate citizenship, talent retention and attraction

#### DLC Remuneration Committee

Sets the remuneration philosophy of the group and ensures that remuneration is awarded in accordance thereof

#### Chief executive officer and managing director

Mandated to manage the group, except over those matters reserved by the board in the Board Charter or delegated to the DLC Committees

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

Compliance

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

ALCO	Asset and liability committee	FCA	Financial Conduct Authority
BCBS	Basel committee of Banking Supervision	FSB	Financial Services Board
BIS	Bank for International Settlements	GRCC	Group risk and capital committee
BoE	Bank of England	PACC	Prudential Audit and Conduct committee
BRCC	Board risk and capital committee	Policy ERRF	Policy executive risk review forum
EBA	European Banking Authority	PRA	Prudential Regulation Authority
ECB	European Central Bank	Review ERRF	Review executive risk review forum

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### Risk management

(continued)

### Credit and counterparty risk management

### Credit and counterparty risk description



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

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

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

The relevant credit committees within Investec will also consider wrong-way risk at the time of granting credit limits to each counterparty. In the banking book environment, wrong-way risk occurs where the value of collateral to secure a transaction, or guarantor, is positively correlated with the probability of default of the borrower or counterparty. For counterparty credit risk resulting from transactions in traded products (such as

OTC derivatives), wrong-way risk is defined as exposure to a counterparty that is adversely correlated with the credit quality of that counterparty. It arises when default risk and credit exposure increase together.

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

### Credit and counterparty risk governance structure



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

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

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

### Credit and counterparty risk appetite

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

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

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



We have little appetite for unsecured debt and require good quality collateral in support of obligations (refer to page 78 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.

### Risk management

(continued)

Our assessment of our clients includes consideration of their character and integrity, core competencies, track record and financial strength Interbank lending is largely reserved for those banks and institutions in the group's core geographies of activity which are systemic and highly rated. Direct exposures to cyclical industries and start-up ventures are generally avoided.

#### Concentration risk

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

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

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

#### **Country risk**

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

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

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

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

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

### Corporate responsibility considerations



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

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



Refer to our corporate responsibility report on our website.

03

(continued)

### 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.

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

Pilliar III disclosure, exposures are classified according to the Basel asset classes which include sovereign, bank, corporate, retail, equity, securitisation and specialised lending (which is further categorised into project finance; commodities finance; high volatility commercial real estate; and income-producing commercial real estate).

Fitch, S&P and Moody's 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, Fitch, Moody's and S&P have been selected by Investec as eligible FCAIs
- In relation to banks, corporates and debt securities, Fitch, 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, in the respective geographies in which the group operates.

### Stress testing and portfolio management

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

A fundamental part of the stress testing process is a full and comprehensive analysis of all the bank's material business activities, incorporating views from Risk, the Business and the Executive – a process called the 'bottom-up' analysis. Out of the 'bottom-up' analysis the

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

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

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

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

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

### Credit and counterparty risk – nature of activities

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

#### Lending collateralised by property

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

### Risk management

(continued)

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 75 to 76.

#### Private client activities

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

Lending products are tailored to meet the requirements of our clients. Central to our credit philosophy is ensuring the sustainability of cash flow and income throughout the cycle. As such, the client base has been defined to include high net worth clients (who, through diversification of income streams, will reduce income volatility) and individuals with a profession which has historically supported a high and sustainable income stream irrespective of the stage in the economic cycle.

Credit risk arises from the following

- 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 highincome professionals and high net worth individuals tailored to their individual needs
- Specialised lending provides tailored credit facilities to high net worth individuals and their controlled entities
- Portfolio lending provides loans to high net worth clients against their investment portfolio, typically managed by Investec Wealth & Investment.



An analysis of the private client loan portfolio and asset quality information is provided on pages 75 to 76.

#### 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, assetbased lending, fund finance and resource finance. We also undertake debt origination activities for corporate clients.

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

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

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

- Corporate loans: provides senior secured loans to mid-to-large cap companies. Credit risk is assessed against debt serviceability based upon robust cash generation of the business based on both historical and forecast information. We typically act as transaction lead or arranger, and have a close relationship with management and sponsors
- Corporate debt securities:
   these are tradable corporate debt instruments, based on acceptable credit fundamentals typically with a medium-term hold strategy where the underlying risk is to UK and European corporates. This is a highly diversified, granular portfolio that is robust, and spread across a variety of geographies and industries
- Acquisition finance: provides debt funding to proven management teams and sponsors, running small to mid-cap

- sized companies. Credit risk is assessed against debt serviceability based upon robust cash generation of the business based on both historical and forecast information. This will be based on historic and forecast information. We typically lend on a bilateral basis and benefit from a close relationship with management and sponsors
- Asset based lending: provides working capital and secured corporate loans to mid-caps. These loans are secured by the assets of the business, for example, the accounts receivable, inventory and, plant and machinery. In common with our corporate lending activities, strong emphasis is placed on supporting companies with scale and relevance in their industry, stability of cash flow, and experienced management
- Fund finance: provides debt facilities to asset managers and fund vehicles, principally in private equity. The geographical focus is the UK, Western Europe, North America and Australia where Investec can support experienced asset managers and their funds which show strong, long-term value creation and good custodianship of investors' money. Debt facilities to fund vehicles are secured against undrawn limited partner commitments and/or the funds underlying assets. Fund manager loans are structured against committed fund management cash flows, the managers' investment stake in their own funds and when required managers' personal guarantees
- Small ticket asset finance: provides funding to small and medium-sized corporates to support asset purchases and other business requirements.

  The portfolio is highly diversified by industry and number of clients and is secured against the asset being financed and is a direct obligation of the company
- Large ticket asset finance: provides the finance and structuring expertise for aircraft and larger lease assets, the majority of which are senior secured loans with a combination of corporate, cash flow and asset-backed collateral against the exposure
- Power and infrastructure Finance: arranges and provides typically long-term financing for infrastructure assets, in particular renewable and traditional power projects as well as transportation assets, against contracted future cash flows of the

(continued)

project(s) from well established and financially sound off-take counterparties. There is a requirement for a strong upfront equity contribution from an experienced sponsor

- Resource finance: debt arranging and underwriting together with structured hedging solutions mainly within the mining sectors. The underlying commodities are mainly precious and base metals and coal. Our clients in this sector are established mining companies which are typically domiciled and publicly listed in one of the following geographies - the UK, North America and Australia as well as other countries where we are facilitating a transaction for a client who requires facilities in a foreign geography. All facilities are secured by the borrower's assets and repaid from mining cash flows
- Structured credit: these are bonds secured against a pool of assets, mainly UK residential mortgages or European or US corporate leverage loans. The bonds are typically investment grade rated, which benefit from a high-level of credit subordination and can withstand a significant level of portfolio defaults
- Treasury placements: the treasury function, as part of the daily management of the bank's liquidity, places funds with central banks and other commercial banks and financial institutions. These transactions are typically short term (less than one month) money market placements or secured repurchase agreements. These market counterparties are mainly investment grade rated entities that occupy dominant and systemic positions in their domestic banking markets and internationally. These counterparties are located in the UK, Western Europe, North America and Australia
- Corporate advisory and investment banking activities: counterparty risk in this area is modest. The business also trades approved shares on an approved basis and makes markets in shares where we are appointed corporate broker under pre-agreed market risk limits. Settlement trades are largely on a delivery versus payment basis, through major stock exchanges. Credit risk only occurs in the event of counterparty failure and would be linked to any fair value losses on the underlying security

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



An analysis of the corporate client loan portfolio and asset quality information is provided on pages 75 to 76.

#### Wealth & Investment

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

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

### Asset Management

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

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



(continued)

### Asset quality analysis – credit risk classification and provisioning policy



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

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

(continued)

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



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

### Risk management

(continued)

Investec has limited appetite for unsecured debt, preferring to mitigate risk through good quality tangible collateral

### Credit risk mitigation



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

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



An analysis of collateral is provided on page 78.

Where a transaction is supported by a mortgage or charge over property, the primary credit risk is still taken on the borrower. For property backed lending such as residential mortgages, the following characteristics of the property are considered: the type of property; its location; and the ease with which the property could be re-let and/or resold. Where the property is secured by lease agreements, the credit committee prefers not to lend for a term beyond the maximum term of the lease. Commercial real estate generally takes the form of good quality property often underpinned by strong third party leases. Residential property is also generally of a high quality and based in desirable locations. Residential and commercial property valuations will continue to form part of our ongoing focus on collateral assessment. It is our policy to obtain a formal valuation of every commercial property offered as collateral for a lending facility before advancing funds. Residential properties are valued by desktop valuation and/or approved valuers, where appropriate.

In addition, the relevant credit committee normally requires a suretyship or guarantee in support of a transaction in our private client business. Other common forms of collateral in the retail asset class are motor vehicles, cash and share portfolios. Primary collateral in private client lending transactions can also include a high net worth individual's share/investment portfolio. This is typically in the form of a diversified pool of equity, fixed income, managed funds and cash. Often these portfolios are managed by Investec Wealth & Investment. Lending against investment portfolios is typically geared at conservative loan-to-value ratios after considering the quality, diversification, risk profile and liquidity of the portfolio.

Our corporate, government and institutional clients provide a range of collateral including cash, corporate assets, debtors (accounts receivable), trading stock, debt securities (bonds), listed and unlisted shares and guarantees.

The majority of credit mitigation techniques linked to trading activity is in the form of netting agreements and daily margining. The primary market standard legal documents that govern this include the International Swaps and Derivatives Association Master Agreements (ISDA), Global Master Securities Lending Agreement (GMSLA) and Global Master Repurchase Agreement (GMRA). In addition to having ISDA documentation in place with market and trading counterparties in over-the-counter (OTC) derivatives, a Credit Support Annex (CSA) ensures that markto-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

### Risk management

(continued)

- 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. Periodically the bank will enter into Credit Default Swaps (CDS) in order to hedge a specific asset held or to create a more general or macro hedge against a group of exposures in one industry or geography. In these instances, the bank is deemed to be 'buying protection' against the assets. Depending on the perceived risk, or 'spread', of the underlying exposure, the CDS will fluctuate in value; increasing in value when the asset has become more risky and decreasing when risk has reduced. Occasionally, the bank will enter into trading/investment CDS positions where we buy protection or sell protection without owning the underlying asset. The total amount of net credit derivatives outstanding at 31 March 2017 amounts to £1.6 million, of which all is used for credit mitigation purposes. Total protection bought amounts to £5.9 million and total protection sold amounts to £4.3 million relating to credit derivatives used in credit mitigation.



Further information on credit derivatives is provided on page 88.

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

For regulatory reporting purposes, exposures may be reduced by eligible collateral. Under the standardised approach credit risk mitigation can be achieved through either funded or unfunded credit protection. Where unfunded credit protection is relied upon for mitigation purposes, the exposure to the borrower is substituted with an exposure to the protection provider, after applying a

'haircut' to the value of the collateral due to currency and/or maturity mismatches between the original exposure and the collateral provided. Unfunded credit protection includes eligible guarantees and credit derivatives. Where we rely on funded protection in the form of financial collateral, the value of collateral is adjusted using the financial collateral comprehensive method. This method applies supervisory volatility adjustments to the value of the collateral, and includes the currency and maturity haircuts discussed above.



Refer to the credit quality step table disclosed on page 119 for a breakdown of regulatory exposure values before and after credit risk mitigation has been applied.

#### **Forbearance**

Forbearance measures refer to concessions such as modification of the terms and conditions or refinancing that has been granted to a debtor in financial difficulties. These modifications are on terms that would be more advantageous compared with what other debtors with a similar risk profile could have obtained from the bank. The credit committee will assess each application to determine whether the proposed modifications will be considered as forbearance. Forbearance is distinguished from commercial renegotiations which take place as part of normal business activity and standard banking practice. The amount of exposures forborne represents 1.9% of the total gross credit and counterparty exposures (March 2016: 0.9%).

### Credit and counterparty risk year in review

Underlying core assets continue to perform well. Net core loans and advances increased by 10.5% to £8.6 billion at 31 March 2017 from £7.8 billion at 31 March 2016, driven mainly by our strategy to support corporate and private client lending activities. On a currency neutral basis, net core loans grew approximately 6.6%. Corporate client and other lending increased by 20.6% (14.7% on a currency neutral basis) from £4.3 billion at 31 March 2016 to £5.2 billion at 31 March 2017. Growth has been well diversified across all asset classes. We continue to remain clientfocused in our approach, with good quality corporates exhibiting strong cash flows and balance sheets.

High net worth and other private client lending increased by 9.6% year on year, driven by growth in the existing high net worth mortgage book as well as portfolio lending as the bank continues to focus on its holistic private client offering.

Lending collateralised by property has reduced by 8.9% from £2.1 billion at 31 March 2016 to £1.9 billion at 31 March 2017 and continues to reduce as a proportion of our total loan exposures in line with our risk appetite statement. The bulk of property collateralised assets are located in the UK. Underwriting criteria remains conservative and we are committed to following a client-centric approach to lending, only supporting counterparties with strong balance sheets and requisite expertise.

The asset quality trends continue to reflect the quality of the underlying book. The credit loss ratio on an ongoing basis is 0.27% at 31 March 2017. Gross defaults, predominantly relating to Legacy exposures, decreased by 17.1% to £260.3 million at 31 March 2017 from £313.9 million at 31 March 2016. Default loans (net of impairments) have decreased to £133.5 million or 1.55% as a percentage of core loans and advances, down from 2.19% at 31 March 2016. The credit loss ratio is at 0.90% down from 1.13% in 2016. Furthermore, the bulk of impairments to date have arisen from Legacy activities, which continue to show a downward trend. Impairments on our core 'ongoing' UK and Other book remain low and make up only 0.27% (£21 million) of the credit loss ratio.

Recognising the current market conditions, we have taken advantage of opportunities to further reduce the Legacy portfolio. Legacy exposures have reduced by 18.3% to £476 million (net of impairments) or 5.5% of total core loan exposures at 31 March 2017 (2016: 7.5%). Nonperforming exposures are significantly impaired and total net defaults in the legacy book amount to £125 million. We are highly focused on reducing legacy assets and expect to reduce the Legacy portfolio significantly by March 2019.



(continued)

### Credit and counterparty risk information



Pages 50 to 62 describe where and how credit risk is assumed in our operations.

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

### An analysis of gross credit and counterparty exposures

Gross credit and counterparty exposures increased by 3.3% to £17.6 billion since 31 March 2016, largely due to growth in loans and advances to customers and currency related impacts due to depreciation of the Pound over the period. Cash and near cash balances amount to £5.0 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 and sovereign debt securities.



### £'000

At 31 March	2017	2016	% change	Average*
Cash and balances at central banks	2 850 664	2 636 837	8.1%	2 743 751
Loans and advances to banks	1 130 998	1 112 441	1.7%	1 121 720
Reverse repurchase agreements and cash collateral on securities				
borrowed	536 173	557 025	(3.7%)	546 599
Sovereign debt securities	952 902	1 252 991	(23.9%)	1 102 947
Bank debt securities	184 626	188 397	(2.0%)	186 512
Other debt securities	398 278	393 652	1.2%	395 965
Derivative financial instruments	554 710	572 324	(3.1%)	563 517
Securities arising from trading activities	331 705	393 964	(15.8%)	362 835
Loans and advances to customers (gross)	8 747 618	7 946 793	10.1%	8 347 206
Other loans and advances (gross)	343 090	331 617	3.5%	337 354
Other securitised assets (gross)	12 851	11 341	13.3%	12 096
Other assets	49 894	397 409	(87.4%)	223 652
Total on-balance sheet exposures	16 093 509	15 794 791	1.9%	15 944 150
Guarantees ^	27 204	68 938	(60.5%)	48 071
Contingent liabilities, committed facilities and other	1 524 436	1 209 486	26.0%	1 366 961
Total off-balance sheet exposures	1 551 640	1 278 424	21.4%	1 415 032
Total gross credit and counterparty exposures pre-collateral or	i			
other credit enhancements	17 645 149	17 073 215	3.3%	17 359 182

Where the average is based on a straight-line average.

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

(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.

£'000	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note refer- ence	Total balance sheet
At 31 March 2017	_			_
Cash and balances at central banks	2 850 664	2 907		2 853 571
Loans and advances to banks	1 130 998	_		1 130 998
Reverse repurchase agreements and cash collateral on securities borrowed	536 173	_		536 173
Sovereign debt securities	952 902	-		952 902
Bank debt securities	184 626	-		184 626
Other debt securities	398 278	_		398 278
Derivative financial instruments	554 710	49 465		604 175
Securities arising from trading activities	331 705	191 055		522 760
Investment portfolio	-	459 745	1 1	459 745
Loans and advances to customers	8 747 618	(126 876)	2	8 620 742
Other loans and advances	343 090	70 340		413 430
Other securitised assets	12 851	125 777	3	138 628
Interest in associated undertakings	-	63 390		63 390
Deferred taxation assets	-	89 941		89 941
Other assets	49 894	1 226 238	4	1 276 132
Property and equipment	-	60 528		60 528
Investment properties	-	14 500		14 500
Goodwill	- '	355 155		355 155
Intangible assets	-	112 943		112 943
Total on-balance sheet exposures	16 093 509	2 695 108		18 788 617

- 1. Relates to exposures that are classified as investment risk in the banking book.
- Largely relates to impairments.
- 3. While the group manages all risks (including credit risk) from a day-to-day operational perspective, certain of these assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicles that the group has reflected in the 'total credit and counterparty exposure' with the maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'.
- Other assets include settlement debtors less than 2 days which we deem to have no credit risk exposure as they are settled on a delivery against
  payment basis.



(continued)

### A further analysis of our on-balance sheet credit and counterparty exposures (continued)

£'000	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note refer- ence	Total balance sheet
At 31 March 2016				
Cash and balances at central banks	2 636 837	1 232		2 638 069
Loans and advances to banks	1 112 441	<del>-</del>		1 112 441
Reverse repurchase agreements and cash collateral on securities borrowed	557 025	-		557 025
Sovereign debt securities	1 252 991	_		1 252 991
Bank debt securities	188 397	_		188 397
Other debt securities	393 652	_		393 652
Derivative financial instruments	572 324	265 234		837 558
Securities arising from trading activities	393 964	130 380		524 344
Investment portfolio	-	451 000	1 1	451 000
Loans and advances to customers	7 946 793	(143 191)	2	7 803 602
Other loans and advances .	331 617	85 588		417 205
Other securitised assets	11 341	139 224	3	150 565
Interest in associated undertakings	<del>-</del> .	23 587		23 587
Deferred taxation assets	-	85 050		85 050
Other assets	397 409	1 307 794	4	1 705 203
Property and equipment	-	56 374		56 374
Investment properties	-	79 051		79 051
Goodwill	-	356 994		356 994
Intangible assets	-	123 480		123 480
Total on-balance sheet exposures	15 794 791	2 961 797		18 756 588

<sup>1.</sup> Relates to exposures that are classified as investment risk in the banking book.

Largely relates to impairments.

<sup>3.</sup> While the group manages all risks (including credit risk) from a day-to-day operational perspective, certain of these assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicles that the group has reflected in the 'total credit and counterparty exposure' with the maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'.

<sup>4.</sup> Other assets include settlement debtors less than 2 days which we deem to have no credit risk exposure as they are settled on a delivery against payment basis.

(continued)

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

£'000	Up to three months	Three to six months	Six months to one year	One to five years	Five to 10 years	> 10 years	Total
Cash and balances at central banks	2 850 664	_	-	1	1	-	2 850 664
Loans and advances to banks	1 125 420	5 561	-	17	_	-	1 130 998
Reverse repurchase agreements and							
cash collateral on securities borrowed	336 157	200 016	u —	-	_	-	536 173
Sovereign debt securities	693 684	120 392	-	-	-	138 826	952 902
Bank debt securities	47	28 069	132	156 378	_	-	184 626
Other debt securities	48 031	869	3 146	79 065	48 351	218 816	398 278
Derivative financial instruments	85 343	36 624	38 205	104 783	146 123	143 632	554 710
Securities arising from trading activities	8 765	871	16 279	74 886	61 980	168 924	331 705
Loans and advances to customers (gross)	1 453 600	719 907	1 174 776	3 994 286	1 020 348	384 701	8 747 618
Other loans and advances (gross)	2 542	2 608	814	5 003	60 929	271 194	343 090
Other securitised assets (gross)		_	_	_	_	12 851	12 851
Other assets	49 894	_	-	-	-	_	49 894
Total on-balance sheet exposures	6 654 147	1 114 917	1 233 352	4 414 418	1 337 731	1 338 944	16 093 509
Guarantees^	. 7611	2 562	2 155	12 314	2 562	-	. 27 204
Contingent liabilities, committed facilities							
and other	221 042	214 672	160 880	716 867	163 689	47 286	1 524 436
Total off-balance sheet exposures	228 653	217 234	163 035	729 181	166 251	47 286	1 551 640
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	6 882 800	1 332 151	1 396 387	5 143 599	1 503 982	1 386 230	17 645 149

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



(continued)

### Detailed analysis of gross credit and counterparty exposures by industry

	·	Lending	•	•				
	High net worth and professional	collateralised by property - largely to private		Electricity, gas and water (utility	Public and non- business	Business	Finance and	
£'000	individuals	•	Agriculture	services)	services	services	insurance	
At 31 March 2017								
Cash and balances at central banks	-	-	-	-	2 850 664	-	-	
Loans and advances to banks	-	-	-	-	_	-	1 130 998	
Reverse repurchase agreements and cash							500 470	l
collateral on securities borrowed	-	-	-	-	-	_	536 173	
Sovereign debt securities	_	_	_	-	952 902	_	104.000	
Bank debt securities	_	\	<u>-</u>	40.007	- 1		184 626	
Other debt securities	-	-	-	48 297	5 832	551	128 797	
Derivative financial instruments	13 629	-	156	75 743	17	15 041	359 915	
Securities arising from trading activities	-	-	5.500	26 280	132 415	404.050	154 676	
Loans and advances to customers (gross)	1 598 801	1 963 754	5 539	487 089	149 220	431 659	1 321 630	
Other loans and advances (gross)	_	-	_	-		-	118 507	
Other securitised assets (gross)	_	-	-	-	-	-	-	
Other assets	-	\ <del></del>					47 671	
Total on-balance sheet exposures	1 612 430	1 963 754	5 695	637 409	4 091 050	447 251	3 982 993	
Guarantees^	17 652	153	-	_	-	-	-	
Contingent liabilities, committed facilities	107 775	004.450		444 400	40.000	00.015	074.070	
and other	137 775	224 153	- '	411 106	40 922	62 215	274 279	
Total off-balance sheet exposures	155 427	224 306	-	411 106	40 922	62 215	274 279	
Total gross credit and counterparty exposures pre-collateral								
or other credit enhancements	1 767 857	2 188 060	5 695	1 048 515	4 131 972	509 466	4 257 272	
At 31 March 2016								
Cash and balances at central banks	-	-		-	2 636 837	_	_	
Loans and advances to banks	-	-	-	_	_	-	1 112 441	
Reverse repurchase agreements and cash collateral on securities borrowed	_	_	_	_	_	-	557 025	
Sovereign debt securities	_	-		-	1 252 991	-	_	
Bank debt securities	_	-	- 1	-	_	-	188 397	
Other debt securities	_	-	_	36 787	6 429	3 382	101 474	
Derivative financial instruments	53	-	53	45 174	19 947	63 632	317 338	
Securities arising from trading activities	_	l -	_	24 606	198 181	-	156 639	
Loans and advances to customers (gross)	1 458 552	2 179 999	3 234	440 728	134 917	415 673	971 773	
Other loans and advances (gross)	_	_	-	_			130 952	
Other securitised assets (gross)	_	-	_	_	-	-	-	
Other assets	_	_	-	_	_	_	397 409	ļ ,
Total on-balance sheet exposures	1 458 605	2 179 999	3 287	547 295	4 249 302	482 687	3 933 448	
Guarantees^	36 494	_		_	_ ,	_	30 155	
Contingent liabilities, committed facilities								
and other	109 481	245 020	_	233 600	6 036	35 213	240 355	
Total off-balance sheet exposures	145 975	245 020	-	233 600	6 036	35 213	270 510	
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	1 604 580	2 425 019	3 287	780 895	4 255 338	517 900	4 203 958	
		20 0.0				2000	55 556	L

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

Leisure,

(continued)

	Retailers	Manufac-		commercial	Other	Mining	entertain-			
	and	turing and	Construc-		residential	and	ment and	_	Communi-	
	wholesalers	commerce	tion	estate	mortgages	resources	tourism	Transport	cation	Total
	_	_	_	_	-	_	-	_	-	2 850 664
	_	_	_	_	-	_	-	_	_	1 130 998
	i									
	-	-	-	-	-	-	-	-	-	536 173
	-	-	-	-	- '	-	-	-	-	952 902
	-	-	_	-	-	-	-	-	-	184 626
	195	45 106	-	-	74 338	42 694	2 775	43 434	6 259	398 278
	16 018	46 042	527	2 365	-	7 192	4 630	11 759	1 676	554 710
	39	1 771	-	-	2 892	-	-	3 037	10 595	331 705
	414 629	637 182	52 833	100 941	-	120 544	291 573	989 328	182 896	8 747 618
	-	-	-	48	224 535	-	-	_	_	343 090
	-	-	_	-	12 851	-	-	-	-	12 851
	-	2 223	-	-	-	-	-		-	49 894
:	430 881	732 324	53 360	103 354	314 616	170 430	298 978	1 047 558	201 426	16 093 509
	-	-	_	-	-	9 193	-	-	206	27 204
	87 788	64 985	_	6 296	_	125 662	19 998	51 949	17 308	1 524 436
	87 788	64 985	_	6 296	_	134 855	19 998	51 949	17 514	1 551 640
	000	0.000								
	518 669	797 309	53 360	109 650	314 616	305 285	318 976	1 099 507	218 940	17 645 149
								i		
	-	-	-	-	-	-	-	-	· <b>-</b>	2 636 837
	-	-	_	-	-	-	-	-	-	1 112 441
				}						557 025
	-	_	_	_	_	_	_	_	_	1 252 991
	_	_	_	_	_	_	_	_		188 397
	_	29 581	_	_	106 246	65 939	4 017	26 914	12 883	393 652
	26 033	49 147	1 803	1 489	-	9 474	16 424	18 682	3 075	572 324
	35	1 738	-	781	_	_	1 093	2	10 889	393 964
	398 288	497 214	41 049	115 241	_	139 621	227 573	762 899	160 032	7 946 793
	-	_	_	85	200 580	_	_	_	_	331 617
	_	_	_	_	11 341	_	_	_	_	11 341
	_	_	_	_	-	_	_	_	_	397 409
	424 356	577 680	42 852	117 596	318 167	215 034	249 107	808 497	186 879	15 794 791
	605	_	-	_	_	1 684	_	_	_	68 938
		,		ľ						
	103 655	41 105	_	34 114	-	83 518	14 204	59 078	4 107	1 209 486
	104 260	41 105	-	34 114	_	85 202	14 204	59 078	4 107	1 278 424
			ı				1	,		
	E00 646	610 70F	40.050	154 740	240 467	300 236	202 244	867 575	100 000	17 072 245
	528 616	618 785	42 852	151 710	318 167	300 236	263 311	00/ 3/3	130 300	17 073 215

Corporate

### Risk management

(continued)

Corporate client loans account for 59.3% of total gross core loans and advances, and are well diversified across various industry classifications

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



A description of the type of corporate client lending we undertake, is provided on pages 56 and 57, and a more detailed analysis of the corporate client loan portfolio is provided on pages 75 and 76.

The remainder of core loans and advances largely relate to private client lending, as represented by the industry classification 'high net worth and professional individuals', as well as 'lending collateralised by property.'

Gross core loans

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.



Other credit and

A description of the type of private client lending and lending collateralised by property we undertake is provided on page 55 and 56 and a more detailed analysis of the private client loan portfolio is provided on pages 75 and 76.

	1	and advances Counterparty exposures		Total		
£'000 At 31 March	2017	2016	2017	2016	2017	2016
High net worth and professional individuals  Lending collateralised by property – largely to	1 598 801	1 458 552	169 056	146 028	1 767 857	1 604 580
private clients	1 963 754	2 179 999	224 306	245 020	2 188 060	2 425 019
Agriculture	5 539	3 234	156	53	5 695	3 287
Electricity, gas and water (utility services)	487 089	440 728	561 426	340 167	1 048 515	780 895
Public and non-business services	149 220	134 917	3 982 752	4 120 421	4 131 972	4 255 338
Business services	431 659	415 673	77 807	102 227	509 466	517 900
Finance and insurance .	1 321 630	971 773	2 935 642	3 232 185	4 257 272	4 203 958
Retailers and wholesalers	414 629	398 288	· 104 040	130 328	518 669	528 616
Manufacturing and commerce	637 182	497 214	160 127	121 571	797 309	618 785
Construction	52 833	41 049	527	1 803	53 360	42 852
Corporate commercial real estate	100 941	115 241	8 709	36 469	109 650	151 710
Other residential mortgages	-	-	314 616	318 167	314 616	318 167
Mining and resources	120 544	139 621	184 741	160 615	305 285	300 236
Leisure, entertainment and tourism	291 573	227 573	27 403	35 738	318 976	263 311
Transport	989 328	762 899	110 179	104 676	1 099 507	867 575
Communication	182 896	160 032	36 044	30 954	218 940	190 986
Total	8 747 618	7 946 793	8 897 531	9 126 422	17 645 149	17 073 215

(continued)

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

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 61.



£'(	00	0		

At 31 March	2017	2016
Gross core loans and advances to customers	8 747 618	7 946 793
Total impairments	(126 876)	(143 191)
Specific impairments	(83 488)	(121 791)
Portfolio impairments	(43 388)	(21 400)
Net core loans and advances to customers	8 620 742	7 803 602
Average gross core loans and advances to customers	8 347 205	7 598 177
Current loans and advances to customers	8 416 683	7 561 596
Past due loans and advances to customers (1 - 60 days)	48 003	65 909
Special mention loans and advances to customers	22 585	5 354
Default loans and advances to customers	260 347	313 934
Gross core loans and advances to customers	8 747 618	7 946 793
Current loans and advances to customers	8 416 683	7 561 596
Default loans that are current and not impaired	6 993	29 639
Gross core loans and advances to customers that are past due but not impaired	105 645	99 383
Gross core loans and advances to customers that are impaired	218 297	256 175
Gross core loans and advances to customers	8 747 618	7 946 793
Total income statement charge for impairments on core loans and advances	(74 995)	(85 954)
Gross default loans and advances to customers	260 347	313 934
Specific impairments	(83 488)	(121 791)
Portfolio impairments	(43 388)	(21 400)
Defaults net of impairments	133 471	170 743
Aggregate collateral and other credit enhancements on defaults	192 760	202 524
Net default loans and advances to customers (limited to zero)	-	-
Ratios		
Total impairments as a % of gross core loans and advances to customers	1.45%	1.80%
Total impairments as a % of gross default loans	48.73%	45.61%
Gross defaults as a % of gross core loans and advances to customers	2.98%	3.95%
Defaults (net of impairments) as a % of net core loans and advances to customers	1.55%	2.19%
Net defaults as a % of net core loans and advances to customers	- J	_
Annualised credit loss ratio (i.e. income statement impairment charge on core loans as a % of average gross core loans and advances)	0.90%	1.13%



(continued)

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



### £'000

At 31 March	2017	2016
Default loans that are current	68 069	138 988
1 – 60 days	106 174	80 758
61 - 90 days	4 174	16 118
91 – 180 days	63 707	43 284
181 – 365 days	16 205	22 539
> 365 days	72 606	83 510
Total past due and default core loans and advances to customers (actual capital exposure)	330 935	385 197
1 – 60 days	1 863	3 062
61 – 90 days	173	210
91 – 180 days	3 341	3 277
181 – 365 days	7 517	7 859
> 365 days	57 851	74 064
Total past due and default core loans and advances to customers (actual amount in arrears)	70 745	88 472

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

£,000	Current watchlist loans	1 <b>–</b> 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
At 31 March 2017				•			
Watchlist loans neither							
past due nor impaired						ļ	
Total capital exposure	6 993		-	-	_	-	6 993
Gross core loans and							
advances to customers							
that are past due but not impaired							
Total capital exposure	-	89 947	4 171	1 270	1 331	8 926	105 645
Amount in arrears	-	1 819	170	385	344	8 403	11 121
Gross core loans and							
advances to customers							
that are impaired	•					İ	
Total capital exposure	61 076	16 227	3	62 437	14 874	63 680	218 297
Amount in arrears		44	3	2 956	7 173	49 448	59 624
At 31 March 2016							
Watchlist loans neither		ĺ					
past due nor impaired							
Total capital exposure	29 639	_	-	- 1	_	_	29 639
Gross core loans and							
advances to customers							
that are past due but not impaired							:
Total capital exposure	-	71 106	526	16 210	1 139	10 402	99 383
Amount in arrears		2 994	49	1 333	171	7 847	12 394
Gross core loans and							
advances to customers							
that are impaired							
Total capital exposure	109 349	9 652	15 592	27 074	21 400	73 108	256 175
Amount in arrears	-	68	161	1 944	7 688	66 217	76 078

(continued)

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

£,000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	-	48 003	- ,	_	_	_	48 003
Special mention	_	20 028	2 557	_	•	_	22 585
Special mention (1 – 90 days)	-	20 028	-	_		-	20 028
Special mention (61 – 90 days and item well secured)	-	-	2 557	_ ;	~	-	2 557
Default	68 069	38 143	1 617	63 707	16 205	72 606	260 347
Sub-standard	39 561	27 622	1 614	48 839	11 849	51 120	180 605
Doubtful	27 970	10 508	-	13 324	3 458	13 644	68 904
Loss	538	13	3	1 544	898	7 842	10 838
Total	68 069	106 174	4 174	63 707	16 205	72 606	330 935

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

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 - 60 days)	-	1 094	_	1	-	-	1 094
Special mention	-	63	127	-	-	-	190
Special mention (1 – 90 days)	-	63	-	_	-	-	63
Special mention (61 – 90 days and item well secured)	_	_	127	_	_	_	127
Default	-	706	46	3 341	7 517	57 851	69 461
Sub-standard	- 1	670	43	1 018	3 884	45 313	50 928
Doubtful	-	25	-	789	2 735	4 708	8 257
Loss	-	11	3	1 534	898	7 830	10 276
Total	-	1 863	173	3 341	7 517	57 851	70 745



(continued)

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

£'0000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 - 60 days)	-	65 909	-	-	-	_	65 909
Special mention	- [	4 828	526	-	-		5 354
Special mention (1 - 90 days)	-	4 828	-	-	-	_	4 828
Special mention (61 – 90 days and item well secured)	-	-	526	-	-	-	526
Default	138 988	10 021	15 592	43 284	22 539	83 510	313 934
Sub-standard	72 254	369	3 828	23 327	6 361	58 079	164 218
Doubtful	65 328	9 652	11 755	18 950	15 413	4 352	125 450
Loss	1 406	-	9	1 007	765	21 079	24 266
Total	138 988	80 758	16 118	43 284	22 539	83 510	385 197

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

£,000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	_	2 988	-	1		_	2 988
Special mention	-	6	49	-	-	-	55
Special mention (1 – 90 days)	-	6	-	-	_	-	6
Special mention (61 – 90 days and item well secured)	_	_	49	_	_		49
Default .	_	68	161	3 277	7 859	74 064	85 429
Sub-standard		1	39	1 383	3 343	48 662	53 428
Doubtful	-	67	114	887	3 751	4 352	9 171
Loss	-	-	8	1 007	765	21 050	22 830
Total	- {	3 062	210	3 277	7 859	74 064	88 472

(continued)

## An analysis of core loans and advances to customers

£,000	Gross core loans and advances that are neither past due nor impaired	loans and	Gross core loans and advances that are impaired	Total gross core loans and advances (actual capital exposure)	Specific impair- ments	Portfolio impair- ments	Total net core loans and advances (actual capital exposure)	Actual amount in arrears
At 31 March 2017								
Current core loans and								
advances	8 416 683	_	_	8 416 683	_	(43 388)	8 373 295	-
Past due (1 – 60 days)	-	48 003	_	48 003		_	48 003	1 094
Special mention	_	22 585	-	22 585	_	-	22 585	190
Special mention (1 – 90 days)	_	20 028	-	20 028	-	-	20 028	63
Special mention (61 – 90 days and item well secured)	_	2 557	_	2 557	_	_	2 557	127
Default	6 993	35 057	218 297	260 347	(83 488)	_	176 859	69 461
Sub-standard	6 993	35 057	138 555	180 605	(38 237)		142 368	50 928
Doubtful	_	_	68 904	68 904	(37 430)	_	31 474	8 257
Loss	_	_	10 838	10 838	(7 821)	_	3 017	10 276
Total	8 423 676	105 645	218 297	8 747 618	(83 488)	(43 388)	8 620 742	70 745
At 31 March 2016								
Current core loans and								ŧ
advances	7 561 596	-	-	7 561 596	-	(21 400)	7 540 196	-
Past due (1 – 60 days)		65 909	-	65 909			65 909	2 988
Special mention		5 354		5 354		_	5 354	55
Special mention (1 – 90 days)	-	4 828	-	4 828	-	-	4 828	6
Special mention (61 – 90 days and item well secured)	_	526	-	526	_ ,	_	526	. 49
Default	29 639	28 120	256 175	313 934	(121 791)	_	192 143	85 429
Sub-standard	29 639	28 120	106 459	164 218	(32 379)		131 839	53 428
Doubtful	-	-	125 450	125 450	(69 827)	-	55 623	9 171
Loss	-	-	24 266	24 266	(19 585)	-	4 681	22 830
Total	7 591 235	99 383	256 175	7 946 793	(121 791)	(21 400)	7 803 602	88 472



(continued)

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

£'000	Private client, professional and high net worth individuals	Corporate sector	Insurance, financial services (excluding sovereign)	Public and government sector (including central banks)	Trade finance and other	Total core loans and advances to customers
At 31 March 2017						
Current core loans and advances	3 252 498	3 673 173	1 321 251	147 658	22 103	8 416 683
Past due (1 – 60 days)	41 973	5 183	211	636		48 003
Special mention	22 111	402	3	69	_	22 585
Special mention (1 – 90 days)	20 028	-	_	-	_	20 028
Special mention (61 – 90 days and item well secured)	2 083	402	3	69	_	2 557
Default	245 973	13 352	165	857	_	260 347
Sub-standard	176 021	4 384	8	192	_	180 605
Doubtful	62 844	5 704	119	237	· -	68 904
Loss	7 108	3 264	38	428	_	10 838
Total gross core loans and advances to customers	3 562 555	3 692 110	1 321 630	149 220	22 103	8 747 618
Total impairments	(108 189)	(18 036)	(101)	(550)	_	(126 876)
Specific impairments	(76 763)	(6 074)	(101)	(550)	_	(83 488)
Portfolio impairments	(31 426)	(11 962)	_	_		(43 388)
Net core loans and advances to customers	3 454 366	3 674 074	1 321 529	148 670	22 103	8 620 742
At 31 March 2016						
Current core loans and advances	3 296 034	3 140 362	971 565	131 448	22 187	7 561 596
Past due (1 – 60 days)	53 707	10 833	41	1 299	29	65 909
Special mention	4 995	211	2	146	_	5 354
Special mention (1 – 90 days)	4 828	_		_	_	4 828
Special mention (61 – 90 days and item well secured)	167	211	2	146	_	526
Default	283 815	27 930	165	2 024	_	313 934
Sub-standard	144 030	18 786	2	1 400	_	164 218
Doubtful	118 168	6 910	122	250	_	125 450
Loss	21 617	2 234	41	374	-	24 266
Total gross core loans and advances to customers	3 638 551	3 179 336	971 773	134 917	22 216	7 946 793
Total impairments	(128 224)	(14 357)	(102)	(508)	_	(143 191)
Specific impairments	(106 824)	(14 357)	(102)	(508)	_	(121 791)
Portfolio impairments	(21 400)	_	-	-	_	(21 400)
Net core loans and advances to customers	3 510 327	3 164 979	971 671	134 409	22 216	7 803 602

(continued)

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

£'000	Gross core loans	Gross defaults	Aggregate collateral and other credit enhancements on defaults	Balance sheet impairments	Income statement impairments^
Lending collateralised by property	1 963 754	227 515	167 972	(70 633)	(45 114)
Commercial real estate	1 190 836	80 987	48 998	(31 989)	(21 748)
Commercial real estate - investment	934 117	40 120	30 773	(9 347)	(12 373)
Commercial real estate - development	149 188	4 768	1 680	(3 088)	-
Commercial vacant land and planning	107 531	36 099	16 545	(19 554)	(9 375)
Residential real estate	772 918	146 528	118 974	(38 644)	(23 366)
Residential real estate - investment	262 844	46 841	43 018	(9 222)	(11 126)
Residential real estate - development	458 441	77 250	61 727	(19 754)	(10 615)
Residential vacant land and planning	51 633	22 437	14 229	(9 668)	(1 625)
High net worth and other private client lending Mortgages High net worth and specialised lending	<b>1 598 801</b> 1 228 877 369 924	<b>18 458</b> 4 906 13 552	<b>17 139</b> 6 957 10 182	<b>(6 130)</b> (1 237) (4 893)	<b>(1 928)</b> ( 637) (1 291)
Corporate and other lending	5 185 063	14 374	7 649	(6 725)	(5 965)
Acquisition finance	1 309 335	14 3/4	/ 649	(6 /25)	(5 965) (1 951)
Asset-based lending	333 731	_	_	_	(1 951)
Fund finance	861 140	_		_	
Other corporate and financial institutions and governments	718 760	_	_	-	-
Asset finance	1 488 142	10 483	3 942	(6 541)	(5 630)
Small ticket asset finance	1 062 069	10 483	3 942	(6 541)	(5 630)
Large ticket asset finance	426 073		-		
Project finance	464 142	3 891	3 707	( 184)	( 176)
Resource finance	9 813	-	-	_ ,	1 792
Portfolio impairments				(43 388)	(21 988)
Total	8 747 618	260 347	192 760	(126 876)	(74 995)

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



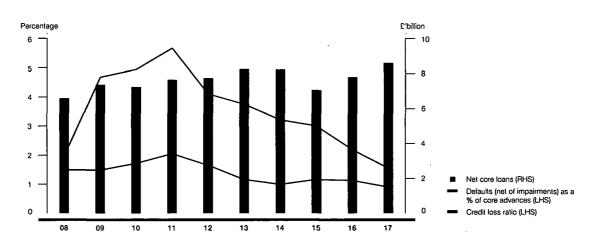
(continued)

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

Aggregate collateral and other credit **Balance** Income **Gross enhancements** Gross core sheet statement £'000 loans defaults on defaults impairments impairments^ Lending collateralised by property 2 179 999 264 283 168 722  $(101\ 064)$ (75 732) 108 746 1 314 745 64 068 (45030)(32 441) Commercial real estate Commercial real estate - investment 1 096 376 61 090 43 958 (17 151) (21 155) Commercial real estate - development 109 086 11 138 3 647 (7491)(634)Commercial vacant land and planning 109 283 36 518 16 463 (20388)(10.652)155 537 104 654 (56 034) Residential real estate 865 254 (43 291) Residential real estate - investment 298 740 72 449 55 151 (20 907) (13 353) Residential real estate - development 516 352 56 651 30 390 (26 854) (24747)50 162 26 437 (8273)Residential vacant land and planning 19 113 (5 191) 1 458 552 High net worth and other private client lending 19 532 18 650 (5760)(8 194) 1 146 241 4 307 7 489 (600)(49)High net worth and specialised lending 312 311 15 225 11 161 (5 160) (8 145)Corporate and other lending 4 308 242 30 119 15 152 (14967)(14 810) Acquisition finance 899 190 (1284)Asset-based lending 296 389 Fund finance 673 379 Other corporates and financial institutions and 766 815 governments Asset finance 1 205 400 11 891 5 961 (5930)(4223)Small ticket asset finance (5 930) 932 865 11 891 5 961 (4223)Large ticket asset finance 272 535 Project finance 449 266 3 708 3 708 (2699)Resource finance 17 803 14 520 5 483 (9 037) (6.604)Portfolio impairments (21 400) 12 782 Total 7 946 793 313 934 202 524 (143 191) (85 954)

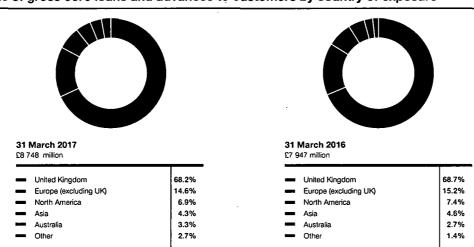
Where a positive number represents a recovery or a provision released.

## Asset quality trends



#### **Additional information**

## An analysis of gross core loans and advances to customers by country of exposure





(continued)

## Collateral

A summary of total collateral is provided in the table below.

Collateral held against

£,000	Core Ioans and advances	Other credit and counterparty exposures*	Total
At 31 March 2017			
Eligible financial collateral	911 474	664 898	1 576 372
Listed shares	692 067	84 723	776 790
Cash	219 407	194 463	413 870
Debt securities issued by sovereigns		385 712	385 712
Property charge	5 121 750	202 096	5 323 846
Residential property	2 551 729	202 096	2 753 825
Residential development	961 844	_	961 844
Commercial property developments	367 925	_	367 925
Commercial property investments	1 240 252		1 240 252
Other collateral	4 909 925	199 809	5 109 734
Unlisted shares	· 670 406	-	670 406
Charges other than property	19 145	199 809	218 954
Debtors, stock and other corporate assets	3 177 267	-	3 177 267
Guarantees	823 122	_	823 122
Other	219 985		219 985
Total collateral	10 943 149	1 066 803	12 009 952
At 31 March 2016			
Eligible financial collateral	313 156	399 786	712 942
Listed shares	242 551	76 126	318 677
Cash	70 605	109 180	179 785
Debt securities issued by sovereigns	_	214 480	214 480
Property charge	4 940 344	209 478	5 149 822
Residential mortgages	2 457 252	209 478	2 666 730
Residential development	780 534		780 534
Commercial property developments	187 484	_	187 484
Commercial property investments	1 515 074		1 515 074
Other collateral	4 269 427	135 508	4 404 935
Unlisted shares	682 021		682 021
Charges other than property	34 404	135 508	169 912
Debtors, stock and other corporate assets	2 727 354	_	2 727 354
Guarantees	650 988	_	650 988
Other	174 660		174 660
Total collateral	9 522 927	744 772	10 267 699

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

(continued)

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

## Investment risk in the banking book

#### Investment risk description

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

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

- Lending transactions: The manner in which we structure certain transactions results in equity, warrant and profit shares being held, predominantly within unlisted companies
- Property activities: We source development, investment and trading opportunities to create value and trade for profit within agreed risk parameters.

## Management of investment risk

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

Nature of investment risk	Management of risk
Listed equities	Investment committee, market risk management, BRCC and GRCC
Corporate principal investments	Investment committee, BRCC and GRCC
Embedded derivatives, profit shares and investments arising from lending transactions	Credit risk management committees, BRCC and GRCC
Investment and trading properties	Investment committee, BRCC and GRCC

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

#### Valuation and accounting methodologies



For a description of our valuation principles and methodologies refer to pages 185 to 190 and pages 211 to 218 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 3.65% of total assets.



Refer to page 211 for further information.



(continued)

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

	In				
£'000 Category	Unrealised*	Realised*	Dividends	Total	Fair value through equity
For the year to 31 March 2017					
Unlisted investments	24 391	38 512	11 066	73 969	624
Listed equities	(20 442)	21	1 273	(19 148)	(2 831)
Investment and trading properties	(14 892)	17 504	-	2 612	-
Warrants, profit shares and other embedded derivatives	(7 035)	-	_	. (7 035)	-
Total	(17 978)	56 037	12 339	50 398	(2 207)
For the year to 31 March 2016	-				
Unlisted investments	15 674	14 099	15 419	45 192	12
Listed equities	2 340	(7 249)	_	(4 909)	1 499
Investment and trading properties	(3 145)	2 364	_	(781)	_
Warrants, profit shares and other embedded derivatives	(2 452)	3 469	_	1 017	-
Total	12 417	12 683	15 419	40 519	1 511

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

Unrealised revaluation gains, recognised in the profit and loss account, are included in common equity tier 1 capital. In line with Capital Requirements Regulation, for the year ended 31 March 2017, Investec plc did not recognise equity revaluation gains directly to equity, in regulatory capital.

(continued)

### Summary of investments held and stress testing analyses

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

£'000 Category	On-balance sheet value of investments 31 March 2017	Valuation change stress test 31 March 2017*	On-balance sheet value of investments 31 March 2016	Valuation change stress test 31 March 2016*
Unlisted investments	383 267	57 490	363 060	54 459
Listed equities	76 478	19 120	87 940	21 985
Total investment portfolio	459 745	76 610	451 000	76 444
Investment and trading properties	143 648	27 280	183 073	. 28 709
Warrants, profit shares and other embedded derivatives	18 194	6 368	32 902	11 516
Total	621 587	110 258	666 975	116 669

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	15%
Listed equities	25%
Trading properties	20%
Investment properties	10%
Warrants, profit shares and other embedded derivatives	35%

#### Stress testing summary

Based on the information at 31 March 2017, as reflected above, we could have a £110 million 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.

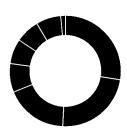
## **Capital requirements**

In terms of CRD IV capital requirements for Investec plc, unlisted and listed equities within the banking book are considered in the calculation of capital required for credit risk.



Refer to page 115 for further detail.

## An analysis of the investment portfolio, warrants, profit shares and other embedded derivatives







(continued)

## Securitisation/ structured credit activities exposures

#### Overview

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



Refer to page 63 for the balance sheet and credit risk classification.

The group 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 2017 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 in the last couple of years.

The primary focus for new securitisation transactions remains to provide a cost effective, alternative source of financing to the bank.

During the year we did not undertake any new securitisation transactions.

We hold rated structured credit instruments. These exposures are largely in the UK and

US and amount to £339 million at 31 March 2017 (31 March 2016; £343 million). This is intended as a hold to maturity portfolio rather than a trading portfolio. Therefore, since our commercial intention is to hold these assets to maturity, the portfolio is typically valued on an amortised cost basis. These investments are risk weighted for regulatory capital.

#### **Accounting policies**



Refer to page 187.



#### 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 boardapproved 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.

## **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.

(continued)

At 31 March Nature of exposure/activity	Exposure 2017 £'million	Exposure 2016 £'million	Balance sheet and credit risk classification
Structured ciredit (gross exposure)*	349	355	Other debt securities and other loans
Rated	339	343	and advances
Unrated	10	12	
Loans and advances to customers and third party intermediary originating platforms (mortgage loans) (net exposure)	141	154	Other loans and advances

## \*Analysis of rated and unrated structured credit

2017 2016		2017	2016
-----------	--	------	------

£'million At 31 March	Rated**	Unrated	Total	Rated**	Unrated	Total
US corporate loans	136	-	136	152	_	152
UK and European RMBS	163	10	173	151	12	163
UK and European ABS	4		4	-	_	_
UK and European corporate loans	36	_	36	40	_	40
Total	339	10	349	343	12	355

## \*\*A further analysis of rated structured credit at 31 March 2017

£'million	AAA	AA	A	ввв	ВВ	В	C and below	Total
US corporate loans	55	48	33	_	_	-	_	136
UK and European RMBS	32	91	38	_	2	-	_	163
UK and European ABS	-	-	_	4	-	-	_	4
UK and European corporate loans	15	14	6	1	· -	-	-	36
Total at 31 March 2017	102	153	77	5	2	_	-	339
Total at 31 March 2016	148	122	65	6		2	_	343



(continued)

The information provided below is provided for Investec plc in terms of regulatory definitions and requirements.

### Aggregate amount of securitisation positions retained or purchased

At 31 March 2017			
£'million	Retained^^	Purchased <sup>^</sup>	Total
Exposure type			
Residential mortgages	-	158	158
Commercial mortgages	-	4	4
Loans to corporates	-	178	178
Resecuritisation	-	_ \	-

## Aggregate amount of securitisation positions retained or purchased

Banking book

340

353

340

353

At 31 March 2016 £'million	Retained^^	Purchased^	Total
Exposure type			_
Residential mortgages	<b>-</b> .	143	143
Commercial mortgages	-	4	. 4
Loans to corporates	-	203	203
Resecuritieation		3	1 3

<sup>^</sup> Purchased positions include positions we hold as sponsor or investor.

## Securitisation positions retained or purchased by risk-weight bands

Exposure	Exposure values  Banking book		uirement
Banking	book	Banking	book
Retained^^	Purchased^	Retained^^	Purchased^
			7

Retained^^	Purchased^	Retained^^	Purchased^
	-		
-	249	-	4
- 1	88	-	4
- 1	-	-	-1
-	- [	-	- [
-	- [	- !	-
-	-	- 1	-
-	3	- 1	-
-	340	-	8
		- 249 - 88    - 3	- 249 - 88

## Securitisation positions retained or purchased by risk-weight bands

	Exposure values	Capital requirement
i	Banking book	Banking book

### At 31 March 2016

At 31 March 2017

£'million	Retained^^	Purchased <sup>^</sup>	Retained^^	Purchased^
Risk-weight band				
Greater than 0% and less than or equal to 40%	-	265	- 1	4
Greater than 40% but less than or equal to 100%	-	84	- 1	5
Greater than 100% but less than and equal to 225%	-	-	-	-
Greater than 225% but less than and equal to 350%	-	-	-	-
Greater than 350% but less than and equal to 650%	-	-	-	-
Greater than 650% but less than 1 250%	-	-	-	_
Greater than 1 250%/deduction	-	4	-	-
	-	353		9

Purchased positions include positions we hold as sponsor or investor.

No further disclosure is provided for deductions due to the materiality of the numbers.

<sup>^^</sup> Retained positions include positions we have retained in securitisations we have originated.

<sup>^^</sup> Retained positions include positions we have retained in securitisations we have originated.

03

(continued)

## 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 preapproved principles and policies. Risk limits are reviewed and set at the global market risk forum and ratified at Review ERRF in accordance with the risk appetite defined by the board. The appropriateness of limits is continually assessed with limits reviewed at least annually, in the event of a significant market event or at the discretion of senior management.

## Management and measurement of traded market risk

Market risk management teams review the market risks in the trading books. Detailed risk reports are produced daily for each trading desk and for the aggregate risk of the trading books.

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

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

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

The accuracy of the VaR model as a predictor of potential loss is continuously monitored through backtesting. This involves comparing the hypothetical (clean) trading revenues arising from the previous day's closing positions with the one-day

VaR calculated for the previous day on these same positions. If the revenue is negative and exceeds the one-day VaR, a backtesting exception is considered to have occurred. Over time we expect the average rate of observed backtesting exceptions to be consistent with the percentile of the VaR statistic being tested.

The market risk capital requirement is calculated using the standardised approach. For certain options, the group has obtained permission from the PRA to use an internal model to calculate the delta for these positions.

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

(continued)

#### **VaR**



31 March 2017

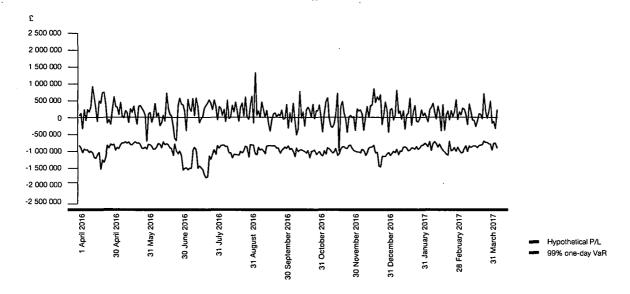
31 March 2016

£'000	Year end	Average	High	Low	Year end	Average	High	Low
(Using 95% VaR)			·					
Equities	503	547	1 317	340	515	557	699	412
Foreign exchange	13	34	162	1	37	32	101	12
Interest rates	88	191	287	83	202	195	505	128
Consolidated*	547	586	1 364	373	529	589	723	488

<sup>\*</sup> The consolidated VaR is lower than the sum of the individual VaRs. This arises from the consolidation offset between various asset classes (diversification).

The average VaR utilisation was largely unchanged from 2016. Using hypothetical (clean) profit and loss data for backtesting resulted in zero exceptions over the year at the 99% confidence level, i.e. where the loss was greater than the 99% one-day VaR.

## 99% one-day VaR backtesting



(continued)

## **Expected shortfall**

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



95% (one-day) £'000	31 March 2017	31 March 2016	
Equities	731	662	
Foreign exchange	24	53	
Interest rates	118	257	
Consolidated*	764	783	

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

### Stress testing

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

31	March	2017
----	-------	------

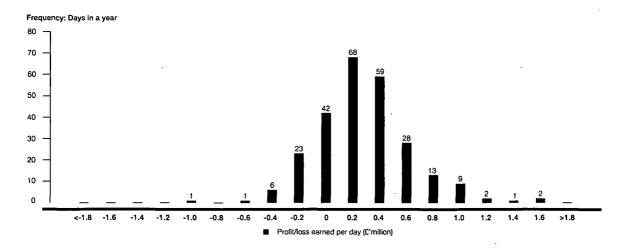
£,000	Year end	Average	High	Low	31 March 2016 Year end
(Using 99% EVT)					
Equities	1 638	1 819	9 186	767	1 549
Foreign exchange	114	161	619	23	122
Interest rates	264	486	967	232	470
Consolidated**	1 949	2 203	4 951	1 373	1 772

The consolidated stress test number is lower than the sum of the individual stress test numbers. This arises from the correlation offset between various asset classes (diversification).

#### Profit and loss histogram

The histogram below illustrates the distribution of 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 182 days out of a total of 255 days in the trading business. The average daily trading revenue generated for the year to 31 March 2017 was £184 716 (2016: £124 250).

#### **Profit and loss**



## Risk management

(continued)

## Traded market risk mitigation

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

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

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

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

## Traded market risk year in review

There was strong growth in client activity across the interest rate and foreign exchange corporate sales desks within Treasury Products and Distribution. Volatility in the forex markets post-Brexit resulted in increased client activity and interest rate hedging was again supported by good client-driven deal flow. There was an increase in both retail and institutional

equity and credit-linked product sales within the Financial Products business. Market risk exposure across all asset classes has on average remained low throughout the year.

## Market risk - derivatives (i



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



Information showing our derivative trading portfolio over the reporting period on the basis of the notional principal and the fair value of all derivatives can be found on page 225.

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

## Balance sheet risk management

#### **Balance sheet risk description**

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

## Balance sheet risk governance structure and risk mitigation

Under delegated authority of the board, the group has established asset and liability monitoring 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 seek to hedge residual currency exchange risk arising from deposit and loan banking activities where it is practical and effective to do so.

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

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

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

The Central Treasury, by core geography, directs pricing for all deposit products, establishes and maintains access to stable funds with the appropriate tenor and

(continued)

pricing characteristics, and manages liquid securities and collateral, thus providing prudential management and a flexible response to volatile market conditions. The Central Treasury functions are the sole interface to the market for both cash and derivative transactions.

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

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

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

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

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

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

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

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

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

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

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

## Liquidity risk (i) Liquidity risk description

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

## Risk management

(continued)

## Liquidity risk is further broken down into:

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

#### Sources of liquidity risk include:

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

## Management and measurement of liquidity risk

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

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

 The group complies with the BCBS principles for sound liquidity risk management and supervision

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

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

Management uses assumptions-based planning and scenario modelling that considers market conditions, prevailing interest rates and projected balance sheet growth, to estimate future funding and liquidity needs while taking the desired nature and profile of liabilities into account.

These metrics are used to develop our funding strategy and measure and manage the execution thereof. The funding plan details the proportion of our external assets which are funded by customer liabilities, unsecured wholesale debt, equity and loan capital, thus maintaining an appropriate mix of structural and term funding, resulting in strong balance sheet liquidity ratios.

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

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

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

We maintain a funding structure with stable customer deposits and long-term wholesale funding well in excess of illiquid assets. We target a diversified funding base, avoiding undue concentrations by investor type, maturity, market source, instrument and currency. This validates our ability to generate funding from a broad range of sources in a variety of geographic locations,

(continued)

which enhances financial flexibility and limits dependence on any one source so as to ensure a satisfactory overall funding mix to support loan growth.

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

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

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

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

From 1 April 2016 to 31 March 2017 average cash and near cash balances over the period amounted to £5.9 billion.

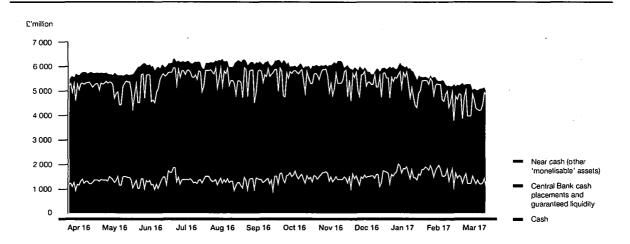
We are currently unaware of any circumstances that could significantly detract from our ability to raise funding appropriate to our needs.

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

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

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.

## Investec plc cash and near cash trend



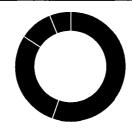
## An analysis of cash and near cash at 31 March 2017

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£5 026 million

Central Bank cash placements and guaranteed liquidity 74.2%
Near cash (other 'monetisable' assets) 22.3%
Cash 3.5%

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



£11 713 million

-	Individuals	55.5%
-	Non-financial corporates	28.7%
-	Small business	9.9%
-	Banks	5.9%
	'	

## Risk management

(continued)

The liquidity position of the bank remained sound with total cash and near cash balances amounting to £5.0 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 financed by stable funding sources.

With respect to the contractual liquidity mismatch:

- No assumptions are made except as mentioned below, and we record all assets and liabilities with the underlying contractual maturity as determined by the cash flow profile for each deal
- As an integral part of the broader liquidity generation strategy, we maintain a liquidity buffer in the form of unencumbered cash, government, or rated securities and near cash against both expected and unexpected cash flows
- The actual contractual profile of the assets in the liquidity buffer is of little consequence, as practically Investec would meet any unexpected net cash outflows by repo'ing or selling these securities. We have:
  - set the time horizon to 'on dernand' to monetise our statutory liquid assets for which liquidity is guaranteed by the central bank;

- set the time horizon to one month to monetise our cash and near cash portfolio of 'available-for-sale' discretionary treasury assets, where there are deep secondary markets for this elective asset class; and
- reported the 'contractual' profile by way of a note to the tables.

With respect to the behavioural liquidity mismatch:

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



(continued)

## Contractual liquidity at 31 March 2017

£'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	3 616	318	29	17		3	2	3 985
Investment/trading assets	190	473	525	385	151	822	1 176	3 722
Securitised assets	1	3	_	_	_	11	124	139
Advances	123	398	605	531	1 395	4 412	1 570	9 034
Other assets	378	693	65	89	61	112	511	1 909
Assets	4 308	1 885	1 224	1 022	1 607	5 360	3 383	18 789
Deposits – banks	(185)	(3)	(5)	-	-	(411)	(87)	(691)
Deposits - non-banks	(3 242)	(1 436)	(2 243)	(750)	(574)	(2 301)	(476)	(11 022)
Negotiable paper	(2)	(22)	(26)	(48)	(48)	(1 255)	(554)	(1 955)
Securitised liabilities	(1)	-	(6)	(3)	(4)	(49)	(66)	(129)
Investment/trading liabilities	(184)	(176)	(44)	(26)	(26)	(98)	(389)	(943)
Subordinated liabilities	-	-	-	-	(6)	(573)	-	(579)
Other liabilities	(122)	(756)	(257)	(45)	(103)	(132)	(23)	(1 438)
Liabilities	(3 736)	(2 393)	(2 581)	(872)	(761)	(4,819)	(1 595)	(16 757)
Shareholders' funds	-	-	-	-	-	-	(2 032)	(2 032)
Contractual liquidity gap	572	(508)	(1 357)	150	846	541	(244)	- 1
Cumulative liquidity gap	572	64	(1 293)	(1 143)	(297)	244	_	·

## Behavioural liquidity



As discussed on page 93.

£'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	> Five years	Total
Behavioural liquidity gap	2 969	(505)	668	148	846	(3 739)	(387)	_
Cumulative	· 2 969	2 464	3 132	3 280	4 126	387	-	

## Risk management

(continued)

## Balance sheet risk year in review

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

A very strong, surplus liquidity position was defensively maintained ahead of the EU Referendum in June. After a brief period of volatility following the result of the referendum, markets have been strong and the excess liquidity has been managed down in the second half of the year through both net asset growth, liability management and pricing.

Following these actions, the strategy to normalise liquidity has largely been completed by the year end. The overall liquidity position still remains strong across a range of metrics in line with our overall conservative approach to balance sheet risk management.

The ratings of Investec Bank plc remained stable during the year. Investec Bank plc's long-term deposit rating is A2 (stable outlook) from Moody's and BBB (stable outlook) from Fitch. In April 2016, Investec plc's long-term issuer rating was upgraded by Moody's one notch further to Baa1 (stable outlook). The active management of the liability channels, particularly in the second half of the year, has enabled a reduction in funding rates across both channels and tenor. However, throughout this liability management strategy, a diverse mix of liabilities by currency, channel and tenor has continued to be maintained to avoid reliance on any particular channel and allow continued access to a range of deposits. Furthermore, selective opportunities in the wholesale and secured funding space continue to be employed in a strategic manner to extend the contractual maturity of balance sheet liabilities, while avoiding refinancing risks.

Cash and near cash balances at 31 March 2017 amounted to £5.0 billion (2016: £5.1 billion). Total UK and Other customer deposits was £11.0 billion at 31 March 2017 (2016: £10.8 billion). Investec plc and Investec Bank plc (solo basis) comfortably exceed the required

minimums for the LCR and NSFR as reported below.

## Regulatory considerations – balance sheet risk

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

Two key liquidity measures were defined:

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

On 1 October 2015 under European Commission Delegated Regulation 2015/61, the LCR became the PRA's primary regulatory reporting standard for liquidity. The LCR is a Pillar 1 metric to which the PRA apply Pillar 2 add-ons. The LCR is being introduced on a phased basis, and the PRA has opted to impose higher liquidity coverage requirements during the phased-in period than the minimum required by CRD IV. From 1 January 2017, UK banks were required to maintain a minimum of 90%, rising to 100% on 1 January 2018. The published LCR excludes Pillar 2 add-ons. For Investec plc and Investec Bank plc (solo basis), the LCR is calculated using our own interpretations of the EU Delegated Act. The reported LCR may change over time with regulatory developments. The LCR reported to the PRA at 31 March 2017 was 654% for Investec pic and 616% for Investec Bank plc (solo basis).

In November 2016, the European Commission released a number of proposals amending the CRR including a number of adjustments with respect to the NSFR. Banks will be expected to hold a NSFR of at least 100% on an ongoing basis and report their NSFR at least quarterly. The implementation date of this requirement will be two years after the date entry into force of the proposed regulation. The NSFR therefore remains subject to an observation period in advance of such implementation and we will continue to monitor these rules until final implementation. The reported NSFR may change over time with regulatory developments.

Based on our own interpretations and in line with the BCBS' final recommendations (BCBS 295), Investec plc and Investec Bank plc (solo basis) comfortably exceed the 100% minimum level for the NSFR.

## Non-trading interest rate risk description

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

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

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

## Risk management

(continued)

## Management and measurement of non-trading interest rate risk

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

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

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

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

The repricing gap provides a basic representation of the balance sheet, with the sensitivity of earnings to changes to interest rates calculated off the repricing gap. This allows for the detection of interest rate risk by concentration of repricing buckets. Net interest income sensitivity measures the change in accruals expected over the specified horizon in response to a shift in the yield curve, while economic value sensitivity and stress testing to macro-economic movement or changes to

the yield curve measures the interest risk implicit change in net worth as a result of a change in interest rates on the current values of financial assets and liabilities. Economic value measures have the advantage that all future cash flows are considered and therefore can highlight risk beyond the earnings horizon.

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

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

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

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

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

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

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

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

(continued)

### Interest rate sensitivity gap

The tables below show our non-trading interest rate mismatch. These exposures affect the interest rate margin realised between lending income and borrowing costs assuming no management intervention.

£'million	Not > three months	> Three months but < six months	> Six months but < one year	> One year but < five years	> Five years	Non-rate	Total non- trading
Cash and short-term funds – banks	3 927	1	_	_	_	_	3 928
Investment/trading assets and statutory liquids	1 393	130	9	271	190	186	2 179
Securitised assets	139	-	_	-	_	-	139
Advances	6 958	519	409	940	209	_ '	9 035
Other assets	4	-	-	-	-	1 898	1 902
Assets	12 421	650	418	1 211	399	2 084	17 183
Deposits – banks	(688)	-	-	-	-	_	(688)
Deposits - non-banks	(9 137)	(543)	(595)	(747)	-	_	(11 022)
Negotiable paper	(1 310)	(2)	(5)	(567)	(7i)	_	(1 955)
Securitised liabilities	(129)	-	_	-	-	-	(129)
Investment/trading liabilities	(22)	(39)	(19)	(3)	-	· (1)	(84)
Subordinated liabilities	-	-	-	(575)	-	(4)	(579)
Other liabilities	(2)	-	-	_	-	(692)	(694)
Liabilities	(11 288)	(584)	(619)	(1 892)	(71)	(697)	(15 151)
Shareholders' funds	_	-	-	- 1	_	(2 032)	(2 032)
Balance sheet	1 133	66	(201)	(681)	328	(645)	-
Off-balance sheet	302	138	(222)	48	(266)	-	-
Repricing gap	1 435	204	(423)	(633)	62	(645)	-
Cumulative repricing gap	1 435	1 639	1 216	583	645	_	

### Economic value sensitivity at 31 March 2017

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

### Sensitivity to the following interest rates (expressed in original currencies)

million	GBP	USD	EUR	AUD	ZAR	Other (GBP)	All (GBP)
200bps down	(43.7)	(13.3)	(6.7)	0.8	(13.4)	4.0	(59.2)
200bps up	39.8	12.1	6.0	(0.8)	13.4	(3.3)	54.1



(continued)

### 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. Risk Management monitors and manages total balance sheet encumbrance via a board-approved risk appetite framework.

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, including the Bank of England's Funding for Lending and Term Funding Schemes.

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 246. Related liabilities are also reported.



On page 223 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.

The below asset encumbrance disclosures are based on the requirements set out in the Capital Requirements Regulation and the related guidelines issued by the European Banking Authority in June 2014.

#### Information on importance of encumbrance

Encumbered assets have been identified in accordance with the reporting requirements under European Capital Requirements Regulation (CRR). As at 31 March 2017, £1 777 million of the group's assets were encumbered. An asset is defined as encumbered if it has been pledged as collateral against an existing liability and as a result is no longer freely available to the group.

#### Assets

£'million		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
010**	Assets of the reporting institution*	1 777	-	17 763	_
030**	Equity instruments	134	134	647	647
040**	Debt securities	517	517	1 977	1 977
120**	Other assets	1 198	-	15 170	_

#### Collateral received

£'millic	on	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
130**	Collateral received by the reporting institution*	362	1 006
150**	Equity instruments	1	84
160**	Debt securities	362	. 547
230**	Other collateral received	-	127
240**	Own debt securities issued other than own covered bonds or ABSs		

#### Encumbered assets/collateral received and associated liabilities

$\mathfrak{L}$ 'million	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
010** Carrying amount of selected financial liabilities	1 373	1 354

The above tables only include a subset of underlying product categories and therefore when aggregated may not agree back to the total line items indicated.

<sup>\*\*</sup> The numerical row references included in the above tables reference the asset encumbrance reporting instructions specified in Annexure XVII of the Commission Implementing Regulation and can also be found in the European Banking Authority encumbrance disclosure guidelines which were published in June 2014.

## Risk management

(continued)

## **Operational risk**

#### Operational risk definition

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

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

### Operational risk management framework

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

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

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

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

Practices consist of the following:

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

#### Governance

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

The levels of defence model is applied as follows:

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

## **Risk tolerance**

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

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



(continued)

## **Looking forward**

Key operational risk considerations for the year ahead

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

(continued)

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

Mitigation approach and priority for 2017/2018

Definition of risk

## Risk management

(continued)

We have various policies and practices to mitigate reputational risk, including strong values that are regularly and proactively reinforced

#### Insurance

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

## Recovery and resolution planning

The recovery plan for the Investec plc group:

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

A significant addition to the EU legislative framework for financial institutions has been the Bank Recovery and Resolution Directive (BRRD) which establishes a framework for the recovery and resolution of EU credit institutions and investment firms. As implemented, the BRRD gives resolution authorities powers to intervene in and resolve a financial institution that is no longer viable, including through the transfers of business and, when implemented in relevant member states, creditor financed recapitalisation (bail-in within resolution) that allocates losses to shareholders and unsecured and uninsured creditors in their order of seniority, at a regulator determined point of non-viability that may precede insolvency. The concept of bail-in will affect the rights of unsecured creditors subject to any bail-in in the event of a resolution of a failing bank.

The BRRD also requires competent authorities to impose a Minimum Requirement for own funds and Eligible

Liabilities (MREL) on financial institutions to facilitate the effective exercise of the bail-in tool.



For more detail on MREL, please refer to page 104 to 105.

The BRRD also requires the development of recovery and resolution plans at group and firm level. The BRRD sets out a harmonised set of resolution tools across the European Union, including the power to impose a temporary stay on the rights of creditors to terminate, accelerate or close out contracts.

The PRA has made rules that require authorised firms to draw up recovery plans and resolution packs. Recovery plans are designed to outline credible recovery actions that authorised firms could implement in the event of severe stress in order to restore their business to a stable and sustainable condition. The resolution pack contains detailed information on the authorised firm in question which will be used to develop resolution strategies for that firm, assess its current level of resolvability against the strategy, and to inform work on identifying barriers to the implementation of operational resolution plans.

In line with PRA and EU requirements, Investec plc maintains a resolution pack and a recovery plan.

## 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

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(continued)

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 value assessment, internal audit and regulatory compliance review, and risk management practices. Strategic and reputational risk is mitigated as much as possible through these detailed processes and governance/ escalation procedures from business units to the board, and from regular, clear communication with shareholders, customers and all stakeholders. In addition, Investec's policy is to avoid any transaction, service or association which may bring with it the risk of potential damage to our reputation. Transaction approval governance structures such as credit. engagement and new product committees have therefore been tasked with this responsibility in relation to all new business undertaken. A disclosure and public communications policy has also been approved by the board.

#### **Pension risk**

Pension risk arises from obligations arising from defined benefit pension schemes, where Investec plc is required to fund any deficit in the schemes.

There are two defined benefit schemes within Investec plc and both are closed to new business. Pension risk arises if the net present value of future cash outflows is greater than the current value of the asset pool set aside to cover those payments.

Primary sources of risk include:

- A mismatch in the duration of the assets relative to the liabilities
- Market-driven asset price volatility
- Increased life expectancy of individuals leading to increased liabilities.

Investec plc monitors the position of the funds closely and regularly assesses potential adverse movements in the schemes in close conjunction with external independent advisers.



Further information is provided on pages 235 to 239.

## 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 interrelationship 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 FCA in the UK has outlined its approach to managing firms' conduct:

By conduct risk we mean the risk that detriment is caused to the bank, its customers, its counterparties or the market, as a result of inappropriate execution of business activities.

The focus on conduct risk is intended to go beyond the current compliance monitoring frameworks in order to move away from the culture of 'tick box' compliance. As a result, firms are expected to look across their business models and strategies and assess how to balance the pursuit of profits with good outcomes for clients and proper standards of market conduct. All firms will be expected to take a holistic approach to assessing their key conduct risks and to ensure that these are being managed in accordance with FCA's strategic objectives of protecting clients, ensuring markets function effectively and promoting competition.

The group's work on conduct risk, includes assessing key risks across the business, identifying key controls and ensuring that the board is receiving the right information to enable it to challenge effectively the management of such risks by the business.

## Risk management

(continued)

## Capital management and allocation

Investec Limited (and its subsidiaries) and Investec plc (and its subsidiaries) are managed independently and have their respective capital bases ring-fenced, however, the governance of capital management is consistent across the two groups. The DLC structure requires the two groups to independently manage each group's balance sheet and hence capital is managed on this basis. This approach is overseen by the BRCC (via the Investec DLC capital committee) which is a board sub-committee with ultimate responsibility for the capital adequacy of both Investec Limited and Investec plc.

The following provides a brief outline of the regulatory environment relevant to the bank's capital management framework.

## Regulatory capital Current regulatory framework

Investec plc is authorised by the PRA and is regulated by the FCA and the PRA on a consolidated basis. Investec plc calculates capital resources and requirements using the Basel III framework, as implemented in the European Union through the Capital Requirements Directive IV (CRD IV). The group continues to phase in the remaining CRD IV rule changes, notably the grandfathering provisions applicable to non-qualifying capital instruments (reducing by 10% per annum until fully derecognised in 2022) and the transitional arrangements applicable to additional tier 1 and tier 2 capital which continue to be phased out at 20% per annum, until 1 January 2018.

UK banks are required to meet minimum capital requirements as prescribed by CRD IV. The common equity tier 1 capital requirement is 4.5% of risk-weighted assets, while the tier 1 capital requirement of risk-weighted assets is 6% and the total capital requirement of 8% of risk-weighted assets. In addition Investec Bank plc continues to meet 56% of its individual capital guidance, as determined by the internal capital adequacy assessment and supervisory review process, with common equity tier 1 capital.

The PRA have issued Investec plc with a Pillar IIA requirement of 1.8% of risk-weighted assets, of which 1.0% has to be met from common equity tier 1 capital.

The PRA buffer will also need to be met from common equity tier 1 capital, and will be transitioned in at 25% per annum, until fully phased in by January 2019.

In line with the CRD IV provision on capital buffers, in the UK firms are required to meet a combined buffer requirement in addition to their Pillar I and Pillar II capital requirements. The combined buffer includes the capital conservation buffer and countercyclical capital buffer and must be met with common equity tier 1 capital. The buffer for global systemically important institutions (G-SIIs) and the systemic risk buffer do not apply to Investec Bank plc and will not be included in the combined buffer requirement. From 1 January 2016 Investec plc began phasing in the capital conservation buffer at 0.625% of riskweighted assets. An additional 0.625% of risk-weighted assets will be phased-in each year until fully implemented by 1 January 2019. Investec plc is also subject to the countercyclical capital buffer requirement, which is calculated based on the relevant exposures held in jurisdictions in which a buffer rate has been set. In the UK, the Financial Policy Committee has reaffirmed that it expects to maintain a rate of 0% until at least June 2017. As at 31 March 2017, five jurisdictions have implemented countercyclical buffer rates: Norway 1.5%, Sweden 2%, Hong Kong 1.25%, Czech Republic 0.5%, Iceland 1%. Slovakia have set a rate of 0.5% effective 1 August 2017.

The group continues to hold capital in excess of all the capital requirements and buffers.

Investec plc uses the standardised approach to calculate its credit and counterparty credit risk, securitisation and operational risk capital requirements. The mark-to-market method is used to calculate the counterparty credit risk exposure amount. The market risk capital requirement is calculated using the standardised approach. For certain options, the group has obtained permission from the PRA to use an internal model to calculate the delta for these positions.

Subsidiaries of Investec plc may be subject to additional regulations, as implemented by local regulators in other relevant jurisdictions. 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. For capital management purposes, it is the prevailing rules applied to the consolidated Investec plc group that are monitored closely. With the support of the group's prudential advisory and reporting team, local management of each regulated entity ensures that capital remains prudently above minimum requirements at all times.

#### Regulatory considerations

The regulatory environment has continued to evolve during 2017, with a vast number of new consultations, regulatory technical standards and implementing technical standards and other proposals being published or adopted, notably by the PRA, the BCBS and the European Banking Authority (EBA).

#### International

Throughout 2016 the Basel Committee on Banking Supervision (BCBS) continued to develop their package of reforms to the existing Basel III framework. In January 2017, the BCBS announced that its finalisation of reforms to Basel III had been delayed. The BCBS is now expected to issue updated standards on the calculation of operational risk, the standardised framework for the credit risk and restrictions on the use of internal models and application of as RWA floor based on the standardised approaches later in 2017. These measures will require EU and domestic legislation to take effect, the implementation date has yet to be determined.

#### IFRS 9

International Financial Reporting Standard 9 Financial Instruments (IFRS 9) will come into effect from 1 January 2018. As a result, the BCBS has proposed some international arrangements that individual jurisdictions may choose to implement.

#### UK

## Minimum requirement for own funds and eligible liabilities (MREL)

The Bank of England (BoE) has finalised its policy in setting MREL. The purpose of MREL is to help ensure that when banks, building societies and investment firms fail, that failure can be managed in an orderly way while minimising risk to financial stability, disruption to critical economic functions, and risk to public funds. The BoE, as resolution authority, is required to determine an amount necessary for loss absorption in resolution and an amount necessary for recapitalisation, dependent on a firms resolution strategy. The three board result strategies are:

Modified insolvency process: where the BoE has assumed that firms do not provide any critical economic functions, these institutions will be able to comply with MREL by meeting their existing capital requirements.

Partial transfer: some firms may have critical economic functions that would need

## Risk management

(continued)

to continue after a firm has been placed into resolution. MREL would need to be assessed at a level that could ensure that these functions could be transferred to another institutions.

**Bail in:** the most complex firms will be required to maintain efficient MREL so that they can be recapitalised and continue to meet the PRA's conditions for authorisation without requiring the taxpayers support.

The BoE has set the preferred strategy for Investec Bank plc to be modified Insolvency. As a results, Investec Bank plc's MREL requirement will equal its regulatory capital requirements (Pillar I + Pillar IIA). As noted in the statement of policy on the BoE approach to setting MREL, the actual approach taken to resolve an institution will depend on the circumstances at the time of its failure. The preferred resolution strategy may not necessarily be followed if a different approach would better meet the resolution objective at the time.

## Europe CRR2/CRDV

In November 2016, The European Commission proposed a number of revisions to CRD IV which reflect some of the proposals already completed or under development by the BCBS. Together, these changes are known as the 'CRR2/CRDV' package. The CRR2/CRDV package includes the following:

- A new standardised approach for the counterparty credit risk to replace the existing current exposure and standardised methods.
- Changes to the rules for determining this lending bank boundary and the methodologies for calculating market risk capital charges.
- A binding leverage ratio for all banks.
  The UK leverage ratio framework
  is currently only applicable to PRAregulated banks and buildings societies
  with retail deposit equal to or greater
  than £50 billion on an individual or a
  consolidated basis. Investec bank plc is
  not within scope of the framework.
- A new methodology for capital charges for equity investments in funds.
- Restriction to the capital base and changes to the exposure limits for the calculation of large exposures.
- Proposed transitional arrangements for implementation of IFRS 9.

The CRR2/CRDV package is expected to apply two years after the date of its entry into the official journal except for provisions related to IFRS 9, which will apply from the date it comes into force (1 January 2018).

## Capital and leverage ratio targets

#### Capital

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 plc has always held capital in excess of regulatory requirements and 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.

#### Leverage

Investec plc is currently targeting a leverage ratio above 6%.

## Management of capital and leverage Capital

The DLC capital committee is responsible for ensuring that the impact of any regulatory change is analysed, understood and planned for. To allow the committee to carry out this function the group's prudential advisory and reporting team 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.

#### Leverage

In the UK, the leverage ratio was subject to a mandatory monitoring period from 1 January 2014 to 30 June 2016, at which point the EBA reported to the European Commission suggesting a 3% leverage ratio was adequate. Also appropriate adjustments to the capital and total exposure measure were proposed. The latest proposal in the CRR2 implements a 3% leverage ratio which will come into effect two years from publication in the European Commissions Official Journal.

As with the governance of capital management, the DLC capital committee is responsible for ensuring that the impact of any regulatory changes on the leverage ratio is calculated, analysed and understood at all reporting levels.

The leverage exposure measure is calculated on a monthly and quarterly basis and is presented to the DLC capital committee on a regular basis. The DLC capital committee is responsible for monitoring the risk of excessive leverage.

## 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 until level.

The determination of target capital is driven by our risk profile, strategy and risk appetite, taking into account the 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; and



(continued)

 inform the setting of minimum regulatory capital through the Supervisory Review and Evaluation Process (SREP).

The DLC capital committee seeks to optimise the balance sheet such that capital held is in excess of internal capital. Internal capital performs a critical role in:

- investment decision-making and pricing that is commensurate with the risk being taken;
- allocating capital according to the greatest expected marginal risk-based return, and tracking performance on this basis:
- determining transactional risk-based returns on capital;
- rewarding performance, taking into account the relative levels of risk adopted by forming a basis for the determination of economic value added at a transactional level, and hence the basis for discretionary variable remuneration; and
- comparing risk-based performance across business areas.

The framework has been approved by the board and is managed by the DLC capital committee, which is responsible for oversight of the management of capital on a regulatory and an internal capital basis. In order to achieve these objectives, the internal capital framework describes the following approach to the integration of risk and capital management.

## Risk modelling and quantification (internal capital)

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

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

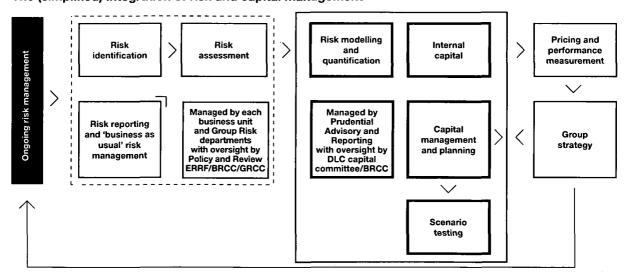
- Credit and counterparty risk, including:
  - underlying counterparty risk;
  - concentration risk; and
  - securitisation risk.
- Market risk
- Equity and investment risk held in the banking book
- · Balance sheet risk, including:
  - liquidity; and

- banking book interest rate risk.
- Strategic and reputational risk
- · Pension risk
- 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 capital plan is prepared for each of the silos, Investec plc and Investec Limited 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.

## The (simplified) integration of risk and capital management



(continued)

Three month capital plans are prepared monthly, 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, the 3 year capital plans are stressed based on conditions most likely to place us under duress. The conditions themselves are agreed by the DLC capital committee after the key vulnerabilities have been determined through the stress testing workshops. 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 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 considering 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 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.

# Accounting and regulatory treatment of group subsidiaries

Investec plc and Investec Limited are the two listed holding companies in terms of

the DLC structure. Investec Bank is the main banking subsidiary of Investec plc.

#### Basis of consolidation

The regulatory basis of consolidation differs from the basis of consolidation used for financial reporting purposes. The financial accounting position of the group is reported under IFRS and is described on page 184 of the annual financial statements.

The regulatory consolidation includes all financial sector subsidiaries, the majority of which are wholly owned by the relevant parent company. Investments in financial sector associates are equity accounted in the financial accounting consolidation. In the regulatory consolidation exposures to financial sector associates are proportionally consolidated. Subsidiaries and associates engaged in non-financial activities are excluded from the regulatory consolidation. In addition SPEs are not consolidated for regulatory purposes, where significant credit risk has been transferred to third parties. The positions the firm continues to hold in these securitisation SPEs will either be riskweighted and/or deducted from common equity tier 1 capital.

The principal SPE excluded from the regulatory scope of consolidation is Tamarin Securities Limited.

Investec Bank plc, a regulated subsidiary of Investec plc, applies the provisions laid down in article 9 of the Capital Requirements Regulation (solo-consolidation waiver) and reports to the PRA on a solo-consolidation basis. Investec Bank plc has two solo-consolidation subsidiaries namely, Investec Finance plc and Investec Investments (UK) Limited.

There are no current or foreseen material practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities among the parent undertaking and its subsidiary undertakings.

# 03

# Risk management

(continued)

The table which follows reconciles the Investec plc group's financial accounting balance sheet to the regulatory scope balance sheet.

The alphabetic references included in the reconciliation provide a mapping of the balance sheet items to elements included in the capital structure table, set out on pages 113 and 114.

Regulatory capital requirements are driven by the regulatory balance sheet and not the financial accounting balance sheet.

A detailed list of principal subsidiaries and associates included in the financial accounting scope of consolidation are disclosed on pages 265 to 269.

# Regulatory capital and requirements

Regulatory capital is divided into three main categories, namely common equity tier 1, tier 1 and tier 2 capital and comprise the following:

 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 instruments that are capable of being fully and permanently written down or converted into common equity tier 1 capital at the point of non-viability of the firm, and other additional tier 1 instruments, which no longer qualify as additional tier 1 capital and are subject to grandfathering provisions and related eligible non-controlling interests
- Tier 2 capital comprises qualifying subordinated debt and related eligible non-controlling interests and other tier 2 instruments, which no longer qualify as tier 2 capital and are subject to grandfathering provisions.

#### Capital disclosures

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

(continued)

### Reconciliation of the financial accounting balance sheet to the regulatory scope of consolidation

Deconsolidation of

At 31 March 2017 £'million	Ref^	Accounting balance sheet	non-financial/ other entities	Consolidation of banking associates	Regulatory balance sheet
<del></del>	her.			1	
Cash and balances at central banks		2 854	-	-	2 854
Loans and advances to banks		1 131	(69)	4	1 066
Reverse repurchase agreements and cash collateral on securities borrowed		536	_	_	536
Sovereign debt securities		953	i -	_	953
Bank debt securities		185	-	_	185
Other debt securities		398	2	_	400
Derivative financial instruments		604	-	-	604
Securities arising from trading activities		523	(6)	-	517
Investment portfolio .		460	(1)	30	489
Loans and advances to customers		8 621	-		8 621
Other loans and advances		413	62	-	. 475
Other securitised assets		139	-	-	139
Interests in associated undertakings		63	-	(52)	11
Deferred taxation assets		90	-	-	90
of which:					
- relates to losses carried forward	а	10	-	- 1	10
- relates to temporary differences		34	-	-	34
Other assets		1 276	(23)	13	1 266
of which:					
- pension assets	b	2	-	-	2
Property and equipment		61	(30)	-	31
Investment properties		14	(14)	-	_
Goodwill	С	355	-	14	369
Intangible assets	С	113	-	-	113
Investment in subsidiary companies		_	9	-	9
Total assets		18 789	(70)	9	18 728

<sup>^</sup> The reference identify balance sheet components which are used in the calculation of regulatory capital.



(continued)

# Reconciliation of the financial accounting balance sheet to the regulatory scope of consolidation (continued)

At 31 March 2017 £'million	Ref^	Accounting balance sheet	Decon- solidation of non-financial/ other entities	Consolidation of banking associates	Regulatory balance sheet
Deposits by banks		691	(86)	_	605
Derivative financial instruments		583	-	-	583
Other trading liabilities		136	-	-	136
Repurchase agreements and cash collateral on securities lent		224	-	_	224
Customer accounts (deposits)		11 021	95	- '	11 116
Debt securities in issue		1 955	(77)	-	1 878
Liabilities arising on securitisation of other assets		129	13	-	142
Current taxation liability		144	-	-	144
Deferred taxation liabilities		26	(2)	_	24
of which:					i
- in respect of acquired intangibles		. 18	-	-	18
Other liabilities		1 269	-	7	1 276
Subordinated liabilities		579		_	579
of which:		•	<u> </u>	]	
- term subordinated debt included in tier 2 capital	đ	579	-	_	579
Total liabilities		16 757	(57)	7	16 707
Shareholders' equity excluding non-controlling interests	е	2 017	(13)	2	2 006
of which:					
- perpetual preference shares included in additional tier 1 capital	f, d	24	-	_	24
Non controlling interests	g	15	-	_	15
Total equity		2 032	(13)	2	2 021
Total liabilities and equity		18 789	(70)	9	18 728

(continued)

# Reconciliation of the financial accounting balance sheet to the regulatory scope of consolidation (continued)

Deconsolidation of Accounting non-financial/ Consolidation Regulatory At 31 March 2016 other of banking balance balance £'million Ref^ entities associates sheet sheet 2 638 Cash and balances at central banks 2 638 Loans and advances to banks 1 112 (78)6 1 040 Reverse repurchase agreements and cash collateral on securities 557 borrowed 557 Sovereign debt securities 1 253 1 253 Bank debt securities 188 .188 Other debt securities 394 394 Derivative financial instruments 838 838 Securities arising from trading activities 524 524 Investment portfolio 451 451 Loans and advances to customers 7 804 20 7 824 Other loans and advances 417 32 449 Other securitised assets 151 151 Capital invested in insurance and other entities 4 4 7 Interests in associated undertakings 24 (17)Deferred taxation assets 85 1 86 of which: 8 8 - relates to losses carried forward - relates to temporary differences 35 35 (15) 8 1 705 1 698 Other assets of which: - pension asset 46 46 Property and equipment 56 (20)36 Investment property 79 79 Goodwill 357 363 6 С Intangible assets 123 С 123 18 703 **Total assets** 18 756 (77)24

<sup>^</sup> The references identify balance sheet components which are used in the calculation of regulatory capital.



(continued)

# Reconciliation of the financial accounting balance sheet to the regulatory scope of consolidation (continued)

Deconsolidation of Accounting non-financial/ Consolidation Regulatory At 31 March 2016 balance other of banking balance £'million Ref^ sheet entities associates sheet Deposits by banks 544 (75)15 484 Derivative financial instruments 964 964 Other trading liabilities 227 227 281 Repurchase agreements and cash collateral on securities lent 281 10 809 99 10 908 Customer accounts (deposits) Debt securities in issue 1 829 (104)1 725 Liabilities arising on securitisation of other assets 121 26 147 Current taxation liabilities 141 141 Deferred taxation liabilities 34 (3) 31 of which: 21 - in respect of acquired intangibles С 21 - in respect of pension assets 8 8 Other liabilities 1 329 (1) 9 1 337 Subordinated liabilities 597 597 of which: 597 597 - term subordinated debt included in tier 2 capital (58) **Total liabilities** 16 876 24 16 842 Shareholders' equity excluding non-controlling interests 1 867 (19)1 848 - perpetual preference shares included in additional tier 1 capital 130 130 - perpetual preference shares included in tier 2 capital 20 20 Non-controlling interests 13 13 **Total equity** 1 880 1 861 (19)Total liabilities and equity 18 756 (77)24 18 703

<sup>^</sup> The references identify balance sheet components which are used in the calculation of regulatory capital.

(continued)

### 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 239 to 244.



The transitional own funds disclosure template, capital instruments' main features template, leverage ratio templates and the countercyclical capital buffer disclosure templates, prescribed by the Capital Requirements Regulation, will be available on the Investec group website.

		31 March 2017		31 March 2016	
£'million	Ref^	Investec plc*°	IBP*°	Investec plc*°	IBP*°
Tier 1 capital					
Shareholders' equity		1 921	1 938	1 652	1 793
Shareholders' equity per balance sheet	е	2 017	1 982	1 867	1 844
Foreseeable dividends		(60)	(35)	(46)	(34)
Perpetual preference share capital and share premium	f; d	(25)	ŀ	(150)	-
Deconsolidation of special purpose entities	e ·	(11)	(9)	(19)	(17)
Non-controlling interests	_	11	(2)	10	(1)
Non-controlling interests transferred to tier 1	h	-	-	-	-
Surplus non-controlling interest disallowed in common equity tier 1		(4)	_	(3)	_
Regulatory adjustments to the accounting basis	_	(6)	(4)	(43)	(6)
Defined benefit pension fund adjustment	b _	(2)	- [	(37)	_
Additional value adjustments		(4)	(4)	(6)	(6)
Deductions	_	(478)	(380)	(478)	(386)
Goodwill and intangible assets net of deferred taxation	c	(464)	(366)	(466)	(374)
Deferred taxation assets that rely on future profitability		(10)	(10)	(0)	(0)
excluding those arising from temporary differences	а	(10)	(10)	(8)	(8)
Securitisation positions		(3)	(3)	(4)	(4)
Debt valuation adjustment		(1)	(1)		
Common equity tier 1 capital		1 448	1 552	1 141	1 400
Additional tier 1 instruments	f; h	24	i	130	_
Tier 1 capital		1 472	1 552	1 271	1 400

Where: IBP is Investec Bank plc consolidated. The information for Investec plc includes the information for IBP.

The capital adequacy disclosures for Investec pic and IBP include the deduction of foreseeable dividends when calculating common equity tier 1 capital as now required under the CRR and EBA technical standards. These disclosures are different to the capital adequacy disclosures included in Investec's 2017 and 2016 integrated annual report, which follow our normal basis of presentation and do not include the deduction for foreseeable dividends when calculating common equity tier 1 capital. Investec pic and IBP's common equity tier 1 ratios would be 45bps (31 March 2016: 40bps) and 28bps (31 March 2016: 30bps) higher, respectively, on this basis.

<sup>^</sup> The references refer to those in the reconciliation of the regulatory scope balance sheet set out on pages 109 to 112.



(continued)

# Capital management and allocation (continued) Capital structure and capital adequacy (continued)

		31 Mar	31 March 2017		ch 2016
£'million	Ref^	Investec plc*	IBP*	Investec plc*	IBP*
Tier 2 capital		475	560	535	590
Tier 2 instruments	d	560	560	610	590
Non-qualifying surplus capital attributable to non-controlling interests		(85)	-	(75)	-
Total regulatory capital		1 947	2 112	1 806	1 990
Risk-weighted assets		13 312	12 716	12 297	11 738
Capital ratios					
Common equity tier 1 ratio		10.9%	12.2%	9.3%	11.9%
Tier 1 ratio		11.1%	12.2%	10.3%	11.9%
Total capital ratio		14.6%	16.6%	. 14.7%	17.0%

Where: IBP is Investec Bank plc consolidated. The information for Investec plc includes the information for IBP.

<sup>^</sup> The references refer to those in the reconciliation of the regulatory scope balance sheet set out on pages 109 to 112.

# 03

# Risk management

(continued)

# Capital management and allocation (continued) Capital requirements

	31 Marc	31 March 2017		31 March 2016	
£'million	Investec plc*	IBP*	Investec plc*	IBP*	
Capital requirements	1 064	1 017	984	939	
Credit risk – prescribed standardised exposure classes	790	776	711	698	
Corporates	434	431	341	338	
Secured on real estate property	156	156	150	150	
Retail	45	45	44	44	
Institutions	30	28	32	35	
Other exposure classes	117	108	135	122	
Securitisation exposures	8	8	9	9	
Equity risk – standardised approach	6	6	8	8	
Listed equities	3	. 3	3	3	
Unlisted equities	3	3	5	5	
Counterparty credit risk	39	39	41	41	
Credit valuation adjustment risk	6	6	5	5	
Market risk	71	68	76	74	
Interest rate	29	29	27	27	
Foreign exchange	14	8	23	21	
Equities	20	20	16	16	
Options	8	11	10	10	
Operational risk – standardised approach	152	122	143	113	
	•				
Risk-weighted assets (banking and trading)	13 312	12 716	12 297	11 738	
Credit risk - prescribed standardised exposure classes	9 873	9 687	8 883	8 720	
Corporates	5 432	5 380	4 260	4 224	
Secured on real estate property	· 1 948	1 948	1 876	1 876	
Retail	557	557	550	550	
Institutions	370	353	397	439	
Other exposure classes	1 466	1 349	1 693	1 524	
Securitisation exposures	100	100	107	107	
Equity risk – standardised approach	80	80	103	102	
Listed equities	40	40	43	43	
Unlisted equities	40	40	60	59	
Counterparty credit risk	494	494	515	518	
Credit valuation adjustment risk	78	78	57	58	
Market risk	882	856	955	924	
Interest rate	360	360	332	332	
Foreign exchange	169	106	292	261	
Securities underwriting	.00			_	
Equities	248	248	201	201	
Options	105	142	130	130	
Operational risk – standardised approach	1 905	1 521	1 784	1 416	

Where: IBP is Investec Bank plc consolidated. The information for Investec plc includes the information for IBP.



(continued)

### Investec plc

#### Movement in risk-weighted assets

Total risk-weighted assets (RWAs) have increased by 8.3% over the period, predominantly within credit risk RWAs.

#### Credit risk RWAs

For Investec plc consolidated reporting, we have adopted the standardised approach for calculating credit risk RWAs. Credit risk RWAs, which include equity risk, increased by £967 million. The increase is primarily attributable to a growth in secured corporate and residential mortgage lending.

#### Counterparty credit risk RWAs and credit valuation risk (CVA)

Counterparty credit risk and CVA RWAs decreased by £21 million mainly due to central clearing some of our derivative exposures.

#### Market risk RWAs

We apply the standardised approach for calculating market risk RWAs. Market risk RWAs decreased by £73 million primarily driven by a decrease in FX risk which was achieved by hedging.

#### Operational risk RWAs

Operational risk RWAs are calculated using the standardised approach increased by £121 million. The increase is due to a higher three year average operating income.

#### A summary of capital adequacy and leverage ratios

	31 March	31 March 2017		2016
	Investec plc^*	IBP^*	Investec plc^*	IBP^*
Common equity tier 1 (as reported)	10.9%	12.2%	9.3%	11.9%
Common equity tier 1 ('fully loaded')^^	10.9%	12.2%	9.3%	11.9%
Tier 1 (as reported)	11.1%	12.2%	10.3%	11.9%
Total capital adequacy ratio (as reported)	14.6%	16.6%	14.7%	17.0%
Leverage ratio** – permanent capital	7.5%	8.0%	6.7%	7.5%
Leverage ratio <sup>⋆⋆</sup> – current	7.5%	8.0%	6.7%	7.5%
Leverage ratio** - 'fully loaded'^^	7.4%	8.0% .	6.1%	7.5%
Leverage ratio** - current UK Leverage ratio framework^^^	8.7%	9.3%	n/a	n/a

Where: IBP is Investec Bank plc consolidated. The information for Investec plc includes the information for IBP.

<sup>^</sup> The capital adequacy disclosures for Investec plc and IBP include the deduction of foreseeable dividends when calculating common equity tier 1 capital as now required under CRR and EBA technical standards. These disclosures are different to the capital adequacy disclosures included in Investec's 2016 and 2015 integrated annual report, which follow our normal basis of presentation and do not include the deduction for foreseeable dividends when calculating common equity tier 1 capital. Investec pic and IBP's common equity tier 1 ratios would be 45bps (31 March 2016: 40bps) and 28bps (31 March 2016: 30bps) higher, respectively on this basis.

<sup>^^</sup> Based on the group's understanding of current regulations 'fully loaded' is based on Basel III capital requirements as fully phased in by 2022.

<sup>\*\*</sup> The leverage ratios are calculated on an end-quarter basis.

<sup>^^</sup> Investec pic is not subject to the UK leverage ratio framework, however, due to recent changes to the UK leverage ratio framework to exclude from the calculation of the total exposure measure those assets constitution claims on central banks where they are matched by deposits accepted by the firm that are denominated in the same currency and of identical or longer maturity, this has been included for comparative purposes.

(continued)

### Reconciliation of the leverage ratio

The leverage ratio is calculated using the CRR definition of leverage which was adopted by the European Commission via a delegated Act in October 2014 and came into force from 1 January 2015. The leverage ratio has been disclosed using both a transitional and 'fully loaded' capital measure.

Investec plc's leverage ratio has increased as a result of increased exposures driven by loans and other advances to customers and cash and balances to central banks.

Investec Bank plc's leverage ratio has remained unchanged as a result of an increase in tier 1 capital, driven by profits generated during the year, which was offset by increased exposure.

	31 Marc	31 March 2017		31 March 2016	
£'million	Investec plc*	IBP*	Investec plc*	IBP*	
Total assets per accounting balance sheet	18 789	18 381	18 756	18 335	
Deconsolidation of non-financial/other entities	(70)	(72)	(77)	(80)	
Consolidation of banking associates	9	9	24	8	
Total assets per regulatory balance sheet	18 728	18 318	18 703	18 263	
Reversal of accounting values:					
Derivatives	(604)	(610)	(838)	(843)	
Regulatory adjustments:	1 565	1 709	966	1 145	
Market risk					
Derivatives market value	567	567	326	328	
Derivative add-on amounts per the mark-to-market method	793	789	512	519	
Securities financing transaction add-on for counterparty credit risk	39	39	126	126	
Off-balance sheet items	737	693	595	554	
Add-on for written credit derivatives	3	3	9	9	
Exclusion of items already deducted from the capital measure	(574)	(382)	(602)	(391)	
Exposure measure	19 689	19 417	18 831	18 565	
Tier 1 capital	1 472	1 552	1 271	1 400	
Leverage ratio – current	7.5%	8.0%	6.7%	7.5%	
Tier 1 capital 'fully loaded'^	1 448	1 552	1 141	1 400	
Leverage ratio - 'fully loaded'^	7.4%	8.0%	6.1%	7.5%	

<sup>\*</sup> Where: IBP is Investec Bank plc consolidated. The information for Investec plc includes the information for IBP.

<sup>^</sup> Based on the group's understanding of current regulations 'fully loaded' is based on capital requirements as fully phased in by 2022.



(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

· · · · · · · · · · · · · · · · · · ·	31 March 2017		31 March 2016	
£'million	Investec plc*	IBP*	Investec plc*	IBP*
Opening common equity tier 1 capital	1 141	1 400	1 122	1 325
New capital issues	174	-	23	_
Gain on Preference share redemption	41	-	-	-
Dividends	(108)	(35)	(128)	(40)
Profit/(loss) after taxation	160	118	128	95
Treasury shares	(50)		(91)	_
Acquisition of non-controlling interest	7	-	(142)	_
Share-based payment adjustments	26	-	28	5
Movement in other comprehensive income	19	53	(10)	(16)
Goodwill and intangible assets (deduction net of related taxation liability)	2	9	7	7
Deferred taxation that relies on future profitability (excluding those arising from temporary differences)	(1)	(1)	_	_
Deconsolidation of special purpose entities	11	9	46	34
Non-controlling interest transferred to tier 1	-	_	144	
Foreseeable dividend	(14)	(1)	11	(19)
Other, including regulatory adjustments and transitional arrangements	40	-	3	9
Closing common equity tier 1 capital	1 448	1 552	1 141	1 400
Opening additional tier 1 capital	130	_	205	_
Redeemed capital	(106)	_	(145)	-
Other, including regulatory adjustments and transitional arrangements	_	-	70	_
Closing additional tier 1 capital	24	-	130	_
Closing tier 1 capital	1 472	1 552	1 271	1 400
Opening tier 2 capital	535	590	556	590
Redeemed capital	(37)	(18)	_	_
Amortisation	(12)	(12)	-	_
Other, including regulatory adjustments and transitional arrangements	(11)	_	(21)	_
Closing tier 2 capital	475	560	535	590
Closing total regulatory capital	1 947	2 112	1 806	1 990

<sup>\*</sup> Where: IBP is Investec Bank plc consolidated. The information for Investec plc includes the information for IBP.

(continued)

# Analysis of rated counterparties in each standardised credit exposure class

The table below shows the breakdown of rated credit risk exposures by credit quality step as prescribed by the Capital Requirements Regulation for the purposes of The Standardised approach for the mapping of external credit assessments for credit quality steps.

	31 Mar	31 March 2017		31 March 2016	
Credit quality step £'million	Exposure	Exposure after credit risk mitigation	Exposure	Exposure after credit risk mitigation	
Central banks and sovereigns					
1	3 730	3 730	3 842	3 842	
2	_	-		_	
3	5	5	-	_	
4	-	-	-	-	
5	-	-	-	-	
6	=	- 1	-	-	
Institutions*		ĺ			
1	335	333	388	366	
2	437	434	469	455	
3	137	137	155	155	
4	70	30	43	19	
5	2	2	-	_	
6	-	-	-	-	
Corporates					
1	5	4	2	_	
2	36	13	30	4	
3	48	12	51	5	
4	6	6	6	2	
5	56	45	2	2	
6	5	5	-	_	
Securitisation positions					
1	249	249	265	265	
2	76	76	63	63	
3	34	12	19	19	
4	_	-	-	-	
5	=	-	-	-	
6	-	-	-	-	
Resecuritisation positions					
1	_	-	_ ]	-	
2	-	- 1	3	3	
3	_	_	_	-	
4	-	-	_	_	
5	-	_	_	_	
Total rated counterparty exposure	5 231	5 093	5 338	5 200	

<sup>\*</sup> The institutions exposure class includes exposures to institutions with an original effective maturity of more than and less than three months.



# Credit ratings

In terms of our dual listed companies structure, creditors are ring-fenced to either Investec Limited or Investec plc as there are no cross-guarantees between the companies. Capital and liquidity are prohibited from flowing between the two entities and thus capital and liquidity are not fungible. As a result, the rating agencies have assigned separate ratings to the significant banking entities within the group, namely Investec Bank plc and Investec Bank Limited. Certain rating agencies have also assigned ratings to the holding companies, namely, Investec plc and Investec Limited. Our ratings at 14 June 2017 are as follows:

	Investec olc	Investec Bank plc – a subsidiary of Investec plc
Fitch		
Long-term rating		BBB
Short-term rating		F2
Viability rating		ddd
Support rating		5
Moody's		
Long-term rating	Baa1	A2
Short-term rating	Prime-2	Prime-1
Baseline Credit Assessment (BCA) and adjusted BCA		baa2
Global Credit Ratings		
Long-term rating		BBB+
Short-term rating		A2

As a result of the regulatory responsibilities arising from the DLC structure, there are two group Internal Audit departments located in London and Johannesburg, responsible for Investec plc and Investec Limited respectively. Investec Bank plc's (Irish branch) has its own Internal Audit function reporting into Investec plc Internal Audit. In combination, the functions cover all the geographies in which Investec operates. These functions use a global risk-based methodology and cooperate technically and operationally.

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

Annually, Internal Audit conducts a formal risk assessment of the entire business from which a comprehensive risk-based audit plan is derived. The assessment and programme are validated by executive management and approved by the

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

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

Internal Audit proactively reviews its practices and resources for adequacy and appropriateness to meet an increasingly demanding corporate governance and regulatory environment. 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.

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

# 03

## Compliance

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

Global regulators remain focused on countering market abuse with heightened scrutiny and regulatory attention in this area. Accordingly, the Market Abuse Regulation (MAR) took effect across the EU on 3 July 2016 in connection with this topic.

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

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

### Year in review

#### **Conduct risk**

The FCA has continued to focus on advancing its three operational objectives: securing an appropriate degree of protection for consumers; protecting and enhancing the integrity of the UK financial system; and promoting effective competition in the interest of consumers. The FCA's aim is to ensure that clients' interests are at the forefront of firms' agendas and that their needs are placed at the heart of the firms' strategy. Firms are also expected to behave appropriately in the wholesale markets in which they operate with a view to conduct risk considerations.

The Investec board, along with senior management are ultimately responsible for Investec's conduct risk strategy. Investec has continued to focus over the period

on delivering good customer outcomes and effectively managing conduct risk throughout our business. This has included continued and ongoing investment in and enhancement of the conduct risk and compliance frameworks in place throughout the group.

# Senior managers and certified persons regime

During the period Investec Bank plc successfully implemented the core components of the Senior Managers Regime which came into force on 7 March 2016. From 7 March 2017 the Conduct Rules will be applied to banking sector staff who are not within the Senior Managers or Certification Regime. This regime establishes a new regulatory framework for individuals working in the UK banking sector. The incoming regime consists of three key components:

- A new Senior Managers Regime which will clarify lines of responsibility, and enhance the regulators' ability to hold senior individuals in banks accountable and require banks to regularly vet their senior managers for fitness and propriety;
- A Certification Regime requiring firms to assess fitness and propriety of staff in positions where the decisions they make could pose significant harm to the bank or any of its customers; and
- A new set of Conduct Rules, which take the form of brief statements of high level principles setting out the standards of behaviour for bank employees.

Investec Bank plc has successfully implemented the core components of the regime which came into force on 7 March 2016.

### Consumer protection

The FCA has continued to pursue its consumer protection objective. Over the period this has included issuing of significant fines and performing continued strategic reviews into areas such as: product design and sales practises, provision of advice, treatment of customers who suffered unauthorised transactions and product and service suitability.

#### Wholesale markets

The FCA continues a proactive and assertive approach in identifying and addressing risks arising from firm's conduct in the wholesale markets.

This has included an increasingly intensive approach to supervisory activities and thematic reviews as well as several high profile referrals to enforcement.

Wholesale markets have also been the focus of significant regulatory reform over the past 12 months. The most significant proposed reforms have included the finalisation of the incoming Markets in Financial Instruments Directive (MiFID II) which is due to be implemented by January 2018 and MAR.

The MiFID II reform package will form a revised framework governing the requirements applicable to investment firms, trading venues, data reporting service providers and third-country firms providing investment services or activities in the EU. These reforms will drive change across Investec Bank plc, Investec Asset Management and Investec Wealth & Investment. Investec remains on course for implementation by January 2018.

Material reforms also continue to take effect in the OTC markets as a result of the EU's Market Infrastructure Regulations (EMIR).

#### Financial crime

Financial crime continues to be a regulatory focus with regulators globally encouraging firms to adopt a dynamic approach to the management of risk and to increase efforts around systems and controls to combat both money laundering and bribery and corruption. In 2016 the FCA published "Our future mission" in which it states "we see financial crime as a risk to the wider economy and market integrity". The FCA Business Plan 2016/17 also highlights financial crime and anti-money laundering as one of the seven priorities for the regulator.

# Compliance

03

(continued)

### Tax reporting (FATCA/CRS)

The Foreign Account Tax Compliance Act (FATCA) aims to promote cross-border tax compliance by implementing an international standard for the automatic exchange of tax information relating to US investors. The provisions call on tax authorities all over the world to obtain detailed account information from financial institutions relating to US investors and exchange that information automatically with the United States Internal Revenue Service on an annual basis.

The OECD has recently taken further steps to improve global cross-border tax compliance by releasing the Common Reporting Standard (CRS). The CRS is a set of global standards for the annual exchange of financial information by financial institutions pertaining to customers, to the tax authorities of the jurisdictions in which those customers are resident for tax purposes. CRS took effect on 1 January 2016 in the UK, with reporting commencing from 2017.

Investec plc is currently compliant with its obligations.





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

### Chairman's introduction

Dear Shareholder

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

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

#### The past year in focus

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

#### Strategic initiatives

The board has continued to exercise leadership, integrity and judgement in pursuit of Investec's strategic goals and objectives. In terms of positioning for future opportunities, two areas of particular focus have been the digitisation of our product offering and the continued growth of our private client business. Both of these strategic initiatives were discussed and debated at the board's annual strategy session, which was held in February 2017, and are ongoing areas of discussion at board meetings.

#### **Board effectiveness**

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

#### Management succession

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

#### Shareholder engagement

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

#### Priorities for the year ahead

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

The board of Investec Bank plc established its own governance arrangements and a key focus area for the group will be to ensure that these governance arrangements are embedded into the group's broader governance structure.

#### Conclusion

Over the following pages, you will find more detail of our governance framework, including who our board and management are, how they make decisions and what they have done over the past year in terms of their leadership, strategic direction and oversight of the organisation. We hope that this report, together with the strategic report and financial statements will provide you with an overview of how we are managing the group and looking after the interests of our stakeholders.



Fani Titi Chairman 14 June 2017

03

Risk management and corporate governance

(continued)



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# Who we are

### Governance framework

Investec operates under a dual listed company (DLC) structure and considers the corporate governance principles and regulations of both the UK and South Africa before adopting the appropriate standard for the group which also complies with requirements in both jurisdictions.

From a legal perspective, the DLC is comprised of:

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

Stock Exchange and the Botswana Stock Exchange.

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

#### Investec plc and Investec Limited board of directors DLC **DLC** board risk nominations **DLC** social and DLC **DLC** audit and and directors' ethics remuneration committees capital affairs committee committee committee committee Monitors the Determines group's activities Oversight of the **Ensures that** categories of risk, Sets the with regard specific risk and the group's financial the board and remuneration to social and reporting, risk the governance extent of such risks philosophy of the economic management. structure of the which the group group and ensures development, compliance, group enhances on a consolidated that remuneration is good corporate external good corporate basis, and its banks awarded in citizenship, talent and internal audit on a solo basis, accordance thereof governance retention and should undertake attraction Mandated to manage the group, except over such matters reserved by the board in the Board Charter or delegated to the DLC Committees Management committees Including DLC Capital Committee, Review Executive Risk Review Forum and Policy Executive Risk Review Forum Internal Audit Complianc

(continued)

# **Board roles**

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

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



(continued)

#### **Director biographies**

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

#### Fani Titi, chairman

Age: 55

Qualifications

BSc (Hons), MA, MBA

Relevant skills and experience

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

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

Other principal appointments

Investec Asset Management Holdings (Pty) Ltd, Investec Asset Management Ltd, Kumba Iron Ore Ltd (chairman), MRC Media (Pty) Ltd and other Investec subsidiaries.

Committees

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

Date of appointment

Investec Limited and Investec plc 30 January 2004

#### Stephen Koseff, group chief executive officer

Age: 65

Qualifications

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

Relevant skills and experience

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

Other principal appointments

Investec Bank Limited, Investec Bank plc and a number of Investec subsidiaries.

Committees

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

Date of appointment

Investec Limited 6 October 1986

Investec plc 26 June 2002

#### Bernard Kantor, managing director

Age: 67

Qualifications

CTA

Relevant skills and experience

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

Other principal appointments

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

Committees

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

Date of appointment

Investec Limited 9 June 1987

Investec plc 19 March 2002

(continued)

#### Glynn R Burger, group risk and finance director

Age: 60

Qualifications

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

Relevant skills and experience

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

Other principal appointments

Investec Bank Limited and a number of Investec subsidiaries.

Committees

DLC board risk and capital and DLC capital.

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

#### Hendrik J du Toit, Investec Asset Management chief executive officer

Age: 55

Qualifications

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

Relevant skills and experience

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

Other principal appointments

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

Committees

None

Date of appointment

Investec Limited 15 December 2010

Invested plc 15 December 2010

#### Perry KO Crosthwaite, senior independent director

Age: 68

Qualifications

MA (Hons) in modern languages

Relevant skills and experience

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

Other principal appointments

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

Committees

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

Date of appointment

Investec Limited 18 June 2010

Investec plc 18 June 2010



(continued)

#### Zarina BM Bassa, independent non-executive director

Age: 53

Qualifications

BAcc, DipAcc, CA(SA)

#### Relevant skills and experience

Zarina is a former partner of Ernst & Young Inc., she joined the Absa Group in 2002 and was an executive director and a member of the bank's executive committee, with accountability for private banking. She has previously chaired the South African Public Accountants' and Accounting Standards Board and the South African Auditing Standards Board and has been a member of the JSE GAAP Monitoring Panel.

#### Other principal appointments

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

#### Committees

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

\* Appointed as chair on 1 April 2017

Date of appointment

Investec Limited 1 November 2014

Investec plc 1 November 2014

#### Laurel C Bowden, independent non-executive director

Age: 52

Qualifications

BSc Elec Eng, HND Eng, MBA (INSEAD)

#### Relevant skills and experience

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

#### Other principal appointments

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

#### Committees

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

Date of appointment

Investec Limited 1 January 2015

Investec plc 1 January 2015

#### Cheryl A Carolus, independent non-executive director

Age: 59

Qualifications

BA (Law), Honorary doctorate in Law

Relevant skills and experience

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

#### Other principal appointments

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

Committees

DLC social and ethics.

Date of appointment

Investec Limited 18 March 2005

Investec plc 18 March 2005

(continued)

#### David Friedland, independent non-executive director

Age: 64

Qualifications

BCom, CA(SA)

Relevant skills and experience

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

Other principal appointments

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

#### Committees

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

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

Date of appointment

Investec Limited 1 March 2013

Investec plc 1 March 2013

#### Charles R Jacobs, independent non-executive director

Age: 50

Qualifications

LLB

Relevant skills and experience

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

Other principal appointments

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

Committees

DLC remuneration.

Date of appointment

Investec Limited 8 August 2014

Investec plc 8 August 2014

### Ian R Kantor, non-executive director

Age: 70

Qualifications

BSc (Eng), MBA

Relevant skills and experience

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

Other principal appointments

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

Committees

None

Date of appointment

Investec Limited 30 July 1980

Investec plc 26 June 2002



(continued)

#### Lord Malloch-Brown KCMG, independent non-executive director

Age: 63

Qualifications

BEcon, CA(England & Wales)

Relevant skills and experience

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

Other principal appointments

Seplat Petroleum Development Company plc and Smartmatic Ltd.

Committees

DLC social and ethics.

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

#### Khumo L Shuenyane, independent non-executive director

Age: 46

Qualifications

BEcon, CA(England & Wales)

Relevant skills and experience

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

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

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

Other principal appointments

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

Committees

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

Date of appointment

Investec Limited 8 August 2014 Investec plc 8 August 2014

#### Peter RS Thomas, independent non-executive director

Age: 72

Qualifications

CA(SA)

Relevant skills and experience

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

Other principal appointments

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

Committees

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

Date of appointment

Investec Limited 29 June 1981 Investec plc 26 June 2002

(continued)

### **Board composition**

#### Independence

 As at 31 March 2017, the board is compliant with Principle B.1.2 of the UK Corporate Governance Code in that at least half the board, excluding the chairman, comprises independent nonexecutive directors.

A summary of the factors the board uses to determine the independence of nonexecutive directors are detailed below:

#### Relationships and associations

- lan Kantor is the brother of Bernard Kantor, Investec's managing director.
   lan is also the founder and was previously chief executive officer of Investec. Accordingly, the board concluded that lan could not be considered independent under the UK Corporate Governance Code.
- Prior to joining the board on

   March 2013, David Friedland was a partner of KPMG Inc. KPMG Inc along with Ernst & Young Inc, are joint auditors of Investec Limited. The board concluded that, notwithstanding his previous association with KPMG Inc, David retains independence of judgement given he was never Investec Limited's designated auditor or relationship partner and was not involved with the Investec account.
- Charles Jacobs is the chairman and senior partner of the global law firm Linklaters LLP, having been appointed on 1 October 2016. Linklaters is currently one of the Investec's UK legal

advisors. The board concluded that, notwithstanding his association with Linklaters, Charles retains independence of judgement. Selection of legal advisors is not a board matter and is decided at the management level. If any decision were to be made at the board level regarding Linklaters, which has not happened to date, Charles would recuse himself in accordance with the provisions of the relevant Companies Act relating to directors' interests. Where advice is provided by Linklaters to Investec, it is provided by separate Linklaters partners and not Charles. The legal fees paid to Linklaters have not been material either to Linklaters or Invested.

#### Tenure

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

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

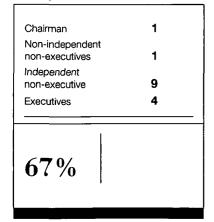
Accordingly, the board has concluded that Cheryl Carolus and Peter Thomas, despite having been directors of Investec for nine years or more, retain both financial independence and independence of character and judgement. Peter Thomas will not be standing for re-election at the annual general meeting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

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

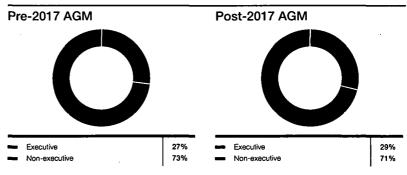
#### Attendance at credit

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

### Independence



#### Balance of non-executive and executive directors:



#### Terms of appointment

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

#### Independent advice

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

#### Company secretary

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

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 UK Companies Acts and the listings and governance requirements as applicable.

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

### Diversity

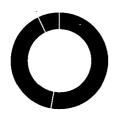
13% 40 - 5040% 51 - 60

61 and above

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

#### Geographical mix:

#### Board gender balance:



South Africa HK

Othe

53% 40% 7%

47%

Male Female

Pre-2017 AGM

80%

Post-2017 AGM

Male Female

79% 21%

## **Tenure**

#### Average length of service pre-2017 AGM:

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

### Average length of service post-2017 AGM:

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

#### **UK Corporate Governance** recommendation:

Recommendation that non-executives should not serve longer than nine years from the time of their appointment.

# Pre-2017 AGM: Average tenure



0 - 3 years 3 - 6 years 6 — 9 years 9 years plus

#### Post-2017 AGM: Average tenure



0 - 3 years 3 — 6 years 6 - 9 years 9 years plus

(continued)

# What we did

### **Board report**

#### Role

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

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

#### The board

### Meeting schedule and attendance

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

Furthermore, during the year ended 31 March 2017, the boards of Investec plc and Investec Limited held one additional meeting each in the UK and South Africa, respectively. Unscheduled meetings are called as the need arises.

Comprehensive information packs on matters to be considered by the board are provided to directors in advance of the meetings.

How the board spent its t	ime		
Strategy formulation and	Finance and operations (including monitoring performance,	Governance,	
monitoring of implementation	capital and liquidity)	compliance and risk	Other
25%	50%	20%	5%

### Composition

Investec plc and Investec Limited (7 meetings in the year)

Members throughout			Eligible to	
the year	Independent	<b>Board member since</b>	attend	Attended
F Titi (Chairman)	On appointment	30 Jan 2004	7	7
ZBM Bassa	Yes	1 Nov 2014	7	7
LC Bowden	Yes	1 Jan 2015	7	. 5
GR Burger	Executive	3 Jul 2002	7	7
CA Carolus	Yes	18 Mar 2005	7	7
PKO Crosthwaite	Yes	18 Jun 2010	7	7
HJ du Toit	Executive	15 Dec 2010	7	7
D Friedland	Yes	1 Mar 2013	7	7
CR Jacobs	Yes	8 Aug 2014	7	6
B Kantor	Executive	19 Mar 2002	7	7
IR Kantor	No	26 Jun 2002	7	7
S Koseff	Executive	26 Jun 2002	7	7
Lord Malloch-Brown KCMG	Yes	8 Aug 2014	7	7
KL Shuenyane	Yes	8 Aug 2014	7	7
PRS Thomas	Yes	26 Jun 2002	7	7

#### Other regular attendees

Head of company secretarial and share schemes



(continued)

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

(continued)

Board activiti	es		
Areas of focus	Matter addressed	Role of the board	Conclusions/actions taken
Remuneration			Received a report from the     Remuneration committee chair at     each meeting     Reports covered a variety of topics     including regulatory developments     pertaining to remuneration
Relations with stakeholders	Shareholder views on governance and strategy     Relationship with regulators	Ensure satisfactory dialogue with shareholders     Fostering strong and open relationships with regulators	Noted and discussed the key areas of feedback from shareholders, including feedback relating to:  Board refreshment and succession  Succession planning for the CEO, MD and senior management  Remuneration of executive directors  Regular meeting and open dialogue with regulators
Corporate Citizenship	Promotion of equality, prevention of unfair discrimination and reduction of corruption Consider sponsorships, donations and charitable giving Environmental, health and public safety, including the impact of the group's activities and of its products and services. Consumer relationships including the company's advertising, public relations and compliance with consumer protection laws Labour and employment – the group's standing in terms of the International labour organisation protocol on decent work and working conditions, employment relationships and its contribution towards the educational development of its employees	The board discusses and monitors the various elements of good corporate citizenship	The board is satisfied that the Investec group's standing and commitment to the various elements of good corporate citizenship remain in place and was actively enforced  Frequency of social and ethics committee (SEC) meetings amended to quarterly  Approval of revised SEC terms of reference  Approval of the group's disclosures required under the Modern Slavery Act requirements  Reviewing the annual report with respect to the role Investec plays in society



(continued)

Board activities			
Areas of focus	Matter addressed	Role of the board	Conclusions/actions taken
Subsidiary board and committee composition and governance	<ul> <li>Discussion of succession planning including an update on senior management succession</li> <li>The board received reports on the composition of the key subsidiaries of Investec plc and Investec Limited</li> <li>The board received reports on suggested changes to Investec Bank plc's governance arrangements</li> </ul>	Receive reports from the nomdac at each meeting covering the matters within its delegated authority for review and consideration	Approved the appointment of Zarina Bassa as chair of the audit committees     Noted changes made to subsidiary boards on the recommendation of nomdac
Financial results	Consideration of financial results	<ul><li>Review of financial results</li><li>Appointment of sub-committee</li></ul>	Approval of financial results ended     31 March 2017 for Investec plc     Approval of financial results for the half year ended 30 September 2016
Liquidity, solvency and viability statement	The board satisfies itself of the group's viability A company satisfies the solvency and liquidity test at a particular time if, considering all reasonably foreseeable financial circumstances at that time: The assets of the company, as fairly valued, equal or exceed the liabilities of the company, as fairly valued; and It appears that the company will be able to pay its debts as they become due in the ordinary course of business for a period of:  12 months after date on which the test is considered; or  In the case of a dividend, 12 months following the distribution	The board assesses the group's viability Approval of dividend policy	The board confirmed the group's viability (i.e. its ability to continue in operation and meet its liabilities taking into account the current position of the group, the board's assessment of the group's prospects and the principal risks it faces)  Confirmation that adequate resources exist to support the group on a going concern basis  Adoption of the going concern concept  Confirmation, including a foreseeable dividend amount, will be declared in accordance with the formally approved dividend policy

(continued)

# DLC nominations and directors' affairs committee report

Dear Shareholder

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

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

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

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

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

\_\_\_\_\_

Fani Titi Chairman, DLC nomdac

14 June 2017

"We embrace differences as a strength within our company"

#### **DLC** nomdac

Fani Titi

Chairman of the DLC nomdac

#### Key achievements in 2016/17

- Succession planning and bedding down of senior executive management appointments in subsidiaries
- Driving governance changes
- Design and approval of Investec Bank plc's governance framework within the context of the Senior Managers Regime
- Induction of the new senior independent director and non-executive directors for Investec Bank plc

#### Areas of focus in 2017/18

- Continue to focus on senior management succession planning
- Implementation of new governance arrangements for Investec Bank plc and including oversight of committee membership and establishment of Investec Bank plc nomination committee and Investec Bank plc audit committee, and ensuring alignment to the group process
- Continue to implement structured board refreshment programme



(continued)

### How the nomdac works

#### Role

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

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

#### Composition and meeting frequency

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

#### **DLC** nomdac

#### Meeting schedule and attendance

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

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

#### How the committee spent its time

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

#### Composition

DLC (4 meetings in the year)

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

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

<sup>\*\*</sup> SE Abrahams represents Investec Bank Limited on nomdac.

# 03

### Corporate governance

(continued)

# Skills, knowledge and experience

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

#### Independence

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

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

Over the last three years, six directors have retired, and five new directors have been appointed and, as a result, the average tenure for serving directors has reduced considerably. There has been a significant amount of change and previous board effectiveness reviews clearly articulated

the need to let these changes settle down before further changes to the composition of the board were made. The nomdac, and the board, are now satisfied that the new members of the board have settled in. Accordingly, the structured board refreshment programme will proceed and Peter Thomas will step down from the board immediately following the annual general meeting on 10 August 2017.

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

#### **Diversity**

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

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

#### Succession

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

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

#### **Subsidiary board composition**

In addition to considering the composition of the board, the nomdac keeps under review changes to the composition of the boards of its key subsidiaries. During the period under review, the nomdac acted as the nomination committee of Investec Bank plc. The nomdac has reviewed the composition of the board of Investec Bank plc, and recommended two appointments which it believed would further enhance the effectiveness of the Invested Bank pld board and the degree of independent challenge and independence of the group. The board of Investec Bank plc agreed with the recommendation and as a result Moni Mannings was appointed as a non-executive director of Investec Bank plc on 27 July 2016. Moni brings extensive legal experience, having been a former partner at Olswang as well as valuable commercial and public sector board and committee experience. Brian Stevenson was also appointed on 14 September 2016 as senior independent non-executive director for Investec Bank plc. Brian has extensive banking experience, including experience of chairing audit, risk and remuneration committees. The nomdac considered that it was important that these appointments were made to the board of Investec Bank plc only, and not to the boards of Investec plc and Investec Limited. As part of this process, Investec Bank plc set up its own governance committees which work seamlessly with group governance committees.



(continued)

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

Committee activities				
Areas of focus	Matter addressed	Role of the committee	Conclusions/actions taken	
Succession planning	Discussion of succession planning including an update on senior management succession	Received a detailed report from the chief executive and the managing director on the implementation of management succession changes that had taken place since November 2015     Received a forward looking report on future succession	The committee continually monitor and review succession and assess the success of management changes that have been implemented.	
Subsidiary board composition	The board received reports on the composition of the key subsidiaries:	Reviewed the composition of each of the key subsidiaries of Investec plc	The following matters were agreed: Investec Bank plc	
	Investec Bank plc     Investec Wealth &     Investment Limited     Investec Asset	<ul> <li>Considered any vacancies, new appointments or changes that would enhance the effectiveness of the boards, with particular regard</li> </ul>	Appointment of two non-executive directors, Moni Mannings and Brian Stevenson (senior independent non-executive director)      Appointment of Ruth Leas and Ciaran	
	Management Limited     Investec Bank	to group oversight and governance of subsidiary companies with due	Whelan as executive directors	
į.	(Switzerland) A.G.  Investec (India) Limited	requirements and best practice	Investec (India) Limited and Investec Bank (Switzerland) A.G.	
	Investec Bank (Channel Islands) Limited		Appointment of Investec Bank plc's     Head of Conduct and Governance as     new chairman	
		, .	Investec Bank (Channel Islands) Limited	
			Appointment of Investec Bank plc's     Head of Conduct and Governance as     new director and chairman	
Corporate governance	Consideration of the independence of Investec directors, with particular regard to those directors who had served on the boards for a period longer than nine years	Considered the independence of the non-executive directors giving regard to the factors that might impact their independence, and in particular considered the independence of Peter Thomas and Chery Carolus, each of whom had served on the boards for periods exceeding nine years	The committee concluded that it was satisfied that both Cheryl Carolus and Peter Thomas remained independent, and confirmed that they should be regarded as independent non-executive directors	
		Considered the directors contribution at board meetings and whether they in fact demonstrated independent challenge	·	

#### Corporate governance

(continued)

Areas of focus	Matter addressed	Role of the committee	Conclusions/actions taken
Board diversity	Received information on governance requirements set out in the UK's Senior Management Arrangements, Systems and Controls Handbook (SYSC) applying to Investec Bank plc regarding board diversity, and adoption of changes to terms of reference to reflect these requirements     Considered the target for the representation of women on the board and confirmed its support of the 33% target recommended by the Hampton-Alexander Review	Noted governance requirements that required certain regulated entities to adopt a Board Diversity Policy and a target for female representation on the board Approved amendments to its terms of reference in order to include these duties to ensure that Investec Bank plc remained compliant with the rules	Adoption of changes to the terms of reference
Board effectiveness	Reviewed the process for the 2016 board effectiveness evaluation and made suggestions for changes to enhance the process	Considered the process for the 2017 board effectiveness	The 2017 board effectiveness review would take the form of a self-assessment followed by one on one meetings between the chairman and directors  Amended/added questions regarding risk and audit, presentation of projects to the boards, IT and succession planning  The 2017 board effectiveness review showed good progress on the issues identified in the independently facilitated review

#### Looking ahead

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

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

The nomdac will continue to focus on the composition of the board with respect to diversity.

In respect of subsidiary governance, the board and the Investec Bank plc board have agreed to the establishment of a Investec Bank plc nominations committee. That committee will comprise a majority of independent non-executive directors and the chair of the nomdac. The Investec Bank plc nominations committee will report into both the Investec Bank plc board and the nomdac.

#### Corporate governance

(continued)

#### **DLC** social and ethics committee report

Dear Shareholder

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

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

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

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

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

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

Fani Titi Chairman, DLC SEC Committee

14 June 2017

"Investec lives in society and not off it"

#### **DLC Social and ethics committee**

Fani Titi

Chairman of the DLC SEC

#### Key achievements in 2016/17

- Corporate and Social Investment (CSI) spend of £1.9 million during 2017
- Skills development spend of just under £8.2 million during 2017
- 115 individuals have graduated on the bursary programme since 2012

#### Areas of focus in 2017/18

- Oversight and coordination of group social, environmental and ethics matters
- Improved communication of the various group environmental, social and ethics efforts

(continued)

#### How the SEC works

#### Role

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

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

- · Social and economic development
- · Good corporate citizenship.

#### Composition and meeting frequency

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

#### **DLC Social and ethics committee**

#### Meeting schedule and attendance

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

How the committee spent its time						
Employment matters	DLC corporate responsibility	Reputational risk	Policy matters			
20%	50%	5%	25%			

#### Composition

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

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

#### Other regular attendees

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



(continued)

Committee ac	ctivities		
Areas of focus	Matter addressed	Role of the committee	Conclusions/actions taken
Social and economic development (including human rights)	Monitoring the group's standing in terms of the goals and purposes of:  The 10 principles set out under the United Nations Global Compact Principles (UNGCP)  The Organisation of Economic Co-Operation and Development (OECD) recommendations regarding corruption	The committee:  remains committed to the 10 principles of the UNGCP with respect to human rights, labour, environment and anti-corruption  ensures that the Investec group and its subsidiaries adhere to the relevant laws in all its jurisdictions and strive to advance the UN principles within its sphere of influence	The committee supports the international agenda to abolish human trafficking, slavery, forced and child labour. The group has started the process to integrate the provisions of the Modern Slavery Act into its business, supply chain policies and practices The committee ensures that the group was not complicit in any human rights abuses
Good corporate citizenship	Refer to page 137 for further details	The committee discusses and monitors the various elements of good corporate citizenship .	The committee is satisfied that the group's standing and commitment to the various elements of good corporate citizenship remain in place and was actively enforced
Contribution to the development of communities	Monitoring Investec plc and its subsidiaries' activities in contributing to the development of the communities in which its activities are predominantly conducted or within which its products and services are predominantly marketed	The committee receives regular reports on the group's corporate and social investment initiatives as well as the strategy and spend in respect thereof	The committee ensures that the Investec group contributes to the development of communities

(continued)

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

#### Corporate governance

(continued)

#### **Audit committee report**

Dear Shareholder

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

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

- · Financial reporting
- External audit
- · Internal controls.

#### Committee performance

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

#### Role of the chair

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

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

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

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

#### **DLC** audit committee

#### **David Friedland**

Chairman of the DLC audit committee until 31 March 2017

#### Zarina Bassa

Chairman of the DLC audit committee from 1 April 2017

#### Key achievements in 2016/17

 Implementation of whistle-blowing hotline

#### Areas of focus in 2017/18

- IT risk and cybersecurity
- · Business continuity
- Establishment of Investec Bank plc audit committee
- Implementation of IFRS 9
- Conduct

(continued)

#### Looking ahead

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

During the period under review, the PLC audit committee acted as the audit committee of Investec Bank plc. The nomdac, the board and the board of Investec Bank plc have agreed to the establishment of the Investec Bank plc audit committee. Collectively, we believe that the change will strengthen our existing processes and make for more effective and robust decision-making given the UK regulatory environment. The Investec Bank plc audit committee will comprise of independent non-executive directors, the majority of whom will be directors of Investec Bank plc but not the board. The Investec Bank plc audit committee will be chaired by the bank's senior independent director (subject to regulatory approval), Zarina will be a member of that committee and all members of the audit committees will have the right to attend meetings. Implementing and bedding down this new structure will be a key focus for the audit committees.

**David Friedland** 

Former chairman, audit committees

14 June 2017

Zarina Bassa

Chairman, audit committees

14 June 2017 .

(continued)

#### How the audit committees work

#### Role

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

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

#### Structure of the audit committees

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

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

#### Composition and meeting frequency

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

#### **Audit committee reporting lines**

#### Investec plc and Investec Limited board of directors

Investec plc and Investec Bank plc audit committee

Responsible for all legal and regulatory requirements as necessary under UK legislation and listing rules – including the UK Disclosures and Transparency Rules (7.1.3R) and the UK Corporate Governance Code

**DLC** audit committee

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

Investec Limited and Investec Bank Limited audit committee

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

Subsidiaries and audit sub-committees

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

#### **Corporate governance**

(continued)

#### **Audit committees**

#### Meeting schedule and attendance

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

#### How the committees spent their time

DLC

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

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

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

#### Composition

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

#### Other regular attendees

- · DLC board chairman
- Chief executive officer of the group
- Managing director of the group
- Group risk and finance director of the group
- Head of compliance

- Head of IT
- · Head of operational risk
- Head of internal audit
- Head of finance
- · External auditors
- Head of company secretarial and share schemes

#### Corporate governance

(continued)

#### **Financial reporting**

#### **Process**

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

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

 the appropriateness of accounting policies and practices and any areas of judgement

- significant issues that have been discussed with the external auditor
- the clarity of disclosures and compliance with financial reporting standards and other relevant financial and governance reporting requirements.

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

### Areas of judgement and significant issues

The audit committees have assessed whether suitable accounting policies have been adopted and whether management has made appropriate judgements and estimates. The main areas of judgement that have been considered by the audit committees to ensure that appropriate rigour has been applied are outlined below. All accounting policies can be found on pages 184 to 192.

### Significant judgements and issues

#### Impairments

 Determining the appropriateness of impairment losses requires the group to make assumptions based on management judgement.

#### Committee review and conclusion

- The committee challenged the level of provisions made and the assumptions used to
  calculate the impairment provisions held by the group including assessing impairment
  experience against forecasts. Particular focus was given to the legacy portfolio and
  exposures which are affected by the current macro-economic environment.
- Certain members of the audit committee attend the BRCC where impairment provisions are also challenged at a more granular level. The BRCC has oversight of the governance process pertaining to impairments.
- · The committee was satisfied that the impairment provisions were appropriate.

#### Valuations

 The group exercises judgement in the valuation of complex/ illiquid financial instruments, unlisted investments and embedded derivatives, particularly the level 3 instruments within the portfolio.

- Material individual positions, in particular the unlisted private equity investments, are challenged and debated by the committees with the most material noted as standing agenda items for each of the audit committees throughout the year.
- We debated the portfolio valuation adjustment which was recorded to take into account macro-economic risks on the South African private equity portfolio.
- At the year end, prior to the audit committee meetings the audit committee chair met
  with management and received a presentation on the material investments across the
  group including an analysis of the key judgements and assumptions used.
- The audit committee approved the valuation adjustments proposed by management for the year to 31 March 2017.

#### Uncertain tax positions

 There are certain legacy structured transactions within Investec plc only where there is uncertainty over the outcome of the tax positions
 and judgement is required over the calculation of the provision.

- The audit committee receives regular updates on this topic from tax, group finance and legal to enable it to evaluate the appropriateness of the tax risk provision to cover existing tax risk. Specialist advice has also been obtained during the period.
- The audit committee analyses the judgements and estimates made and discusses the
  potential range of outcomes that might arise.
- The committee confirmed the tax risk provisions and disclosures for the year end.

#### Going concern

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

Whilst the liquidity and solvency of the Investec group is closely monitored on a daily basis by relevant individuals in the group's risk management division, the DLC audit committee and board expressly consider the assumptions underlying the

going concern of the Investec group as part of the annual financial statement process. The following areas are considered in order to make this statement:

- Budgets and forecasts
- Profitability
- Capital
- Liquidity

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

### Fair, balanced and understandable

At the request of the board, the DLC audit committee has considered whether, in its opinion, the annual report and financial statements for the year ended 31 March 2017 is fair, balanced and understandable, and whether it provides

#### Corporate governance

(continued)

the information necessary for shareholders to assess the group's position and performance, business model and strategy.

In forming its opinion, the DLC audit committee has:

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

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

#### **External audit**

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

#### **Auditor appointment**

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

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

### Working with the external auditor

The audit committees meet with the external auditors to review the scope of the external audit plan, budgets, the extent of non-audit services rendered and all other audit matters. The external auditors are invited to attend audit committee meetings and have access to the audit committees chairman.

The audit committees evaluated the effectiveness of the auditors through completion of a questionnaire which, amongst other things, assessed the audit partners, audit team and audit approach

(planning and execution), during their presentations at audit committee meetings and ad hoc meetings held with the auditors throughout the year. Senior finance function executives also provided feedback to the audit committees.

#### Independence and objectivity

The DLC audit committee considers the reappointment of the external auditors each year before making a recommendation to the board and shareholders. It assesses the independence of the external auditors on an ongoing basis. The external auditors are required to rotate the lead audit partner every five years and other senior audit staff every seven years. Partners and senior staff associated with the Investec audit may only be employed by the group after a cooling off period. The lead partners commenced their five-year rotation in 2015 and 2017.

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

#### Non-audit services

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

The audit committees review whether the level of non-audit fees could impact the independence of the auditors. This is monitored by reference to the level of fees paid for services, excluding services which are required to be provided by the external auditors due to their office, against the fees paid for the audit of the group. Total audit fees paid to all auditors for the year ended 31 March 2017 were £10.5 million (2016: £8.4 million), of which £1.6 million (2016: £1.8 million) related to the provision of non-audit services.

#### Internal controls

The PLC audit committees has responsibility for assessing the adequacy of the group's internal controls. To fulfil this responsibility the PLC audit committee receives regular reports from

risk management, compliance and internal audit including a written opinion from internal audit on the risk management framework, internal controls and internal financial controls. Outlined below are some of the key areas of focus of the PLC audit committee over the past year in terms of its ongoing assessment of the adequacy of the group's internal controls.

#### Internal audit

In 2015, Grant Thornton were engaged to complete an external review on the effectiveness of the internal audit function. A recommendation of this review was to streamline the internal audit process and, in particular, reduce the number of lower level reviews. Since then, this has been a focus area for internal audit and an area of discussion at PLC audit committee meetings. During the course of this year, challenge at committee meetings has centred on getting this balance right in terms of the number of audits, given the risk profile of business' activities. Delivery of the internal audit plan has been another key area of focus by the PLC audit committee. Monitoring the completion of overdue audit findings and the resourcing of the internal audit function has also been addressed.

#### Risk management

The PLC audit committee receives regular reports from operational risk, information technology and compliance. During the course of the year, key topics that have been discussed and debated by the PLC audit committee have been:

#### **Business continuity**

Consideration of the impact of the London office move in 2018 on the continuity of business operations

#### Whistle-blowing

Oversight of the selection of an appropriate provider for Investec's whistleblowing reporting line

#### Information cybersecurity

Received and discussed the findings of a follow-up targeted attack simulation that was performed on Investec by an external provider

#### Regulatory compliance

Review and monitoring of results of regulatory compliance reviews

#### Corporate governance

(continued)

#### Board risk and capital committee report

Dear Shareholder

As the Chairman of the board risk and capital committee (the BRCC), during the financial year ended 31 March 2017, I am pleased to present you with our report.

The role of the committee is to review, on behalf of the board, management recommendations on a range of risks facing the business. We perform this function by considering the risk reports presented and question that either no management action is required or that existing actions taken by management following discussion are appropriate.

The year under review presented a number of emerging economic and political risks, such as the UK's vote to leave the EU and the impact thereof on our business.

As a committee, we gained comfort in the fact that a detailed review of the risk appetite limits was conducted by the executive in policy executive risk review committee (Policy ERRF), who recommended the risk appetite limits to the committee for approval. We reviewed the risk appetite limits and challenged the assumptions contained therein.

Reporting to the committee focuses on the key risk disciplines of credit, operational, legal, conduct, reputational, capital, liquidity, market risk and cybersecurity. However, due to the dynamic nature of the business environment in which Investec operates, the committee is flexible to consider other matters of relevance as they arise. For example, the committee requested a number of ad hoc reports in order to adequately assess risks that are due to once off events.

At each board meeting, I report on the key matters discussed at the committee.

#### Committee performance

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

#### Role of the Chair

During the year, I met regularly with the heads of risk, as well as heads of the risk disciplines outside of formal committee meetings in order to maintain and develop my understanding of the group's operations and risks facing the business. As with my role as audit committee chairman, I believe that these interactions are an essential part of the role of the chairman, as it provides an additional layer of assurance to help me gain comfort that these risks that are reported to the committee accurately reflect the risks facing the business.

With effect from 1 April 2017, Zarina Bassa took over the role of audit committee chairman from me. This change will result in the DLC audit committee and BRCC being chaired by different independent non-executive directors. Whilst these committees have met all legal and regulatory requirements from a composition and independence perspective to date, this change is viewed as providing an additional layer of independence between these committees. It is essential that there are some synergies in membership, as such, the DLC audit committee and BRCC will continue to have some common members. For that reason, I will continue to chair the BRCC, of which Zarina will continue to be a member.

#### Looking forward

In the year ahead, the committee will continue to focus on matters related to information security, cybercrime and risks associated with the fast pace of regulatory change faced by the business and assessing the impact of external factors on the group's risk profile.

David Friedland Chairman, DLC BRCC

14 June 2017

"We believe that robust risk management systems and processes are in place to support the group strategy"

#### DLC board risk and capital committee

#### David Friedland

Chairman of the BRCC

#### Key achievements in 2016/17

 Review of successful targeted attack simulations to mitigate cybercrime risk

#### Areas of focus in 2017/18

 Monitoring and continued mitigation of risks related to cybercrime and information security

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#### Corporate governance

(continued)

#### How the BRCC works

#### Role

The BRCC is an essential part of the group's governance framework to which the board have delegated the monitoring of the group's activities in relation to a number of risks and capital management.

#### Composition and meeting frequency

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

#### **BRCC** Meeting schedule and attendance BRCC meets at least six times every year. During the year ended 31 March 2017, the BRCC met nine times. How the committee spent its time Capital Balance sheet risk **Credit risk** Market risk Other (Including legal, operational, group insurance, conduct risk business continuity, cybercrime and IT) 20% 10% 20% 25% 25%

#### Composition

		Eligible to	
	Committee	attend	Attended
Members throughout the year	member since	(9 meetings	in the year)
D Friedland (Chairman)	Sept 2013	9	9
SE Abrahams	Mar 2011	9	8
ZBM Bassa	Nov 2014	9	8
GR Burger	Sept 2013	9	9
H Fukuda	Sept 2013	9	8
B Kantor	Mar 2011	9	4
S Koseff	Mar 2011	9	9
KL Shuenyane	Jan 2015	9	9
B Stevenson	Sept 2016	3	1
F Titi	Mar 2011	9	8
PRS Thomas	Mar 2011	9	7

#### Other regular attendees

- · Group compliance head Investec Limited
- · Chief risk officer Investec Limited
- Chief risk officer Investec plc
- Investec Asset Management COO
- Investor relations
- Global head of governance and compliance

Areas of focus	Matter addressed	Role of the committee	Conclusions/actions taken
Recovery and resolution plan	Annual review of the recovery and resolution plans for Investec plc	Questioned the contents of the recovery and resolution plans which address how the board and management will recover from extreme financial stress to avoid liquidity and capital difficulties in Investec plc	The committee gained comfort that adequate plans had been put in place for a scenario where Investec plc was required to recover from extreme financial stress
Operational risk	Exposure to any instance where there is potential or actual impact to the group resulting from failed internal processes, people, systems, or from external events	Monitored the 12-month rolling losses due to operational risk events against the internal risk appetite limit     Monitored losses from single events to the internal risk appetite limit for the largest loss from a single event     Reviewed the overall operational risk rating for Investec plc in accordance with the operational risk tolerance policy     Discussed risk appetite breaches, in particular the remedial action taken to mitigate the risk events     Reviewed significant risk exposures and interrogated the way in which management was addressing these	The committee gained comfort that operational risks were appropriately identified and managed within acceptable levels
Capital	The progress/plan to achieving required regulatory and internal targets and capital and leverage ratios	Measured key capital ratios against the internal and regulatory limits and what actions management planned to meet these ratios/limits     Reviewed impending regulations on the management of capital	The committee satisfied itself that Investec pic was adequately capitalised and that progress was being made towards achieving impending regulatory amendments to capital ratios
Market risk	Market risk capital requirements	Monitored risk appetite breaches and challenged management action which addressed these breaches	The committee gained comfort that it addressed breaches to limits appropriately
Credit and counterparty risk	Risk of an obligor failing to meet the terms of any agreement	Monitored the risk appetite limit and queried management action taken in respective of breaches	The committee challenged the effectiveness of the management of such risks within the business
Reputational risk	Risk of damage to our reputation, name or brand	Monitored events which could potentially create reputational risk and addressed and ensured that appropriate corporate governance practices, which require that activities, processes and decisions are based on a carefully considered principle	The committee gained comfort that reputational risk was mitigated as much as possible through detailed processes and governance escalation procedures from business units to the board, and from regular, clear communication with all stakeholders'
Conduct risk	Risk that detriment caused to the bank, its customers, its counterparties or the market as a result of inappropriate execution of business activities	The committee reviewed and questioned the conduct risk report which is discussed at each meeting	The committee challenged the effectiveness of the management of such risks within the business

(continued)

Committee activities					
Areas of focus	Matter addressed	Role of the committee	Conclusions/actions taken		
Balance sheet risk	Financial risks relating to our asset and liability portfolios, comprising market liquidity, funding, concentration, nontrading interest rate and foreign exchange, encumbrance and leverage risks	The committee reviewed a report which highlights bank activity, exposures and key measures against thresholds and limits	The committee challenged the effectiveness of the management of such risks within the business		
Business continuity risk	Strategy to be able to function in the event of a disaster	The committee reviewed, challenged and debated reports which highlight processes in place to manage this risk	The committee challenged the effectiveness of the management of such risk within the business		
Cybercrime risk	Cybercrime risk is the risk the group is exposed to by criminal activities carried out by means of computers or the internet	Regular reports were received regarding the cybercrime landscape, including lessons learnt from external cyberattacks	The committee gained comfort that the management of cybercrime was given the necessary priority		
		Received the targeted attack simulation results and ensured that any remediation required was completed			

#### **Board remuneration committee report**

For information on the decisions taken by the board remuneration committee, refer to the remuneration report contained in Investec's 2017 integrated annual report.



(continued)

#### **Management committees**

A number of management committees have been established to support management in their governance of the group. In particular, four key committees have been established to assist with the management and monitoring of the risks facing the group. These are the:

- Group risk and capital committee (GRCC)
- Review executive risk review forum (Review ERRF)
- · Policy executive risk review forum (Policy ERRF)
- · DLC capital committee.

Each of these committees have been established by the BRCC and the reporting line back into the board is outlined below, as well as the division of responsibilities.

#### Investec plc Board and Limited Board





#### **GRCC**

Mandated by the BRCC to manage, monitor and mitigate enterprise-wide risk



#### **Review ERRF**

Mandated by the BRCC and reporting into the GRCC to assist in determining categories of risk, the specific risks and the extent of such risks the group should undertake

#### **Policy ERRF**

Mandated by the BRCC and reporting into the GRCC to assist with the review of risk management policies and practices to ensure the organisation remains in line with the group risk appetite

#### **DLC Capital Committee**

Mandated by the BRCC and reporting into the GRCC to assist with the management of capital allocation and structuring, capital planning and models, performance measurement and capital-based incentivisation



#### Global forums/committees

Including global credit committee and group investment committee

#### Corporate governance

(continued)

### How we comply

#### Regulatory context

Investec operates under a dual listed company (DLC) structure which requires compliance with the principles contained in the South African King III Code of Corporate Governance Principle ( available at www.iodsa.co.za) and the September 2014 edition of the UK Corporate Governance Code (available at www.frc.org.uk).

We believe that sound corporate governance depends on much more than mere compliance with regulations. Good conduct and ethical practice is embedded in everything that we do at Investec. By acting in accordance with our values and principles, we believe that good governance is ensured.

### Statement of compliance

#### **UK Corporate Governance Code**

Throughout the year ended 31 March 2017, Investec has complied with all the provisions of the UK Corporate Governance Code.

### Other statutory information

#### Viability statement

In addition to providing a going concern statement, the board is required, in terms of the UK Corporate Governance Code, to make a statement with respect to the group's viability (i.e. its ability to continue in operation and meet its liabilities) taking into account the current position of the group, the board's assessment of the group's prospects and the principal risks it faces. Following confirmation by the BRCC (comprising a majority of non-executive directors, which includes members of the audit committees) the audit committees recommended the viability statement for board approval.

The board has identified the principal and emerging risks facing the group and these are highlighted on pages 22 to 30.

Through its various sub-committees, notably the audit committees, the GRCC, the BRCC and the capital committees, the board regularly carries out a robust assessment of these risks, and their

potential impact on the performance, liquidity and solvency of the group. The activities of these board sub-committees and the issues considered by them are described in this governance section of this report.

Taking these risks into account, together with the group's strategic objectives and the prevailing market environment, the board approved the overall risk appetite for the Investec group. The group's risk appetite statement sets broad parameters relating to the board's expectations around performance, business stability and risk management.

The board considers that prudential risk management is paramount in all it does. Protection of depositors, customers' interests, capital adequacy and shareholder returns are key drivers. To manage the group's risk appetite there are a number of detailed policy statements and governance structures in place. The board ensures that there are appropriate resources in place to manage the risks arising from running our business by having independent Risk Management, Compliance, and Financial Control functions. These are supplemented by an Internal Audit function that reports independently to a non-executive audit committee chairman.

The board believes that the risk management systems and processes we have in place are adequate to support the group's strategy and allow the group to operate within its risk appetite framework. A review of the group's performance/measurement against its risk appetite framework is provided at each BRCC meeting and at the main board meetings.

In terms of the South African Reserve Bank (SARB), the UK Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) requirements, the group is also required to meet regulatory standards with respect to capital and liquidity. In terms of these requirements, the group is required to stress its capital and liquidity positions under a number of severe stress conditions. Investec's stress testing framework is well embedded in its operations and is designed to identify and regularly test the group's key 'vulnerabilities under stress'.

Scenario modelling and rigorous daily liquidity stress tests are performed to measure and manage the group's respective banking entities' liquidity positions such that payment obligations can be met under a wide range of company specific and market-driven stress scenarios. The objective is to have sufficient liquidity, in an acute stress scenario, to continue to operate for a minimum period as detailed in the board-approved risk appetite and as required by the regulators. The group's risk appetite also requires each banking entity to maintain a minimum cash to customer deposit ratio of 25%, and ensure that the respective banking entities are not reliant on wholesale funding to fund core asset growth. Each banking entity is required to be fully self-funded. Our banking businesses in both the UK and South Africa exceed the regulatory requirements for the net stable funding ratio and liquidity coverage ratio. The group currently has £12 billion in cash and near cash assets, representing 41.4% of customer deposits.

The group develops annual capital plans that look forward over a three-year period. These plans are designed to assess the capital adequacy of the group's respective banking entities under a range of economic and internal conditions, with the impact on earnings, asset growth, risk appetite and liquidity considered. The output of capital planning allows senior management and the board to make decisions to ensure that the group continues to hold sufficient capital to meet internal and regulatory capital targets over the medium term (i.e. three years). The group targets a minimum capital adequacy ratio of 14% to 17%, a common equity tier 1 ratio in excess of 10% and a leverage ratio in excess of 6% for each of its banking entities.

The parameters used in the capital and liquidity stresses are reviewed regularly, taking into account changes in the business environments and inputs from business units. A detailed 'bottom-up' analysis is performed in designing Investec's specific stress scenarios. The group also incorporates the SARB and Bank of England (BoE) annual cyclical stress scenarios into its capital and liquidity processes. As the group's banking entities are regulated separately and ring-fenced from one another, different stress scenarios apply across the respective banking entities and jurisdictions.

#### Corporate governance

(continued)

Investec plc runs a number of stress scenarios, some of which are briefly highlighted below:

- The BoE's annual cyclical stress scenario: this scenario incorporates a UK slowdown in GDP growth, a slump in Pounds Sterling, inflation turning negative and interest rates in the UK going to 0%, in addition to a significant house price fall
- A scenario where there is an unfavourable 'Brexit' outcome, i.e. a UK recession driving Pounds Sterling further down, increasing inflation, house prices fall by more than a third and economic growth flat lines after an initial slump. In this scenario we assume that the international backdrop is benign with a mild slowdown taking place in Ireland and the Eurozone countries
- A scenario where there is a global trade war and UK recession, with higher Libor rates and UK house prices falling.

We also carry out 'reverse stress tests', i.e. those scenarios that would cause the group to breach its capital and liquidity requirements. These scenarios are considered highly unlikely, given the group's strong liquidity position and sound capital and leverage parameters.

Furthermore, the group is required to have a recovery and resolution plan. The purpose of the recovery plan is to document how the board and senior management will ensure that the group recovers from extreme financial stress to avoid liquidity and capital difficulties in its separately regulated companies.

The capital and liquidity plans, stress scenarios, recovery and resolution plans and the risk appetite statement are reviewed at least annually. In addition, senior management hosts an annual three-day risk appetite process at which the group's risk appetite framework is reviewed and modified to take into account risk experience and changes in the environment, Furthermore, strategic budget processes which focus on, amongst other things, the business and competitive landscape; opportunities and challenges; financial projections - take place within each business division at least annually. A summary of these divisional budgets. together with a consolidated group budget, is presented to the board during its strategic review process early in the year.

In assessing the group's viability, the board has taken all of the abovementioned factors, documents and processes into consideration. The directors can confirm that they have a reasonable expectation that Investec will continue to operate and meet its liabilities as they fall due over the next three years. The board has used a three-year assessment period as this is aligned to the group's medium term capital plans which incorporate profitability, liquidity, leverage and capital adequacy projections and include impact assessments from a number of stress scenarios. The board has assessed the group's viability in its 'base case' and 'down case' scenarios. Detailed management information therefore exists to provide senior management and the board sufficient and realistic visibility of the group's viability over the next three years to 31 March 2020 under these various scenarios. In assessing the group's viability. a number of assumptions are built into its capital and liquidity plans. In the 'down case' scenario these include, for example, dividend payments being reduced and asset growth being curtailed

The viability statement should be read in conjunction with the following sections in the annual report, all of which have informed the board's assessment of the group's viability:

- Pages 5 to 13 which show a strategic and financial overview of the business
- Pages 22 to 30 which provide detail on the principal and emerging risks the group faces
- Page 51 which highlights information on the group's risk appetite framework
- Pages 47 to 49 which provide an overview of the group's approach to risk management, and the processes in place to assist the group in mitigating its principal risks
- Pages 55, 81, 87, 90, 106 and 107 which highlight information on the group's various stress testing processes
- Pages 89 to 95 which specifically focus on the group's philosophy and approach to liquidity management
- Pages 104 to 108 which explain the group's capital management framework.

This forward-looking viability statement made by the board is based on information and knowledge of the group at 14 June 2017. There could be a number

of risks and uncertainties arising from (but not limited to) domestic and global economic and business conditions beyond the group's control that could cause the group's actual results, performance or achievements in the markets in which it operates to differ from those anticipated.

#### **Conflict of interest**

Certain statutory duties with respect to directors' conflict of interest are in force under the UK Companies Act 2006. In accordance with the Act and the Articles of Association (Articles) of Investec plc, the board may authorise any matter that otherwise may involve the directors breaching their duty to avoid conflicts of interest. The board has adopted a procedure, as set out in the Articles that includes a requirement for directors to submit, in writing, disclosures detailing any actual or potential conflict for consideration, and if considered appropriate, approval.

#### External directorships

Outside business interests of directors are closely monitored and we are satisfied that all of the directors are compliant with the UK's PRA requirements, which came into effect on 1 July 2014, limiting the number of directorships both executive and non-executive directors are permitted to hold.

#### **Dealings in securities**

Dealings in securities are subject to the personal account dealing policy. The policy is based on regulatory guidance and industry practice and is updated to ensure compliance with applicable regulations and industry best practice.

The policy is designed to discourage speculative trading and highlight potential conflicts of interest between the interest of employees and the Investec group or any of its clients, shareholders or potential shareholders. The UKLA'S Disclosure and Transparency Rules require us to disclose transactions in shares and related securities by all persons discharging management responsibilities and their 'connected persons'. These include directors and senior executives of the group.

03

(continued)

The Companies Act require directors to disclose any direct or indirect material interest they have in contracts, including proposed contracts, which are of significance to the company's business. Directors are required to make these disclosures at board meetings, and all disclosures made are recorded in the minutes of that meeting.

Staff are required to undertake not to use any personal hedging strategies to lessen the impact of a reduction in value of any share award or any vested shares which are subject to a retention period following any vesting date. Any breach of this condition will result in the lapse of any unvested proportion of such reward, unless the DLC remuneration committee determines otherwise.

#### **Directors' dealings**

Directors' dealings in the securities of Investec plc and Investec Limited are subject to a policy based on the Disclosure and Transparency Rules of the UKLA and the JSE Listing Requirements.

All directors' and a company secretary dealings require the prior approval of the Compliance division and the chairman, the senior independent director or the chairman of the audit committee.

All dealings of persons discharging management responsibilities require approval by line management, the compliance division and the chairman.

#### Report to shareholders

This report to shareholders has been approved and authorised for issue to the shareholders of Investec plc and Investec Limited on 14 June 2017 and signed on its behalf by:

David Miller
Company secretary

Investec plc



#### Shareholder analysis

(continued)

#### **Investec ordinary shares**

As at 31 March 2017 Investec plc had 657.1 million ordinary shares in issue.

#### Spread of ordinary shareholders as at 31 March 2017

#### Investec plc ordinary shares in issue

Number of shareholders	Holdings	% of total shareholders	Number of shares in issue	% of issued share capital
16 267	1 – 500	54.2%	3 049 656	0.4%
5 053	501 – 1 000	16.8%	3 865 451	0.6%
5 750	1 001 – 5 000	19.1%	12 829 249	2.0%
948	5 001 – 10 000	3.2%	6 911 512	1.0%
1 121	10 001 – 50 000	3.7%	25 955 789	4.0%
292	50 001 – 100 000	1.0%	20 965 693	3.2%
615	100 001 and over	2.0%	583 528 275	88.8%
30 046		100.0%	657 105 625	100.0%

#### Geographical holding by beneficial ordinary share owner as at 31 March 2017



## - South Africa 50.6% - UK 26.5% - USA and Canada 13.6% - Rest of Europe 3.5% - Asia 1.7%

#### Largest ordinary shareholders as at 31 March 2017

In accordance with the terms provided for in section 793 of the UK Companies Act 2006, the group has conducted investigations into the registered holders of its ordinary shares (including nominee and asset management companies) and the results are as discussed below.

#### Investec plc

Shareholder analysis by manager group		Number of shares	% holding	
1. Allar	n Gray (ZA)	54 564 790	8.3%	
2. Publ	lic Investment Corporation (ZA)	39 895 286	6.1%	
3. Blac	kRock Inc (UK and US)	37 613 373	5.7%	
4. Prud	dential Group (ZA)	25 556 818	3.9%	
5. Old I	Mutual (ZA)	23 953 282	3.6%	
6. TRo	owe Price Associates (UK)	21 513 929	3.3%	
7. State	e Street Corporation (UK and US)	18 845 149	2.9%	
8. Lega	al & General Group (UK)	18 088 127	2.8%	
9. The	Vanguard Group, Inc (UK and US)	17 647 731	2.7%	
10. Roya	al London Mutual Assurance Society (UK)	16 897 419	2.6%	
		274 575 904	41.9%	

The top 10 shareholders account for 41.9% of the total shareholding in Investec plc. This information is based on a threshold of 20 000 shares. Some major fund managers hold additional shares below this, which may cause the above figures to be marginally understated.

### Shareholder analysis

(continued)

#### Shareholder classification as at 31 March 2017

	Number of Investec plc shares	% holding	
Public*	630 654 857	96.0%	
Non-public	26 450 768	4.0%	
Non executive directors of Investec plc/Investec Limited	1 144 683	0.2%	
Executive directors of Investec plc/Investec Limited	9 948 809	1.5%	
Investec staff share schemes	15 357 276	2.3%	
Total	657 105 625	100.0%	

<sup>\*</sup>As per the JSE Listings Requirements.

#### **Share statistics**

#### Investec plc

For the year ended	31 March 2017	31 March 2016	31 March 2015	31 March 2014	31 March 2013	31 March 2012	31 March 2011
Closing market price per share (Pounds Sterling)							
- year ended	5.44	5.13	5.61	4.85	4.59	3.82	4.78
- highest	6.19	6.47	6.06	5.08	5.14	5.22	- 5.50
- lowest	4.19	4.03	4.91	3.66	3.10	3.18	4.29
Number of ordinary shares in issue (million) <sup>1</sup>	657.1	617.4	613.6	608.8	605.2	598.3	537.2
Market capitalisation (£'million)1	3 575	3 167	3 442	2 953	2 778	2 286	2 568
Daily average volumes of share traded ('000)	1 618	1 474	2 <sup>-</sup> 170	1 985	1 305	1 683	1 634
Price earnings ratio <sup>2</sup>	11.3	12.4	14.2	12.8	12.7	12.0	11.1
Dividend cover (times) <sup>2</sup>	2.1	2.0	2.0	2.0	2.0	1.9	2.5
Dividend yield (%) <sup>2</sup>	4.2	4.1	3.5	3.9	3.9	4.5	3.6
Earnings yield (%) <sup>2</sup>	8.9	8.1	7.0	7.8	7.9	8.3	9.0

The LSE only include the shares in issue for Investec plc, i.e. 657.1 million, in calculating market capitalisation, as Investec Limited is not incorporated in the UK.

<sup>&</sup>lt;sup>2</sup> Calculations are based on the group's consolidated earnings per share before goodwill, acquired intangibles and non-operating items; and dividends per share as prepared in accordance with IFRS and denominated in Pounds Sterling.



#### Shareholder analysis

(continued)

#### Investec preference shares

Investec plc has issued preference shares.

#### Spread of preference shareholders as at 31 March 2017

#### Investec plc preference shareholders

Number of shareholders	Holdings	% of total shareholders	Number of preference shares in issue	% of issued preference share capital
54	1 – 500	14.1%	11 559	0.4%
58	501 – 1000	15.1%	46 891	1.7%
184	1001 – 5000	48.0%	359 785	13.1%
31	5001 – 10000	8.1%	235 885	8.6%
45	10001 – 50000	11.8%	977 186	35.5%
7	50001 – 100000	1.8%	486 054	17.6%
4	100001 and over	1.1%	637 227	23.1%
383		100.0%	2 754 587	100.0%

#### Investec plc (Rand-denominated) perpetual preference shareholders

Number of shareholders	Holdings	% of total shareholders	Number of preference shares in issue	% of issued preference share capital
. 55	1 – 500	55.6%	. 12 004	9.1%
16	501 – 1000	16.2%	12 773	9.7%
22	1001 - 5000	22.2%	56 145	42.7%
4	5001 - 10000	4.0%	24 525	18.7%
2.	10001 – 50000	2.0%	26 000	. 19.8%
_	50001 – 100000	_	_	_
=	100001 and over	_	_	_
99		100.0%	131 447	100.0%

#### Largest preference shareholders as at 31 March 2017

Shareholders holding beneficial interests in excess of 5% of the issued preference shares are as follows:

#### Investec plc perpetual preference shares

Hargreave Hale Nominees Limited 10.6%

#### Investec plc (Rand-denominated) perpetual preference shares

Private individual 5.9%

Private individual 9.9%

Private individual 9.9%

### Communication and stakeholder engagement



#### Building trust and credibility among our stakeholders is vital to good business

The board recognises that effective communication is integral in building stakeholder value and is committed to providing meaningful, transparent, timely and accurate financial and non-financial information to primary stakeholders as defined below. The purpose is to help these stakeholders make meaningful assessments and informed investment decisions about the group.

We endeavour to present a balanced and understandable assessment of our position by addressing material matters of significant interest and concern. We seek to highlight the key risks to which we consider ourselves exposed and our responses to minimise the impact of these risks. Another objective is to show a balance between the positive and negative aspects of our activities in order to achieve a comprehensive and fair account of our performance.

As a requirement of our DLC structure, we comply with the disclosure obligations contained in the applicable listing rules of the UK Listing Authority (UKLA) and Johannesburg Stock Exchange (JSE) and other exchanges on which our shares are listed, and with any public disclosure obligations as required by the UK regulators and the South African Reserve Bank (SARB). We also recognise that from time to time we may be required to adhere to public disclosure obligations in other countries where we have operations.

The Investor Relations division has a day-to-day responsibility for ensuring appropriate communication with stakeholders and, together with the Group Finance and Company Secretarial divisions, ensures that we meet our public disclosure obligations.

We have a board-approved policy statement in place to ensure that we comply with all relevant public disclosure obligations and uphold the board's communication and disclosure philosophy.

#### **Employees**

- Communication policy
- Quarterly magazine (Impact)
- Staff updates hosted by executive management
- Group and subsidiary fact sheets
- · Tailored internal investor relations training
- Induction training for new employees

#### Government and regulatory bodies

- · Active participation in policy forums
- Response and engagement on regulatory matters
- Industry consultative bodies

#### **Suppliers**

- · Centralised negotiation process
- Ad hoc procurement questionnaires requesting information on suppliers' environmental, social and ethical policies

#### Media

- · Regular email and telephonic communication
- · Stock exchange announcements
- · Comprehensive investor relations website
- · Regular meetings with investor relations team and executive management

#### Investors and shareholders

- Annual general meeting
- Four investor presentations
- Stock exchange announcements
- Comprehensive investor relations website
- Shareholder road shows and presentations
- Regular meetings with investor relations team and executive management
- Regular email and telephonic communication
- · Annual and interim reports

#### Clients

- Four investor presentations
- · Regular email and telephonic communication
- · Comprehensive investor relations website
- · Tailored client presentations
- Annual and interim reports
- · Client relationship managers within the business

#### Rating agencies

- Four investor presentations
- Regular email and telephonic communication
- · Comprehensive investor relations website
- Regular meetings with investor relations team, group risk management and executive management
- Tailored presentations
- · Tailored rating agency booklet
- · Annual and interim reports

#### **Equity and debt analysts**

- · Four investor presentations
- Stock exchange announcements
- Comprehensive investor relations website
- Regular meetings with investor relations team and executive management
- Regular email and telephonic communication
- · Annual and interim reports

### Corporate responsibility business practices

#### Our corporate responsibility philosophy

Guided by our purpose to create sustained long-term wealth, we seek to be a positive influence in all our core businesses and in each of the societies in which we operate. We do this by empowering communities through entrepreneurship and education, and leveraging the value in our diversity. We recognise the challenges that climate change presents to the global economy and we will consider supporting any meaningful activity that either reduces the negative impact on or prolongs the life of our planet.

#### Investec as a responsible corporate citizen

At Investec we recognise that, while our shareholders remain at the forefront, our purpose ultimately is not only about driving profits. We strive to be a distinctive specialist bank and asset manager, demonstrating cast-iron integrity, moral strength and behaviour which promotes trust. Our core values include unselfishly contributing to society, valuing diversity and respecting others. Outstanding and empowered talent, entrepreneurial spirit and regard for the planet are other qualities that align with the culture of our organisation and our approach to responsible business.

Our culture and values demonstrate our belief that as an organisation we can and must have a positive impact on the success and well-being of communities local to our offices, the environment, and on overall macro-economic stability.

Our philosophy seeks to align the interests of shareholders and stakeholders over time, and provides the individual business units and regions with a basis from which to determine their own approach. The group's philosophy is not intended to be mutually exclusive or exhaustive, but allows us to concentrate, for now, on

key focus areas. Deliberately not driven on a top-down basis, the executive maintains responsibility for oversight, direction, coordination and integration of our corporate responsibility efforts while the individual business units provide the key drivers behind our activities, in a manner that best makes sense to each.



Please refer to the website for Investec's full corporate citizenship statement.

#### Memberships

Investec participates and has maintained its inclusion in the following international initiatives

	2016	2015	2014		
Carbon Disclosure Project (CDP) (Investec is a member and Investec Asset Management is a signatory investor)	Α-	A-	В	JSE JSE	SRI INDEX
Code for Responsible Investing in South Africa (CRISA)	Signatory	Signatory	Signatory		
Dow Jones Sustainability Investment Index (score out of 100)	75	74	75		nes ability Indices on with RobecoSAM co
FTSE4Good Index	Included	Included	Included		
JSE Limited Socially Responsible Investment Index	Constituent	Constituent	Constituent		
MSCI Global Sustainability Index Series (Investec plc) – Intangible value assessment (IVA) rating	AAA	AAA	AAA	FTSE4Gooc	PRI Responsible investment
STOXX Global ESG Leaders Indices	Member	Member	Member		
United Nations Global Compact	Active	Active	Active	· · · · · · · · · · · · · · · · · · ·	United Nations
United Nations Principles for Responsible Investment (UNPRI)	Signatory	Signatory	Signatory	44CDP	Global Compact

Other: Investec Asset Management CEO, HJ du Toit, is a member of The Global Commission on Business and Sustainability Development.

#### Corporate responsibility

(continued)

Investec carries out its commitment to corporate responsibility through three key focus areas of people, planet and profit.



#### **People**

#### We care about our EMPLOYEES:

- · Attracting and developing a strong, diverse and capable workforce
- Providing a progressive work environment
- Respecting and upholding human rights

£8.2mn

Employee learning and development spend (2016: £5.6mn)

#### We care about our COMMUNITIES:

Unselfishly contributing to our communities through education, entrepreneurship and environment

£1.9mn

Corporate Social and Investment (CSI) spend (2016: £1.6mn)

#### We care about our CLIENTS:

- At Invested, we pride ourselves on giving our clients an extraordinary
- We strive to build business depth by deepening existing and creating new client relationships
- We provide a high level of service by being nimble, flexible and innovative.

#### Recognition

- Winner of the Business in the Community's Responsible Business Awards 2016 (Building Stronger Communities) for our flagship programme the Beyond Business social enterprise incubator we run in partnership with the Bromley by Bow Centre
- Winner in the National CSR Awards 2017, in the Individual Community (Legacy) category, and a finalist the Business Charity Awards 2017, in the Community Impact category, for the Beyond **Business Programme**
- Shortlisted in the Business Charity Awards, in the Outstanding Employee category









#### **Planet**

Reduce the operational impacts of our physical business.

- Scope 1 emissions (tones of CO<sub>2</sub>e) increased 5.6%
- Scope 2 emissions (tonnes of CO<sub>2</sub>e) decreased 6.1%
- Scope 3 emissions (tonnes of CO<sub>2</sub>e) decreased 12.7%.

19 794 CO<sub>2</sub> |

Total emissions (tonnes of CO₂e) decreased 10.3%

#### Indirect impact:

- · Embed environmental considerations into business activities
- Responsible financing and investing
- Participating in renewable energy projects and green developments.

£1.8bn

Participated in the global renewable energy sector

#### Conserving the environment:

Planted approximately 1 500 trees in partnership with Trees for Cities Charity











#### Recognition

- The UK's head office won their 10th Platinum Award for best practice in waste management
- The UK's head office won the inaugural Cleaner City Award run by the Cheapside Business Alliance
- The UK's head office won a Gold prize in the Green Apple Award for Environmental Best Practice
- The UK's head office Carbon Trust Waste Standard was recertified in 2016
- The UK's head office EMS (Energy Management System) was recertified to BSI Energy Reduction Verification Kitemark.

#### Corporate responsibility

(continued)



#### **Profit**

#### Financial strength and resilience:

Balanced and resilient business model.

- Our capital light activities contributed 63% to group income and capital intensive activities contributed 37% to group income.
- · Liquidity remains strong.

£5.0bn

Cash and near cash balances (2016: £5.1bn)

· Capital remained in excess of current regulatory requirements.

#### Governance:

 Strong culture and values to underpin our processes, functions and structures.

#### Recognition

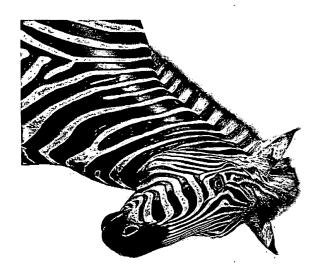
- Investec won Best Distributor UK/Ireland at the 2017 European Structured Products & Derivatives Awards
- Investec was named 'Bank of the Year' at the 2016 Private Equity Awards
- Investec digital offering ranked 9th in the world in the Independent Wealth Service Survey
- Investec Wealth & Investment's Discretionary Fund Management (DFM) service was Gold rated by Defaqto in February 2016.



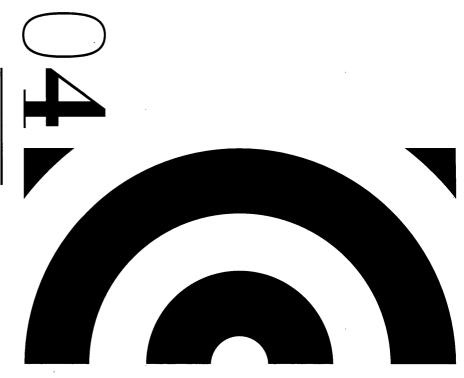








Annual financial statements



#### Directors' responsibility statement

The following statement, which should be read in conjunction with the auditor's report set out on page 177, is made with a view to distinguishing for stakeholders the respective responsibilities of the directors and of the auditors in relation to the special purpose consolidated annual financial statements.

The directors are responsible for the preparation, integrity and objectivity of the special purpose consolidated annual financial statements that fairly present the state of affairs of the company and the group at the end of the financial year and the net income and cash flows for the year, and other information contained in this report

To enable the directors to meet these responsibilities:

- The board and management set standards and management implements systems of internal controls and accounting and information systems aimed at providing reasonable assurance that assets are safeguarded and the risk of fraud, error or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties
- The group's internal audit function, which operates unimpeded and independently from operational management, and has unrestricted access to the group audit committee, appraises and, when necessary, recommends improvements in the system of internal controls and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business

 The group audit committee, together with the Internal Audit department, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

To the best of our knowledge and belief, based on the above, the directors are satisfied that no material breakdown in the operation of the system of internal control and procedures has occurred during the year under review.

The group consistently adopts appropriate and recognised accounting policies and these are supported by reasonable judgements and estimates on a consistent basis and provides additional disclosures when compliance with the specific requirements in International Financial Reporting Standards (IFRS) are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group's financial position and financial performance.

The special purpose consolidated annual financial statements have been prepared in accordance with accounting policies set out on pages 184 to 192.

The directors are of the opinion, based on their knowledge of the company, key processes in operation and specific enquiries that adequate resources exist to support the group on a going concern basis over the next year. These annual financial statements have been prepared on that basis.

It is the responsibility of the independent auditors to report on the special purpose consolidated annual financial statements. Their report to the members of the company is set out on page 177 of this report. As far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. All steps which ought to have been taken as directors have been completed in order to be aware of the relevant audit information and to establish that the company's auditors are aware of that information.

### Approval of annual financial statements



The directors' report which appears on pages 170 to 176 was approved by the board of directors on 14 June 2017. The annual financial statements of the company, which are set out on pages 261 to 269, were approved by the board of directors on 9 June 2017. The special purpose consolidated annual financial statements of the group on pages 179 to 260 were approved by the board of directors on 14 June 2017.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the companies' website. Legislation in the United Kingdom governing the preparation and dissemination of the annual financial statements may differ from legislation in other jurisdictions.

Signed on behalf of the board

]K=l]

سي المحتري

Stephen Koseff
Chief executive officer

Bernard Kantor Managing director

14 June 2017

### Extended business review

We are an international specialist bank and asset manager that provides a diverse range of financial products and services to a select client base in three principal markets, UK and Europe, South Africa and Asia/Australia as well as certain other countries. Investec focuses on delivering distinctive profitable solutions for its clients in three core areas of activity namely, Asset Management, Wealth & Investment and Specialist Banking.

Section 414A of the UK Companies Act 2006 requires the directors to present a strategic report in the annual report and accounts. The company has chosen, in accordance with section 414C(11) of the Companies Act 2006, to include certain matters in its strategic report that would otherwise be disclosed in this directors' report. The strategic report on pages 14 to 16 in volume one of Investec's 2017 integrated annual report provides an overview of our strategic position, performance during the financial year and details of likely future developments in the business.



The strategic report should be read in conjunction with the sections on pages 17 to 110 in volume one of Investec's 2017 integrated annual report which elaborate on the aspects highlighted in this review.

### Authorised and issued share capital

Details of the share capital are set out in note 41 to the annual financial statements.

During the year, the following shares were issued:

- 30 870 000 ordinary shares on
   6 June 2016 at 448.00 pence per share
- 8 135 825 ordinary shares on 10 June 2016 at 471.00 pence per share
- 6 809 664 special converting shares on 10 June 2016 of £0.0002 each at par
- 680 936 ordinary shares on 8 December 2016 at 520.00 pence per share
- 2 991 804 special converting shares on 8 December 2016 of £0.0002 each at par

Further to announcements released by Investec plc dated (i) 20 June 2016 entitled 'Offer for Purchase of Preference Shares Issued by Investec plc' and (ii) 27 June 2016 entitled 'Offer For Purchase of Preference Shares Issued by Investec plc - Amendment to Expected Settlement Date', Investec plc made the following repurchases of non-redeemable, noncumulative, non-participating preference shares of £0.01 each (the 'Sterling preference shares') and non-redeemable, non-cumulative, non-participating preference shares of R0.001 each (the 'Rand preference shares') (together the 'Preference shares')

- 3 806 888 Sterling preference shares for R108.56 per share on 2 August 2016
- 8 369 938 Sterling preference shares for 575.00 pence per share on 2 August 2016
- 1 994 493 Rand preference shares for R103.38 per share on 2 August 2016
- 149 736 Sterling preference shares for 575 pence per share on 4 November 2016
- 150 000 Rand preference shares for R103.38 per share on 4 November 2016

The preference shares were cancelled following repurchase.

Investec plc did not repurchase any of its ordinary shares during the financial year ended 31 March 2017.

#### **Financial results**

The consolidated results of Investec plc are set out in the annual financial statements and accompanying notes for the year ended 31 March 2017. The preparation of these results was supervised by the group risk and finance director, Glynn Burger.

#### **Ordinary dividends**

An interim dividend was declared to shareholders as follows:

 10 pence per ordinary share to non-South African resident shareholders and South African resident shareholders (2016: 9.5 pence) registered on 9 December 2016 and was paid on 21 December 2016. The directors have proposed a final dividend to shareholders registered on 28 July 2017, of 13 pence (2016: 11.5 pence) per ordinary share, which is subject to the approval of the members of Investec plc at the annual general meeting which is scheduled to take place on 10 August 2017 and, if approved, will be paid on 14 August 2017, as follows:

- 13 pence per ordinary share to non-South African resident shareholders (2016: 11.5 pence) registered on 28 July 2017.
- To South African resident shareholders registered on 28 July 2017, through a dividend paid by Investec Limited on the SA DAS share, of 7.0 pence per ordinary share and 6.0 pence per ordinary share paid by Investec plc.

#### Preference dividends

#### Non-redeemable, non-cumulative, non-participating preference shares

Preference dividend number 21 for the period 1 April 2016 to 30 September 2016, amounting to 7.12329 pence per share, was declared to members holding preference shares registered on 2 December 2016 and was paid on 12 December 2016.

Preference dividend number 22 for the period 1 October 2016 to 31 March 2017, amounting to 6.23288 pence per share, was declared to members holding preference shares registered on 9 June 2017 and will be paid on 19 June 2017.

#### Rand-denominated nonredeemable, non-cumulative, nonparticipating preference shares

Preference dividend number 11 for the period 1 April 2016 to 30 September 2016, amounting to 500.11644 cents per share, was declared to members holding Rand-denominated non-redeemable, non-cumulative, non-participating preference shares registered on 2 December 2016 and was paid on 12 December 2016.

Preference dividend number 12 for the period 1 October 2016 to 31 March 2017, amounting to 497.38356 cents per share, was declared to members holding preference shares registered on 9 June 2017 and will be paid on 19 June 2017.

#### Directors and secretaries



Details of directors and company secretaries of Investec pic are reflected on pages 116 and 122 in volume one of Investec's 2017 integrated annual report.

In accordance with the UK Corporate Governance Code, the entire board with the exception of PRS Thomas who will be standing down as a director, will offer itself for re-election at the 2017 annual general meeting.

The company secretary of Investec plc is David Miller.

### Directors and their interests



Directors' shareholdings and options to acquire shares are set out on pages 201 to 204 in volume one of Investec's 2017 integrated annual report.

The register of directors' interests contains full details of directors' shareholdings and options to acquire shares.

#### Corporate governance



The group's corporate governance board statement and governance framework are set out on pages 124 to 161.

#### Share incentives



Details regarding options granted during the year are set out on page 189 in volume one of Investec's 2017 integrated annual report.

#### **Audit committees**

The audit committees comprising independent non-executive directors meet regularly with senior management, the external auditors, Operational Risk,

Internal Audit, Compliance and the Finance division to consider the nature and scope of the audit reviews and the effectiveness of our risk and control systems.



Further details on the role and responsibility of the audit committees are set out on pages 148 to 152.

#### **Auditors**

Ernst & Young LLP have indicated their willingness to continue in office as auditors of Investec plc.

A resolution to reappoint them as auditors will be proposed at the annual general meeting scheduled to take place on 10 August 2017.

#### **Contracts**



Refer to pages 147 to 149 in volume one of Investec's 2017 integrated annual report for details of contracts with directors.

### Subsidiary and associated companies



Details of principal subsidiary and associated companies are reflected on pages 265 to 269.

#### Major shareholders



The largest shareholders of Investec pic are reflected on page 162.

#### Special resolutions

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

 A renewable authority was granted to Investec plc to acquire its own ordinary shares in accordance with the terms of section 701 of the Companies Act 2006  A renewable authority was granted to Investec plc to acquire its own preference shares in accordance with the terms of section 701 of the Companies Act 2006.

### Accounting policies and disclosure

Accounting policies are set having regard to commercial practice and comply with applicable United Kingdom and South African law and International Financial Reporting Standards. The parent company accounts of Investec plc are prepared under IFRS 101.

These policies are set out on pages 184 to 192.

#### Financial instruments



Detailed information on the group's risk management process and policy can be found in the risk management report on pages 47 to 119.

Information on the group's hedge accounting policy and the use of derivatives and hedges can be found on pages 188 and in note 23.

#### **Employees**

Our policy is to recruit and promote on the basis of aptitude and ability, without discrimination of any kind. Applications for employment by disabled people are always considered bearing in mind the qualifications and abilities of the applicants.

In the event of employees becoming disabled, every effort is made to ensure their continued employment. Our policy is to adopt an open management style, thereby encouraging informal consultation at all levels about aspects of our operations, and motivating staff involvement in our performance by means of employee share schemes.

#### Strategic and directors' report

04

(continued)

We are committed to ensuring the health, safety and welfare of our employees and to providing and maintaining safe working conditions. We have health and safety policies in all regions of operation that cover all legislated requirements and additional benefits are provided for staff where possible. We constantly seek to improve both policies and the execution of health and safety standards in all our offices. This takes the form of staff education, regular fire drills and maintenance of an open door policy with regard to dialogue on the issue. Where appropriate, the appointment of individuals responsible for various areas of health and safety is made.



Further information is provided on pages 156 to 183 in volume one of Investec's 2017 integrated annual report.

### Political donations and expenditure

Investec plc did not make any donations for political purposes in the UK or the rest of the EU, nor did it make any political donations to political parties or other political organisations, or to any independent election candidates, or incur any political expenditure during the year.

## Environment, including greenhouse gas emissions

We are committed to pursuing sound environmental policies in all aspects of our business and seek to encourage and promote good environmental practice among our employees and within the community in which we operate.



Further information can be found on pages 156 to 183 in volume one of Investec's 2017 integrated annual report.

#### Going concern



Refer to page 152 for the directors' statement in relation to going concern.

### Research and development

In the ordinary course of business, Invested develops new products and services in each of its business divisions.

#### Viability statement



Refer to pages 159 to 161 for the directors' viability statement.

### Risk management policies



The group's policies for managing the financial risk to which it is exposed and exposure to price, credit, liquidity and cash flow risk are set out in the risk management section on pages 47 to 119.

### Additional information for shareholders

Schedule A to the directors' report is a summary of certain provisions of Investec plc's current Articles of Association and applicable English law concerning companies (the UK Companies Act 2006).

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 for shareholders to assess the group's performance, business model and strategy.

On behalf of the board of Investec plc.

Fani Titi Chairman Stephen Koseff
Chief executive officer

14 June 2017

#### Schedule A to the directors' report

### Additional information for shareholders

Set out below is a summary of certain provisions of Investec plc's current Articles of Association (the Articles) and applicable English law concerning companies (the UK Companies Act 2006). This is a summary only and the relevant provisions of the Articles or the Companies Act 2006 should be consulted if further information is required.

#### **Share capital**

The issued share capital of Investec plc at 31 March 2017 consists of 657 105 625 ordinary shares of £0.0002 each, 2 754 587 non-redeemable, non-cumulative, non-participating preference shares of £0.01 each, 131 447 ZAR non-redeemable, non-cumulative, non-participating preference shares of £0.001 each, 301 165 174 special converting shares of £0.0002 each, the special voting share of £0.001, the UK DAN share of £0.001 and the UK DAS share of £0.001 (each class as defined in the Articles).

#### Purchase of own shares

Subject to the provisions of the Articles, the Companies Act 2006, the uncertificated securities regulations 2001 and every other statute for the time being in force concerning companies and affecting Invested plc, the approval of shareholders as provided in the Invested plc Articles, and without prejudice to any relevant special rights attached to any class of shares. Invested pic may purchase, or may enter into a contract under which it will or may purchase, any of its own shares of any class, including without limitation any redeemable shares, in any way and at any price (whether at par or above or below par).

### Dividends and distributions

Subject to the provisions of the Companies Act 2006, Investec plc may by ordinary resolution from time-to-time declare dividends not exceeding the amount recommended by the board. The board may pay interim dividends whenever the financial position of Investec plc, in the opinion of the board, justifies such payment.

The board may withhold payment of all or any part of any dividends or other monies payable in respect of Investec plc's shares from a person with a 0.25% or more interest in nominal value of the issued shares if such a person has been served with a notice after failure to provide Investec plc with information concerning interests in those shares required to be provided under the Companies Act 2006.

#### **Voting rights**

Subject to any special rights or restrictions attaching to any class of shares, at a general meeting, every member present in person has, upon a show of hands, one vote and, on a poll, every member who is present in person or by proxy has one vote for each share. In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the share. Under the Companies Act 2006, members are entitled to appoint a proxy, who need not be a member of investec plc, to exercise all or any of their rights to attend and vote on their behalf at a general meeting or class meeting. A member may appoint more than one proxy in relation to a general meeting or class meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A member that is a corporation may appoint an individual to act on its behalf at a general meeting or class meeting as a corporate representative. The person so authorised shall be entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual member of Investec plc.

#### Restrictions on voting

No member shall be entitled to vote either in person or by proxy at any general meeting or class meeting in respect of any shares held by him if any call or other sum then payable by him in respect of that share remains unpaid. In addition, no member shall be entitled to vote if he has been served with a notice after failure to provide Investec plc with information concerning interests in those shares required to be provided under the Companies Act.

### Deadlines for exercising voting rights

Votes are exercisable at a general meeting of Investec plc in respect of which the business being voted upon is being heard. Votes may be exercised in person, by proxy, or in relation to corporate members, by corporate representatives. The Articles provide a deadline for submission of proxy forms of not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting.

#### Variation of rights

Subject to the Companies Act 2006, the Articles specify that rights attached to any class of shares may be varied with the written consent of the holders of not less than three-fourths in nominal value of the issued shares of that class, or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of those shares. At every such separate general meeting the quorum shall be two persons or, if there is only one holder, that holder at least holding or representing by proxy at least one-third in nominal value of the issued shares of the class (calculated excluding any shares held as treasury shares). The rights conferred upon the holders of any shares shall not, unless otherwise expressly provided in the rights attaching to those shares, be deemed to be varied by the creation or issue of further shares ranking pari passu with them. Where, under the company's share incentive plan, participants are the beneficial owners of the shares, but not the registered owners, the participants are not entitled to exercise any voting rights until the shares are released to the participants. Under the company's employee trust, the trustee does not vote in respect of unallocated shares.

#### Transfer of shares

All transfers of shares may be effected by transfer in writing in any usual or common form or in any other form acceptable to the directors. The instrument of transfer shall be signed by or on behalf of the transferor and (except in the case of fully paid shares) by or on behalf of the transferee. Transfers of shares which are in uncertificated form are effected by means of the CREST system. The directors may, in the case of shares in certificated form, in their absolute discretion and without assigning any reason, refuse to register any transfer of shares

#### Schedule A to the directors' report

(continued)

(not being fully paid shares), provided that such discretion may not be exercised in such a way as to prevent dealings in the shares of that class from taking place on an open and proper basis. The directors may also refuse to register an allotment or transfer of shares (whether fully paid or not) in favour of more than four persons jointly. If the directors refuse to register an allotment or transfer they shall within two months after the date on which the letter of allotment or transfer was lodged with Investec plc send to the allottee or transferee a notice of the refusal.

The directors may decline to recognise any instrument of transfer unless the instrument of transfer is in respect of only one class of share and, when submitted for registration, is accompanied by the relevant share certificates and such other evidence as the directors may reasonably require. Subject to the Companies Act and regulations and applicable CREST rules, the directors may determine that any class of shares may be held in uncertificated form and that title to such shares may be transferred by means of the CREST system or that shares of any class should cease to be so held and transferred.

A number of the company's employee share plans include restrictions on transfer of shares while the shares are subject to the plans, in particular, the share incentive plan.

#### Pic preference shares

The following are the rights and privileges which attach to the plc preference shares:

- On a return of capital, whether or not on a winding up (but not on a redemption or purchase of any shares by Investec plc) or otherwise, the plc preference shares will rank, pari passu interse and with the most senior ranking preference shares of Investec plc in issue (if any) from time-to-time and with any other shares of Investec plc that are expressed to rank pari passu herewith as regards participation in the capital, and otherwise in priority to any other class of shares of Investec plc
- Investec plc may, at its option, redeem all or any of the plc preference shares for the time being issued and outstanding on the first call date or any dividend payment date thereafter
- Holders of plc preference shares will not be entitled to attend and vote at general meetings of Investec plc.
   Holders will be entitled to attend and vote at a class meeting of holders of plc preference shares.

#### Non-redeemable, non-cumulative, nonparticipating preference shares

The following are the rights and privileges which attach to the perpetual preference shares:

- Each perpetual preference share will rank as regards dividends and a repayment of capital on the winding up of Investec plc prior to the ordinary shares, the plc special converting shares, the UK DAN share, the UK DAS share, but pari passu with the plc preference shares. The perpetual preference shares shall confer on the holders, on a per perpetual preference shares and equal basis, the right on a return of capital on the winding up of Investec plc of an amount equal to the aggregate of the nominal value and premiums in respect of perpetual preference shares issued, divided by the number of perpetual preference shares
- Each perpetual preference share may confer upon the holder thereof the right to receive out of the profits of Investec plc which it shall determine to distribute, in priority to the ordinary shares, the plc special converting shares, the UK DAN share and the UK DAS share, but pari passu with the plc preference shares, the preference dividend calculated in accordance with the Articles
- The holders of the perpetual preference shares shall be entitled to receive notice of and be present but not to vote, either in person or by proxy, at any meeting of Investec plc, by virtue of or in respect of the perpetual preference shares, unless either or both of the following circumstances prevail at the date of the meeting:
  - The preference dividend or any part thereof remains in arrears and unpaid as determined in accordance with the Articles after six months from the due date thereof; and/or
  - A resolution of Investec plc is proposed which resolution directly affects the rights attached to the perpetual preference shares or the interests of the holders thereof, or a resolution of Investec plc is proposed to wind up or in relation to the winding up of Investec plc or for the reduction of its capital, in which event the preference shareholders shall be entitled to vote only on such resolution.

# Rand-denominated non-redeemable, non-cumulative, non-participating perpetual preference shares (the ZAR perpetual preference shares)

The ZAR perpetual preference shares are subject to substantially similar terms and conditions as the existing Pounds Sterling non-redeemable, non-cumulative, non-participating preference shares, as outlined above, save that they are denominated in South African Rands.

### Shares required for the DLC structure

Investec SSC (UK) Limited, a UK trust company, specially formed for the purpose of the DLC structure, holds the plc special voting share, the plc special converting shares, the UK DAN share and the UK DAS share. These shares can only be transferred to another UK trust company, in limited circumstances.

The plc special voting shares are specially created shares so that shareholders of both Investec plc and Investec Limited effectively vote together as a single decision-making body on matters affecting shareholders of both companies in similar ways, as set out in the Articles.

Prior to a change of control, approval of termination of the sharing agreement (which regulates the DLC), liquidation or insolvency of Investec plc, the plc special converting shares have no voting rights, except in relation to a resolution proposing the:

- variation of the rights attaching to the shares or
- (ii) winding up, and they have no rights to dividends. The special converting shares are held on trust for the Investec Limited ordinary shareholders. Investec plc and Investec Limited have established dividend access trust arrangements as part of the DLC.

Investec plc has issued two dividend access shares, the UK DAS share and UK DAN share which enables Investec plc to pay dividends to the shareholders of Investec Limited. This facility may be used by the board to address imbalances in the distributable reserves of Investec plc and Investec Limited and/or to address

#### Schedule A to the directors' report

(continued)

the effects of South African exchange controls and/or if they otherwise consider it necessary or desirable.

## Appointment and replacement of directors

Directors shall be no less than four and no more than 20 in number. A director is not required to hold any shares of Investec plc by way of qualification. Investec plc may by special resolution increase or reduce the maximum or minimum number of directors.

#### **Powers of directors**

Subject to the Articles, the Companies Act 2006, the CREST regulations and every other statute for the time being in force concerning companies and affecting Investec plc, and any directions given by ordinary or special resolution, the business of Investec plc will be managed by the board who may exercise all the powers of Investec plc.

The board may exercise all the powers of Investec plc to borrow money and to mortgage or charge any of its undertaking, property, assets and uncalled capital and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of Investec plc or of any third party.

### Significant agreements: change of control

The Articles of Investec plc and the Memorandum of Incorporation of Investec Limited ensure that a person cannot make an offer for one company without having made an equivalent offer to the shareholders of both companies on equivalent terms.

Pursuant to the terms of the agreements establishing the DLC structure, if either Investec plc or Investec Limited serves written notice on the other at any time after either party becomes a subsidiary of the other party or after both Investec plc and Investec Limited become subsidiaries of a third party the agreements establishing the DLC structure will terminate.

All of Investec plc's share plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control and, where applicable, subject to the satisfaction of any performance conditions at that time.

### Independent auditor's report to the members of Investec plc



#### **Opinion**

We have audited the accompanying special purpose financial statements of Investec plc (the group) which comprise the consolidated balance sheet as at 31 March 2017, and the consolidated income statement, consolidated statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes 1 to 56 to the financial statements. The special purpose financial statements have been prepared by the directors in accordance with the accounting policies set out on pages 184 to 192.

Under the contractual arrangements implementing the dual listed companies structure, Investec plc and Investec Limited effectively form a single economic enterprise, in which the economic and voting rights of shareholders are equalised. In accordance with this structure the appropriate presentation under International Financial Reporting Standards as adopted by the European Union is achieved by combining the results and the financial position of both companies using merger accounting principles. Those combined consolidated financial statements are prepared separately so as to show a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union.

As explained in the accounting policies, these special purpose financial statements have been prepared to present the financial position, results and cash flows of Investec plc and its subsidiaries. For the avoidance of doubt, they exclude Investec Limited and its subsidiaries.

In our opinion, the accompanying financial statements of the group for the year ended 31 March 2017 are prepared, in all material respects, in accordance with the accounting policies set out on pages 184 to 192

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the group in accordance with the ethical requirements of

the International Ethics Standards Board for Accountants that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Certain disclosures required by the financial reporting framework have been presented in the Risk management and corporate governance report in Section 3 of the Annual Report, rather than in the notes of the financial statements and have been identified as audited.

#### Emphasis of Matter – Basis of Accounting and Restriction on Distribution and Use

We draw attention to accounting policies set out on pages 184 to 192 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the board of Investec plc in complying with the financial reporting provisions of the contract referred to above. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the board of Investec plc, in accordance with our engagement letter dated 14 May 2015, and should not be distributed to or used by parties other than the board of Investec plc. Our opinion is not modified in respect of this matter.

## Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the special purpose financial statements in accordance with the financial reporting provisions under the contractual arrangements implementing the dual listed companies structure, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the special purpose financial statements, management is responsible for

assessing the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the group's financial reporting process.

#### Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the special purpose financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.

### Independent auditor's report to the members of Investec plc

(continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.

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

#### Other matter

Investec plc has prepared a separate set of statutory financial statements for the year ended 31 March 2017 in accordance with both International Financial Reporting Standards as adopted by the European Union and International Financial Reporting Standards as issued by the International Accounting Standards Board and Companies Act 2006 on which we issued a separate auditor's report to the shareholders of Investec plc dated 9 June 2017.

Eniz & Yong LLA

Andy Bates (Senior Statutory Auditor) for and on behalf of Ernst & Young LLP, Statutory Auditor London

14 June 2017

#### Notes:

- 1. The maintenance and integrity of the Investec plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the annual financial statements since they were initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of annual financial statements may differ from legislation in other jurisdictions.

#### Consolidated income statement

(continued)

For the year to 31 March £'000	Notes	2017	2016
Interest income	2	563 354	549 092
Interest expense	2	(274 173)	(288 147)
Net interest income	ľ	289 181	260 945
Fee and commission income	3	932 146	813 744
Fee and commission expense	3	(128 283)	(103 986)
Investment income	4	59 975	62 120
Share of post taxation operating profit of associates		2 349	2 321
Trading income arising from:			
- customer flow		129 706	92 681
- balance sheet management and other trading activities		8 672	(7 983)
Other operating income	5	13 195	8 532
Total operating income before impairment losses on loans and advances	;	1 306 941	1 128 374
Impairment losses on loans and advances	26	(74 956)	(84 217)
Operating income		1 231 985	1 044 157
Operating costs	6	(1 005 130)	(863 648)
Depreciation on operating leased assets	. 31	(2 141)	(2 149)
Operating profit before goodwill and acquired intangibles	ſ	. 224 714	178 360
Impairment of goodwill	33	(3 134)	-
Amortisation of acquired intangibles	34	(14 386)	(14 477)
Operating profit	. [	207 194	163 883
Net loss on disposal of subsidiaries	35		(4 805)
Profit before taxation		207 194	159 078
Taxation on operating profit before goodwill and acquired intangibles	8	(39 144)	(35 335)
Taxation on acquired intangibles, goodwill and disposal of subsidiaries	8	3 305	4 701
Profit after taxation		171 355	128 444
Profit attributable to Asset Management non-controlling interests		. (11 807).	(10 263)
Loss attributable to other non-controlling interests		180	4 503
Earnings attributable to shareholders		159 728	122 684

### Consolidated statement of comprehensive income

For the year to 31 March £'000	Notes	2017	2016
Profit after taxation		171 355	128 444
Other comprehensive income/(loss):			•
Items that may be reclassified to the income statement			
Gains on realisation of available-for-sale assets recycled through the income statement*	8	(2 622)	(1 298)
Fair value movements on available-for-sale assets taken directly to other comprehensive income*	8	29 809	(20 268)
Foreign currency adjustments on translating foreign operations		37 139	5 304
Items that will never be reclassified to the income statement			
Hemeasurement of net defined benefit pension asset	8	(43 580)	4 738
Total comprehensive income		192 101	116 920
Total comprehensive income attributable to non-controlling interests	ŀ	11 253	5 652
Total comprehensive income attributable to ordinary shareholders		178 986	98 009
Total comprehensive income attributable to perpetual preferred securities		1 862	13 259
Total comprehensive income		192 101	116 920

Net of taxation.

# Consolidated balance sheet

AA O4 Manush			•
At 31 March €'000	Notes	2017	2016
Assets			
Cash and balances at central banks	. 17	2 853 571	2 638 069
Loans and advances to banks	18	1 130 998	1 112 441
Reverse repurchase agreements and cash collateral on securities borrowed	19	536 173	557 025
Sovereign debt securities	20	952 902	1 252 991
Bank debt securities	21	184 626	188 397
Other debt securities	22	398 278	393 652
Derivative financial instruments	23	604 175	837 558
Securities arising from trading activities	24	522 760	524 344
Investment portfolio	25	459 745	451 000
Loans and advances to customers	26	8 620 742	7 803 602
Other loans and advances	26	413 430	417 205
Other securitised assets	27	138 628	150 565
Interests in associated undertakings	28	63 390	23 587
Deferred taxation assets	29	89 941	85 050
Other assets	30	1 276 132	1 705 203
Property and equipment	31	60 528	56 374
Investment properties	32	14 500	79 051
Goodwill	33	355 155	356 994
Intangible assets	34	112 943	123 480
		18 788 617	18 756 588
Liabilities			
Deposits by banks		690 749	544 210
Derivative financial instruments	23	582 600	964 362
Other trading liabilities	36	136 041	226 598
Repurchase agreements and cash collateral on securities lent	19	223 997	281 260
Customer accounts (deposits)		11 021 581	10 808 980
Debt securities in issue	37	1 955 447	1 828 819
Liabilities arising on securitisation of other assets	27	128 838	120 617
Current taxation liabilities		143 585	140 959
Deferred taxation liabilities	. 29	26 236	33 834
Other liabilities	38	1 268 668	1 328 832
		16 177 742	16 278 471
Subordinated liabilities	40	579 356	597 309
		16 757 098	16 875 780
Equity .			
Ordinary share capital	41	191	182
Perpetual preference share capital	42	29	151
Share premium	43	1 246 282	1 194 257
Treasury shares	44	(90 411)	(81 309)
Other reserves		(45 381)	(66 757)
Retained income		905 809	820 967
Shareholders' equity excluding non-controlling interests		2 016 519	1 867 491
Non-controlling interests	45	15 000	13 317
Total equity		2 031 519	1 880 808
Total liabilities and equity		18 788 617	18 756 588
			.5.35.55

### Consolidated cash flow statement

For the year to 31 March £'000	Notes	2017	2016
Profit before taxation adjusted for non-cash items	47	339 474	298 288
Taxation paid		<sup>.</sup> 35 613	(88 893)
Decrease/(increase) in operating assets	47	79 727	(207 739)
(Decrease)/increase in operating liabilities	47	(79 970)	710 217
Net cash inflow from operating activities		374 844	711 873
Cash flow on acquisition of subsidiaries		(14 648)	_
Cash flow on net disposal of non-controlling interests		7 477	25
Cash flow on net acquisition of associates		(8 848)	(969)
Cash flow on acquisition of property, equipment and intangible assets		(21 202)	(16 969)
Cash flow on disposal of property, equipment and intangible assets		3 536	10 498
Net cash outflow from investing activities		(33 685)	(7 415)
Dividends paid to ordinary shareholders		(105 727)	(103 791)
Dividends paid to other equity holders		(11 552)	(23 939)
Cash flow on issue of shares, net of related costs		174 082	(119 316)
Cash flow on issue of perpetual preference shares		(81 743)	(90 868)
Cash flow on acquisition of treasury shares, net of related costs		(49 914)	_
Redemption of subordinated debt		(18 053)	-
Net cash outflow from financing activities		(92 907)	(337 914)
Effects of exchange rates on cash and cash equivalents		9 066	19 571
Net increase in cash and cash equivalents	·	257 318	386 115
Cash and cash equivalents at the beginning of the year		3 489 722	3 103 607
Cash and cash equivalents at the end of the year		3 747 040	3 489 722
Cash and cash equivalents is defined as including:		ļ	
Cash and balances at central banks		2 853 571	2 638 069
On demand loans and advances to banks		893 469	851 653
Cash and cash equivalents at the end of the year		3 747 040	3 489 722

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

# Consolidated statement of changes in equity

€'000	Ordinary share capital	Perpetual preference share capital	Share premium	Treasury shares
Balance at 1 March 2016	180	151	1 171 441	(37 960)
Movement in reserves 1 April 2014 – 31 March 2015				
Profit after taxation	_	1	ı	_
Gains on realisation of available-for-sale assets recycled through the income statement	_	_	_	_
Fair value movements on available-for-sale assets	-	_	_	_
Foreign currency adjustments on translating foreign operations	-	_	_	_
Remeasurement of net defined pension asset	-		_	_
Total comprehensive income for the year	-	-	-	-
Share-based payments adjustments	-	_	_	_
Dividends paid to ordinary shareholders	-	_	_	
Dividends declared to perpetual preference shareholders	_	-	_	_
Dividends paid to non-controlling interests		_	· _	-
Issue of ordinary shares	2	-	22 816	-
Reduction of non-controlling interests	- 1	. –	_	-
Movement of treasury shares	_ {	_	_	(43 349)
Transfer to capital reserve account	_	_	_	_
Transfer to retained income reserve	-	_	_	
At 31 March 2016	182	151	1 194 257	(81 309)
Movement in reserves 1 April 2016 – 31 March 2017				
Profit after taxation	_	1	_	_
Gains on realisation of available-for-sale assets recycled through the income statement	_	_	_	_
Fair value movements on available-for-sale assets	<del>-</del>	= .	_	_
Foreign currency adjustments on translating foreign operations	-	-	_	_
Remeasurement of net defined pension asset	-	_	_	-
Total comprehensive income for the year	-	-	_	-
Share-based payments adjustments	_	_	_	_
Dividends paid to ordinary shareholders		_	_	_
Dividends declared to perpetual preference shareholders	_	_	· _	. –
Dividends paid to non-controlling interests	- [	_	_	-
Issue of ordinary shares	9	-	174 073	_
Redemption of preference shares	-	(122)	(122 048)	_
Acquisition/(reduction) of non-controlling interests	-	_	-	_
Movement of treasury shares	- ]	-	_	(9 102)
Transfer to capital reserve account	- [	-	-	_
At 31 March 2017	191	29	1 246 282	(90 411)

# Consolidated statement of changes in equity

**4** 

(continued)

Other reserves

Capital reserve account	Available- for-sale reserve	Foreign currency reserves	Retained income	Shareholders' equity excluding non- controlling interests	Non- controlling interests	Total equity
11 186	1 283	(10 687)	778 023	1 913 617	160 456	2 074 073
_		-	122 684	122 684	5 760	128 444
-	(1 298)	-	-	(1 298)	-	(1 298)
-	(20 268)	-	-	(20 268)	-	(20 268)
-	-	5 412	-	5 412	(108)	5 304
-		-	4 738	4 738	·-	4 738
-	(21 566)	5 412	127 422	111 268	5 652	116 920
-	-	-	27 706	27 706		27 706
-	-	-	(103 791)	(103 791)	- '	(103 791)
-	-		(13 259)	(13 259)	-	(13 259)
-	-	-	-	-	(10 680)	(10 680)
-	-	-	_	22 818		22 818
-	-	-	-	-	(142 111)	(142 111)
(47 519)		- [	- 1	(90 868)	-	(90 868)
455	-	-	(455)	-	-	-
-	_	(5 321)	5 321	-	_	
(35 878)	(20 283)	(10 596)	820 967	1 867 491	13 317	1 880 808
_	-	-	159 728	159 728	11 627	171 355
	(2 622)	-	-	(2 622)	-	(2 622)
-	29 809		-	29 809	_	29 809
-	-	37 513	- (40.500)	37 513	(374)	37 139
_	27 187		(43 580)	(43 580)	- 44.050	(43 580)
-	2/ 10/	37 513	116 148	180 848	11 253	192 101
-	-	-	25 987	25 987	-	25 987
-	-	-	(105 727)	(105 727)	-	(105 727)
-	-	· -	(1 862)	(1 862)	-	(1 862)
-	-	- [	-	<b>-</b>	(9 690)	(9 690)
-		-		174 082	-	174 082
-	-	-	40 427	(81 743)	_	(81 743)
-	-	-	7 357	7 357	120	7 477
(40 812)	-	-	-	(49 914)	-	(49 914)
(2 512)	-	- 00.04=	2 512	- 0.040.540	45.000	0.004.540
 (79 202)	6 904	26 917	905 809	2 016 519	-15 000	2 031 519

#### **Accounting policies**

#### **Basis of presentation**

These annual financial statements have been prepared to present the financial position and results of Invested plc and its subsidiaries as if the contractual arrangements which create the dual listed company (DLC) structure did not exist and, with this exception and the exclusion of certain other remuneration and related party disclosures, are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). For an understanding of the financial position, results and cash flows of the Investec DLC group, the user is referred to Investec's integrated annual report.

Investec DLC group consists of two separate legal entities, being Investec plc and Investec Limited, that operate under a DLC structure. The effect of the DLC structure is that Investec plc and its subsidiaries and Investec Limited and its subsidiaries operate together as a single economic entity, with neither assuming a dominant role, and accordingly are reported as a single reporting entity under IFRS.

These group annual financial statements are prepared in accordance with IFRS, as adopted by the EU which comply with IFRSs as issued by the International Accounting Standards Board (IASB). At 31 March 2017, IFRS as endorsed by the EU are identical in all material respects to current IFRS applicable to the group, with differences only in the effective dates of certain standards.

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

The accounting policies adopted by the group are consistent with the prior year.

## 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 47 to 119. 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 integrated annual report.

#### **Basis of consolidation**

As discussed above, these annual financial statements have been prepared to present the financial position and results of Investec plc and its subsidiaries as if the contractual arrangements which create the DLC structure did not exist.

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 investee. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. Investec also holds investments, for example 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 consolidated annual 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 consolidated balance sheet reflects the associated undertakings net of accumulated impairment losses.

All intergroup balances, transactions and unrealised gains or losses within the group that do not reflect an impairment to the asset, 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.

The group's segmental reporting is presented in the form of a business analysis. The business analysis is presented in terms of the group's three principal business divisions, namely, Asset Management, Wealth & Investment and Specialist Banking.

Group costs that are disclosed separately largely relate to group brand and marketing costs and a portion of executive and support functions which are associated with group-led activities. These costs are not incurred by the operating divisions and are necessary to support the operational functioning of the group.

## 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.

(continued)

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 either in the income statement or as a change to other comprehensive income. 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.

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 Pounds Sterling, being the functional currency of Investec plc.

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 costs 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 recognised 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.

#### Accounting policies

(continued,

Revenue related to provision of services is recognised when the related services are performed. Revenue is measured at the fair value of the consideration received or receivable.

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

The effective interest rate method is based on the estimated life of the underlying instrument and where this estimate is not readily available, the contractual life.

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

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

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 includes the unrealised profit on trading portfolios, which are marked-to-market daily. Equity investments received in lieu of corporate finance fees are included in investment portfolio and valued accordingly.

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

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

and revenue from consolidated private equity investments. Operating costs associated with these investments are included in operating costs in the income statement.

#### Fair value measurement

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

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

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

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

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

The group classifies disclosed fair values according to a hierarchy that reflects the significance of observable market inputs.

A transfer is made between the hierarchy levels when the inputs have changed or there has been a change in valuation method. Transfers are deemed to occur at the end of each semi-annual reporting period.

#### Financial instruments

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

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

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

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

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

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

- they eliminate or significantly reduce a 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.

#### **Accounting policies**

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(continued)

#### Loans and receivables

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

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

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

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

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

# Securitisation/credit investment and trading activities exposures

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

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

Loans and advances that are originated are transferred to structured entities, and

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

### Available-for-sale financial assets

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

Financial assets classified as availablefor-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 recognised in the income statement. Interest earned while holding available-for-sale financial assets is reported in the income statement as interest income using the effective interest rate. Dividends earned while holding available-for-sale financial assets are recognised in the income statement when the right to payment has been established.

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

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

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

#### Financial liabilities

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

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

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

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

#### Day-one profit or loss

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

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

### Impairments of financial assets held at amortised cost

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

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

#### **Accounting policies**

(continued)

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.

### Derecognition of financial assets and liabilities

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

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

### Reclassification of financial instruments

The group may reclassify, in certain 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 profit or losses arising on derivatives are recognised in the income statement as part of trading income (other than circumstances in which cash flow hedging is applied as detailed in the hedge accounting section below).

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

Credit derivatives are entered into for trading purposes. Credit derivatives are initially recognised at their fair values, being the transaction price of the derivative. Subsequently the derivatives are carried at fair value, with movements in fair value through profit or loss, based on the current market price or remeasured price. The counterparty risk from derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit value adjustment (CVA).

#### **Hedge accounting**

The group applies either fair value or 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 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%
- The effectiveness of the hedge can be reliably measured, i.e. the fair value 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.

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. Changes in the fair value of the hedging instrument relating to the effective portion of the hedge are 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 hedged item matures or is sold or repaid; when a forecasted transaction is no longer deemed highly probable or when the designation as a hedge is revoked.

#### **Embedded derivatives**

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

 The economic characteristics and risks of the embedded derivative are not closely related to the economic

#### **Accounting policies**

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(continued)

- 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 issued by subsidiaries of Investec plc are recorded as non-controlling interests on the balance sheet.

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

Treasury shares represent Investec plc shares repurchased by the group which has not been cancelled. Treasury shares are deducted from shareholders' equity and represent the purchase consideration, including directly attributable costs. Where treasury shares are subsequently sold or reissued, net proceeds received are included in shareholders' equity.

Dividends on ordinary shares are recognised as a deduction from equity at the earlier of payment date or the date that it is approved by Investec plc shareholders.

# Sale and repurchase agreements (including securities borrowing and lending)

Securities sold subject to a commitment to repurchase, at a fixed price or a selling price plus a lender's return, remain on balance sheet. Proceeds received are recorded as a liability on 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 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.

#### 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 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

The current and comparative annual depreciation rates for each class of property and equipment is as follows:

- Computer and related equipment 20% to 33%
- Motor vehicles 20% to 25%
- Furniture and fittings 10% to 20%
- Freehold buildings 2%
- Leasehold property and improvements\*

### **Accounting policies**

(continued)

Leasehold improvements depreciation rates are determined by reference to the appropriate useful life of its separate components, limited to the period of the lease. Leasehold property depreciation rates are determined by reference to the period of the lease.

No depreciation is provided on freehold land. However, similar to other property-related assets, it is subject to impairment testing when an indication of impairment exists.

Routine maintenance and service costs for group 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 carried at fair value, with fair value gains or losses recognised in the income statement in investment income.

Fair value of investment properties are 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 a finite life, are amortised over the useful economic life (currently three to twenty 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 properties for indication of impairment. The recoverable amount, being the higher of fair value less cost of disposal and value in use, is determined for any assets for which an indication of impairment is identified. If the recoverable amount of an asset is less than

its carrying value, the carrying value of the asset is reduced to its recoverable amount.

Impairment losses are recognised as an expense in the income statement in the period in which they are identified. Reversals of impairment losses are recognised in income in the period in which the reversals are identified, to the extent that the carrying value of the asset does not exceed the amount that would have been calculated without impairment.

## Trust and fiduciary activities

The group acts as a trustee or in other fiduciary capacities that result in the holding, placing or managing of assets for the account of and at the risk of clients.

As these are not assets of the group, they are not recognised on the balance sheet but are included at market value as part of assets under administration.

## Taxation and deferred taxation

Current taxation payable is provided for based on the amount expected to be payable on taxable profit at rates that are enacted or substantively enacted and applicable to the relevant period.

Deferred taxation is provided on temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base, except where such temporary differences arise from:

- The initial recognition of goodwill
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction has no effect on the income statement or taxable profit
- In respect of temporary differences associated with the investments in subsidiaries and interests in associated undertakings, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred taxation assets or liabilities are measured using the 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 assets 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 and two closed defined benefit schemes

In respect of the defined contribution scheme, 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 assets of the defined benefit schemes are measured at their market value at the balance sheet date and the liabilities of the schemes are measured using the projected unit credit method. The discount rate used to measure the schemes' liabilities is the current rate of return on an AA corporate bond at the balance sheet date of equivalent term and currency to the liabilities. The extent to which the schemes' assets exceed or fall short of the schemes' liabilities is shown as a surplus (to the extent that it is considered recoverable) or deficit in the balance sheet.

Actuarial gains and losses related to the defined benefit asset or liability are recognised immediately directly in other comprehensive income.

The group has no liabilities for other postretirement 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

#### **Accounting policies**

04

(continued)

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

Standards and interpretations issued but not yet effective

The following standards and interpretations, which have been issued but are not yet effective, are applicable to the group. These standards and interpretations have not been applied in these annual financial statements. The group intends to comply with these standards from the effective dates.

#### **IFRS 9 Financial Instruments**

IFRS 9 Financial Instruments was issued in July 2014 and will replace certain key elements of IAS 39. The mandatory effective date for IFRS 9 is for annual periods beginning on or after 1 January 2018 with early adoption permitted.

IFRS 9 was endorsed by the European Union in November 2016. The two key elements that would impact the group's accounting policies include:

· classification and measurement of financial assets and financial liabilities: the standard requires that all financial assets be classified as either held at fair value through profit or loss, fair value through other comprehensive income or amortised cost. The amortised cost classification is only permitted where it is held within a business model where the underlying cash flows are held in order to collect contractual cash flows and that the cash flows arise solely from payment of principal and interest. Financial assets which are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (and whose contractual cash flows represent solely payments of principal and interest) will be measured at fair value through other comprehensive income. The standard further provides that gains or losses on assets held at fair value are recognised in the income statement unless the entity has elected to recognise gains or losses on nontrading equity investments directly through other comprehensive income.

With reference to financial liabilities held at fair value, the standard requires that changes to fair value attributable to own credit risk are recognised directly in other comprehensive income without recycling through the income statement;

impairment methodology: the key change is related to a shift from an incurred loss to an expected loss impairment methodology. At initial recognition an allowance (or provision in the case of commitments and guarantees) is required for expected credit losses (ECL) resulting from default events that are possible within the next 12 months (12-month ECL). In the event of a significant increase in credit risk since initial recognition, IFRS 9 requires the recognition of lifetime expected credit losses. Impairment measurement will involve increased complexity and significant judgements on areas such as the estimation of probabilities of default, loss given default, unbiased future economic scenarios, estimation of expected lives, estimation of exposures at default and assessing whether a significant increase in credit risk has occurred.

IFRS 9 also includes guidance on hedge accounting. The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. The standard does not address macro-hedge accounting strategies, which are being considered in a separate project. To remove the risk of any conflict between existing macro-hedge accounting practice and the new general hedge accounting requirements, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting. The group intends to continue applying IAS 39's hedge accounting, although it will implement the amended IFRS 7 hedge accounting disclosure requirements, until the macro-hedge accounting project has been completed.

The regulatory capital impact of IFRS 9 could be affected by changes to the regulatory rules. The Basel committee on Banking Supervision is considering amending the capital rules of IFRS 9, with discussions being held on transitional impacts and longer-term changes It is not clear whether any transitional capital arrangements will be in place for 1 January 2018.

The group has established an IFRS 9 steering committee comprising of executive representation and key management from Risk, Finance, Analytics and IT.

The committee is accountable for IFRS 9 implementation and is supported by working groups responsible for different work streams. The committee continues to progress with documentation of the group's accounting policy and governance framework and the development of ECL models and operating and system target operating models. The committee provides updates of the status of the project to appropriate board committees. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The group does not intend to restate comparatives.

### Current assessment of classification and measurement:

The group expects that generally:

- loans and advances to banks and to customers and non-trading reverse repurchase agreements that are classified as loans and receivables under IAS 39 will be measured at amortised cost under IFRS 9, with the exception of current investments for which embedded derivatives are recognised separately unless a separate derivative instrument can be recognised, the entire loan would be recognised at fair value;
- financial assets designated at fair value through profit or loss (FVTPL) under IAS 39 will be measured at FVTPL under IFRS 9:
- certain debt securities held within the group's credit portfolio may be reclassified from available-for-sale to amortised cost. The remaining debt securities classified as available-for-sale will be measured at fair value through other comprehensive income (FVOCI) under IFRS 9; and
- equity instruments securities classified as available-for-sale or FVTPL will be measured at FVTPL under IFRS 9.

The group continues to assess the impact of this standard, but expects that the recognition and measurement basis of the majority of the group's financial assets will be largely unchanged on application of IFRS 9.

#### Accounting policies

(continued)

The group is monitoring the IASB's project to amend IFRS 9 to the effect that basic lending arrangements with symmetrical break clauses continue to qualify for amortised cost accounting. These clauses are common features in fixed rate loans due to market practice and may result in compensation for early termination being paid by either the borrower or the group. The IASB has issued an exposure draft in April 2017 which will be, effective 1 January 2018 in line with IFRS 9's effective date. Based on these anticipated amendments, we expect that we can continue to measure the impacted loans at amortised cost.

#### **Current assessment of impairments:**

As noted, the group would also shift its impairment methodology from the current incurred loss basis to expected loss. Credit risk methodologies have been defined and model build and approval is underway and nearing completion. Investec intends to perform a parallel run during 2017 and in doing so models and credit risk processes will be tested during this period to embed the changes and help improve the understanding of the new impairment models.

The group has reviewed key definitions such as significant deterioration in credit quality and default against our current asset quality classifications. A framework is being established that incorporates both quantative and qualitative measures. Any decisions in relation to credit deterioration will be management decisions subject to approval by governing bodies.

The group will incorporate IFRS 9 requirements into our group credit risk classification and provisioning policy.

It will not be practical to disclose reliable financial impact estimates until the implementation programme and validation and testing is further advanced. The group intends to disclose this in the 2018 annual financial statements.

### IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. The standard is effective for annual periods beginning on or after 1 January 2018 with early application permitted. The standard was endorsed by the European Union in September 2016.

IFRS 15 provides a principles-based approach for revenue recognition and introduces the concept of recognising

revenue for obligations as they are satisfied. The standard should be applied retrospectively, with certain practical expedients available. The group's current measurement and recognition principles are aligned to the standard and we do not expect an impact to measurement principles currently applied. The impact of the disclosure requirements of the standard is currently being assessed.

#### **IFRS 16 Leases**

In January 2016, the IASB issued IFRS 16 Leases. The standard is effective for annual periods beginning on or after 1 January 2019 and is expected to be endorsed by the European Union in 2017. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 Leases. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the period of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17. The group is currently assessing the impact of this standard but it is not practicable to quantify the effect as at the date of the publication of these financial statements.

All other standards and interpretations issued but not yet effective are not expected to have a material impact on the group.

## Key management assumptions

In preparation of the annual financial statements, the group makes estimations and applies judgement that could affect the reported amount of assets and liabilities within the next financial year. Key areas in which judgement is applied include:

- Valuation of unlisted investments in the private equity, 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
- The determination of impairments against assets that are carried at amortised cost and impairments relating to availablefor-sale financial assets involves the assessment of future cash flows which is judgemental in nature

- 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 sensitive to the resolution of issues, which is often dependent on the timetable and progress of discussion and negotiations with the relevant tax authorities, arbitration process 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.
- The nature of any assumptions made, when calculating the carrying amounts relating to any estimated tax which could be payable as a result of decisions by tax authorities in respect of any such transactions and events whose treatment for tax purposes, is uncertain. 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.

Where appropriate, the group has utilised expert external advice as well as experience of similar situations elsewhere in making any such provisions.

 Determination of interest income and interest expense using the effective interest rate method involves judgement in determining the timing and extent of future cash flows

or the	e year to 31 March	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Total group
١.	Consolidated segmental analysis					
	2017					
	Segmental business analysis – income statement					
	Net interest income	111	4 368	284 702	-	289 181
	Fee and commission income	427 626	268 429	236 091	-	932 146
	Fee and commission expense	(119 542)	(582)	(8 159)	-	(128 283)
	Investment income	-	2 169	57 806	-	59 975
	Share of post taxation operating profit of associates	-	1 509	840	-	2 349
	Trading income arising from					
	- customer flow	-	740	128 966	-	129 706
	<ul> <li>balance sheet management and other trading activities</li> </ul>	3 221	215	5 236	_	8 672
	Other operating income	5 313		7 882	-	13 195
	Total operating income before impairment on loans and advances	316 729	276 848	713 364	_	1 306 941
	Impairment losses on loans and advances		_	(74 956)		(74 956)
	Operating income	316 729	276 848	638 408	-	1 231 985
	Operating costs	(225 466)	(211 658)	(531 843)	(36 163)	(1 005 130)
	Depreciation on operating leased assets		-	(2 141)	·	(2 141)
	Operating profit/(loss) before goodwill and					
	acquired intangibles	91 263	65 190	104 424	(36 163)	224 714
	Operating loss attributable to other non-controlling interests	-	-	180	-	180
	Operating profit/(loss) before goodwill, acquired intangibles and after other non-controlling interests	91 263	65 190	104 604	(36 163)	224 894
	Operating profit attributable to Asset Management	(44.007)				(11.007)
	non-controlling interests  Operating profit/(loss) before goodwill, acquired	(11 807)	_	_	-	(11 807)
	intangibles and after non-controlling interests	79 456	65 190	104 604	(36 163)	213 087
	- · · · · · · · · · · · · · · · · · · ·	15 400	00.00	104 004	(55 155)	1 2.000.
	Selected returns and key statistics Cost to income ratio	71.2%	76.5%	74.8%	n/a	77.0%
	Total assets (£'million)	401	952	17 436	- "-	18 789
	2016					
	Segmental business analysis – income statement					
	Net interest income	290	4 064	256 591	_	260 945
	Fee and commission income	375 312	246 202	192 230	-	813 744
	Fee and commission expense	(100 060)	(1 209)	(2 717)	_	(103 986)
	Investment income	-	5 817	56 303	-	62 120
	Share of post taxation operating profit of associates	-	1 191	1 130	-	2 321
	Trading income arising from			00.015		00.00
	- customer flow	- 4.050	333	92 348	-	92 681
	balance sheet management and other trading activities     Other exercise income.	1 656 (1 135)	236	(9 875) 9 667	_	(7 983) 8 532
	Other operating income  Total operating income before impairment on loans	(1 135)	<u> </u>	9 007		0 552
	and advances	276 063	256 634	595 677	_	1 128 374
	Impairment losses on loans and advances	_	_	(84 217)	_	(84 217)
	Operating income	276 063	256 634	511 460	_	1 044 157
	Operating costs	(199 210)	(193 507)	(435 771)	(35 160)	(863 648)
	Depreciation on operating leased assets	-	` -	(2 149)	` -	(2 149)
	Operating profit/(loss) before goodwill and					
	acquired intangibles	76 853	63 127	73 540	(35 160)	178 360
	Operating loss attributable to other non-controlling interests	-	-	4 503		4 503
	Operating profit/(loss) before goodwill, acquired					
	intangibles and after other non-controlling interests	76 853	63 127	78 043	(35 160)	182 863
	Operating profit attributable to Asset Management					
	non-controlling interests	(10 263)	-	-	-	(10 263)
	Operating profit/(loss) before goodwill, acquired	20 505	00.40-	70.040	105 400	470 000
	intangibles and after non-controlling interests	66 590	63 127	78 043	(35 160)	172 600
	Selected returns and key statistics				,	
	Cost to income ratio	72.2%	75.4%	73.4%	n/a	76.7%
	Total assets (£'million)	: 371	1 026	17 360		<u>18</u> 757

No geographical segmental analysis is provided as the group operates in a single significant geography.

(continued)

he year to 31 March 2017	Notes s	Balance sheet value	Interest received
Net interest income			
Cash, near cash and bank debt and sovereign debt securities	1	5 658 270	33 255
Core loans and advances	2	8 620 742	471 547
Private client	Ţ	3 454 366	151 645
Corporate, institutional and other clients		5 166 376	319 902
Other debt securities and other loans and advances		811 708	58 552
Total interest-earning assets		15 090 720	563 354
For the year to 31 March 2017 £'000	Notes	Balance sheet value	Interest paid
Deposits by banks and other debt-related securities	3	2 870 193	87 872
Customer accounts		11 021 581	130 419
Subordinated liabilities	•	579 356	55 882
Total interest-bearing liabilities		14 471 130	274 173
Net interest income			289 181
Net interest margin		<u>.</u>	1.96%
For the year to 31 March 2016 £'000	Notes	Balance sheet value	Interest received
Cash, near cash and bank debt and sovereign debt securities	1	5 748 923	47 481
Core loans and advances	2	7 803 602	427 601
Private client		3 510 327	150 060
Corporate, institutional and other clients		4 293 275	277 541
Other debt securities and other loans and advances		810 857	74 010
Total interest-earning assets		14 363 382	549 092
For the year to 31 March 2016 £'000	Notes	Balance sheet value	Interest paid
Deposits by banks and other debt-related securities	3	2 654 289	106 707
Customer accounts		10 808 980	124 569
Subordinated liabilities		597 309	56 871
Total interest-bearing liabilities		14 060 578	288 147
Net interest income			260 945

Comprises (as per the balance sheet) cash and balances at central banks; loans and advances to banks; reverse repurchase agreements and cash collateral on securities borrowed; sovereign debt securities; and bank debt securities.
 Comprises (as per the balance sheet) loans and advances to customers.
 Comprises (as per the balance sheet) deposits by banks; debt securities in issue; and repurchase agreements and cash collateral on securities lent.

1.82%

Net interest margin



(continued)

£'000	ne year to 31 March	2017	2016
3.	Net fee and commission income		
	Asset management and wealth management businesses net fee and commission income	575 931	520 245
	Fund management fees/fees for assets under management	639 100	567 257
	Private Client transactional fees	56 955	54 257
	Fee and commission expense	(120 124)	(101 269)
	Specialist Banking net fee and commission income	227 932	189 513
	Corporate and institutional transactional and advisory services	206 408	164 088
	Private client transactional fees	29 683	28 142
	Fee and commission expense	(8 159)	(2 717)
	Net fee and commission income	803 863	709 758
	Annuity fees (net of fees payable)	581 895	542 128
	Deal fees	221 968	167 630

For	the	year	to	31	March

£'000	0	2017	2016
4.	Investment income		
	Realised	50 335	44 135
	Unrealised	(9 271)	(2 311)
	Dividend income	12 339	15 419
	Funding and other net related income	6 572	4 877
		59 975	62 120



(continued)

For t	he year to 31 March	Investment portfolio (listed and unlisted equities)*	Debt securities (sovereign, bank and other)	Investment properties	Other asset categories	Total
4.	Investment income (continued)		·			
	2017					
	Realised	38 533	(8 482)	18 337	1 947	50 335
	Unrealised^	(3 086)	5 138	(10 008)	(1 315)	(9 271)
	Dividend income	12 339	-	-	- ]	12 339
	Funding and other net related income	-	-	-	6 572	6 572
		47 786	(3 344)	8 329	7 204	59 975
	2016					
	Realised	10 319	31 143	_	2 673	44 135
	Unrealised^	15 562	(7 468)	1 282	(11 687)	(2 311)
	Dividend income	15 419	-	-	-	15 419
	Funding and other net related income	-		-	4 877	4 877
		41 300	23 675	1 282	(4 137)	62 120

#### For the year to 31 March

£'000	)	2017	2016
5.	Other operating income		
	Rental income from properties	3 635	5 725
	Gains on realisation of properties	325	_
	Unrealised gains on other investments	6 765	619
	Income from operating leases	2 470	2 188
	·	13 195	8 532

Including embedded derivatives (warrants and profit shares).

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



(continued)

For the year to 31 March

	2017	2016
Operating costs	T	
Staff costs	726 614	618 475
- Salaries and wages (including directors' remuneration)	608 927	523 250
- Training and other costs	15 701	10 829
- Share-based payment expense	27 497	22 989
- Social security costs	47 258	38 828
- Pensions and provident fund contributions	27 231	22 579
Premises expenses (excluding depreciation)	52 979	35 998
Equipment expenses (excluding depreciation)	48 379	31 328
Business expenses*	122 714	128 769
Marketing expenses	42 744	38 012
Depreciation, amortisation and impairment on property, equipment and intangibles	11 700	11 066
	1 005 130	863 648
Depreciation on operating leased assets	2 141	2 149
	1 007 271	865 797
The following amounts were paid by the group to the auditors in respect of the audit of the financial statements and for other services provided to the group		·
Ernst & Young fees		
Fees payable to the company's auditors for the audit of the company's accounts	320	290
Fees payable to the company's auditors and its associates for other services:	ļ	
- Audit of the company's subsidiaries pursuant to legislation	2 880	2 684
- Audit-related assurance services	370	424
- Tax compliance services	390	99
- Tax advisory services	200	422
- Services related to corporate finance transactions	620	-
- Other assurance services	80	96
	4 860	4 015
KPMG fees	Į.	
Fees payable to the company's auditors for the audit of the company's accounts	- 1	_
Fees payable to the company's auditors and its associates for other services:	1	
- Audit of the company's subsidiaries pursuant to legislation	560	677
- Audit-related assurance services	200	64
- Tax compliance service	130	139
- Tax advisory services	- [	179
Services related to corporate finance transactions	50	_
- Other assurance services	- 1	6
	940	1 065
Total	5 800	5 080

<sup>\*</sup> Business expenses mainly comprise insurance costs, consulting and professional fees, travel expenses and subscriptions.

## Notes to the annual financial statements

(continued)

#### 7. Share-based payments

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 *esprit de corps* within the organisation, create an awareness of Investec's performance and provide an incentive to maximise individual and group performance by allowing all staff to share in the risks and rewards of the group.



Further information on the group share options and long-term incentive plans are provided in the remuneration report included in Investec's 2017 integrated annual report and on our website.

For the year to 31 March £'000	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Total group
Share-based payments expense					
2017					
Equity-settled	489	3 994	19 818	3 196	27 497
Total income statement charge	489	3 994	19 818	3 196	27 497
Equity-settled – accelerated charges included in the income statement in operating costs arising from integration restructuring and disposal					
of subsidiaries	-	_		-	
	489	3 994	19 818	3 196	27 497
2016			•		
Equity-settled	1 186	6 501	14 120	1 182	22 989
Total income statement charge	1 186	6 501	14 120	1 182	22 989
Equity-settled – accelerated charges included in the income statement in operating costs arising from integration restructuring and disposal of subsidiaries	-	_	_	<del>.</del> !	_
	1 186	6 501	14 120	1 182	22 989

Included in the above income statement charge is an accelerated share-based payment charge as a result of modifications to certain options granted. This expense for the year was £nil (2016: £0.02 million).

For the	year	to	31	March
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£'000		2017	2016
Weighted average fair val	ue of options granted in the year		
UK schemes		29 213	29 344

	UK schemes				
	201	7	2016		
Details of options outstanding during the year	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £	
Outstanding at the beginning of the year	28 760 479	0.07	32 430 764	0.06	
Granted during the year	6 501 494	0.01	6 810 928	0.12	
Exercised during the year^	(8 239 897)	0.03	(9 203 122)	0.01	
Options forfeited during the year	(1 030 469)	0.30	(1 278 091)	0.44	
Outstanding at the end of the year	25 991 607	0.06	28 760 479	0.07	
Exercisable at the end of the year	12 250		70 987		

The weighted average share price during the year was £5.09 (2016: £5.34).



(continued)

#### 7. Share-based payments (continued)

	2017	2016
Additional information relating to options		
Options with strike prices		
Exercise price range	£3.29 - £6.00	£3.29 – £6.00
Weighted average remaining contractual life	1.72 years	2.09 years
Long-term incentive grants with no strike price		
Exercise price range	£nil	£nil
Weighted average remaining contractual life	1.72 years	1.77 years
Weighted average fair value of options and long-term grants at measurement date	£4.49	£4.31
The fair values of options granted where calculated using a Black-Scholes option pricing model. For options granted during the year, the inputs into the model were as follows:		
- Share price at date of grant	£4.36 <b>–</b> £5.20	£5.68 – £6.00
- Exercise price	£nil, £4.36 - £5.20	£nil, £5.68 – £6.00
- Expected volatility	30%	30%
- Option life	2.5 – 5 Years	3 <b>–</b> 5.5 years
- Expected dividend yields	5.90% - 6.75%	4.50% <b>–</b> 4.67%
- Risk-free rate	0.82% - 1.44%	1.28% - 1.31%

Expected volatility was determined based on the implied volatility levels quoted by the 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.



(continued)

For the year to 31 March £'000

£'000	ne year to 31 March	2017	2016
8.	Taxation		
	Income statement tax charge	,	
	Current taxation		
	UK		
	Current tax on income for the year	49 387	40 497
	Adjustments in respect of prior years	(5 238)	4 420
	Corporation tax before double tax relief	44 149	44 917
	- Double tax relief	(308)	(217)
		43 841	44 700
	Europe	2 474	2 694
	Australia	976	1 117
	Other	932	3 866
		4 382	7 677
	Total current taxation	48 223	52 377
	Deferred taxation		
	UK	(14 597)	(9 389)
	Europe	263	(9 746)
	Australia	(11)	1 081
	Other	1 961	(3 689)
	Total deferred taxation	(12 384)	(21 743)
	Total taxation charge for the year	35 839	30 634
	Total taxation charge for the year comprises:	]	
	Taxation on operating profit before goodwill	39 144	35 335
	Taxation on acquired intangibles, goodwill and disposal of subsidiaries	(3 305)	(4 701)
		35 839	30 634
	Deferred taxation comprises:		
	Origination and reversal of temporary differences	(11 264)	(13 779)
	Changes in tax rates	(971)	(8 394)
	Adjustment in respect of prior years	(149)	430
		(12 384)	(21 743)



(continued)

h )	e year to 31 March	2017	2016
	Taxation (continued)		
	The rates of corporation tax for the relevant years are:	%	. %
	UK	20	20
	Europe (average)	10	10
	Australia	30	30
	Profit before taxation	207 194	159 078
	Taxation on profit before taxation	35 839	30 634
	Effective tax rate	17.3%	19.3%
	The taxation charge on activities for the year is different from the standard rate as detailed below:		
	Taxation on profit on ordinary activities before taxation at UK rate of 20% (2015: 21%)	41 439	31 81
	Taxation adjustments relating to foreign earnings	(266)	(8 34
	Taxation relating to prior years	(5 387)	4 84
	Goodwill and non-operating items	767	1 06
	Share options accounting expense	(171)	6 92
	Share options exercised during the year	-	(9 91
	Unexpired share options future tax deduction	-	2 77
	Non-taxable (loss)/income	(2 054)	22
	Net other permanent differences	20 526	12 72
	Unrealised capital gains	(5 402)	(3 08
	Movement in brought forward trading losses	(12 642)	
	Change in tax rate	(971)	(8 39
	Total taxation charge as per income statement	35 839	30 63
	Other comprehensive income taxation effects		
	Gains on realisation of available-for-sale assets recycled through the income statement	(2 622)	(1 29
	Pre-taxation	(3 656)	(1 39
	Taxation effect	1 034	10
	Fair value movements on available-for-sale assets taken directly to other comprehensive income	29 809	(20 26
	Pre-taxation	36 159	(25.14
	Taxation effect	(6 350)	4 87
	Remeasurement of net defined pension asset	(43 580)	4 73
	Pre-taxation	(53 575)	5 69
	Taxation effect	9 995	(95)
	Statement of changes in equity taxation effects		
	Share-based payment IFRS 2 adjustment	25 987	27 70
	Pre-taxation Pre-taxation	25 918	23 010
	Taxation effect	69	4 690

(continued)

		2017		2016	
For the year to 31 March £'000		Pence per share	Total	Pence per share	Total
9.	Dividends				
	Ordinary dividend				
	Final dividend for prior year	11.5	41 459	11.5	46 367
	Interim dividend for current year	10.0	64 268	9.5	57 424
	Total dividend attributable to ordinary shareholders	21.5	105 727	21.0	103 791

The directors have proposed a final dividend in respect of the financial year ended 31 March 2017 of 13.0 pence per ordinary share (31 March 2016: 11.5 pence).

This will be paid as follows:

- For Investec plc non-South African shareholders, through a dividend paid by Investec plc of 13 pence per ordinary share
- For Investec plc South African shareholders, through a dividend payment by Investec plc of 6 pence per ordinary share and through a dividend payment on the SA DAS share of 7 pence per ordinary share

The final dividend will be payable on 14 August 2017 to shareholders on the register at the close of business on 28 July 2017.

	2017					
For the year to 31 March £'000	Pence Cent per share per share		Total	Pence per share	Cents per share	Total
Perpetual preference dividend						
Final dividend for prior year	7.52	470.25	1 628	7.48	445.07	1 648
Interim dividend for current year	7.12	500.11	234	7.52	470.25	1 555
Total dividend attributable to perpetual preference shareholders recognised in	1101	270.00	4.000	45.00	245.00	0.000
current financial year	14.64	970.36	1 862	15.00	915.32	3 203

The directors have declared a final dividend in respect of the financial year ended 31 March 2017 of 6.23288 pence (Investec plc shares traded on the JSE Limited) and 6.23288 pence (Investec plc shares traded on the Channel Island Stock Exchange), and 497.38356 cents per perpetual preference share subject to shareholder approval at the annual general meeting on 10 August 2017. The final dividend will be payable on 19 June 2017 to shareholders on the register at the close of business on, 9 June 2017.

For the year to 31 March £'000	2017	2016
Dividend attributable to perpetual preferred securities	-	10 056

The €200 000 000 fixed/floating rate guaranteed, non-voting, non-cumulative perpetual preferred securities paid dividends of 7.075% in 2016. The preferred securities were redeemed in full in June 2015.



(continued)

For th	e year to 31 March	2017	2016
10.	Operating lease income and expenses  Operating lease expenses recognised in operating costs expenses:		
	Minimum lease payments	29 452	21 442
	Sub-lease income	(3 070)	(3 115)
		26 382	18 327
	Operating lease income recognised in income:	ł	
	Minimum lease payments	2 477	2 250
	Sub-lease payments	-	(48)
		2 477	2 202

The majority of the operating lease expenses in the group relate to leases on property. Rental income from leasing motor vehicles and properties is included in 'other operating income'.

(continued)

At fair value through profit or loss

For the year to 31 March £'000	Trading	Designated at inception	
11. Analysis of income and impairmer financial instrument	nts by category of		
Net interest income	(10 45)	7) 459	
Fee and commission income	35 194	*	
Fee and commission expense	-	- (4)	
Investment income/(expense)	1 160	48 967	
Share of post taxation operating profit of associates		-   _	ŀ
Trading income arising from			
- customer flow	126 544	2 424	
<ul> <li>balance sheet management and other trading activities</li> </ul>	3 319	(4 838)	
Other operating income	-	5 313	
Total operating income/(expense) before impairment lo	sses on loans and advances 155 760	52 335	}
Impairment losses on loans and advances	-	-   -	
Operating income/(expense)	155 763	52 335	
2016	•		
Net interest income	(12 978	320	
Fee and commission income	56 030	19	
Fee and commission expense	50	(4)	1
Investment income/(expense)	1 593	22 375	
Share of post taxation operating profit of associates	-	-   -	
Trading income arising from			
<ul><li>customer flow</li></ul>	89 623	554	
<ul> <li>balance sheet management and other trading activities</li> </ul>	(8 506	(1 534)	
Other operating income/(expense)	-	- (1 135)	
Total operating income before impairment losses on loans an	d advances 125 812	20 595	]
Impairment losses on loans and advances	-	-   -	
Operating income/(expense)	125 812	20 595	



(continued)

	Loans and receivables	Available- for-sale	Financial liabilities at amortised cost	Non-financial instruments	Other fee income	Total
1				•	:	
	529 346	8 929	(247 995)	1 322	7 577	289 181
	74 569	_	3 314	16 223	802 832	932 146
	2 796	_	(3 193)	2 680	(130 562)	(128 283)
,	(8 357)	6 917		11 285		59 975
		_	_	2 349	_	2 349
}	- 1	_	5 063	_	(4 325)	129 706
	10 092	_	_	(17)	116	8 672
	-	_	1 346	6 536	_	13 195
	608 446	15 846	(241 465)	40 378	675 638	1 306 941
	(74 956)	-	_	-	_	(74 956)
	533 490	15 846	(241 465)	40 378	675 638	1 231 985
İ	494 699	21 439	(246 238)	965	2 738	260 945
:	60 423	-	2 851	13 035	681 386	813 744
	3 947	_	(2 189)	(1 513)	(104 277)	(103 986)
	34 815	2 891	(2 .55)	436	10	62 120
	_	_	_	2 321	_	2 321
	_	-	2 201	_	303	92 681
	2 397	(558)	109		109	(7 983)
	_	` <u>-</u>	1 678	7 989	_	10 853
	596 281	23 772	(241 588)	23 233	580 269	1 128 374
ľ	(84 217)	-	_	_ ;	_	(84 217)
	512 064	23 772	(241 588)	23 233	580 269	1 044 157

(continued)

At fair value through profit or loss

At 31 (	March 2017	Trading	Designated at inception	Available- for-sale	Total instruments at fair value	
12.	Analysis of financial assets and					
	liabilities by category of financial				•	
	• •					
	instrument					
	Assets					
	Cash and balances at central banks	2 497	-	· <b>-</b>	2 497	
	Loans and advances to banks	-	129 012	-	129 012	
	Reverse repurchase agreements and cash collateral on securities		Į į		ļ	
	borrowed	71 028	-	-	71 028	
	Sovereign debt securities	_	-	952 902	952 902	
	Bank debt securities	-	-	8 067	8 067	
	Other debt securities		86 911	53 255	140 166	
	Derivative financial instruments*	604 175	-	-	604 175	
	Securities arising from trading activities	269 292	253 468	_	522 760	
	Investment portfolio	-	406 385	53 360	459 745	Ĭ
	Loans and advances to customers		86 482	-	86 482	
	Other loans and advances	-	-	-	-	
	Other securitised assets	_	138 628	_	138 628	
	Interests in associated undertakings	÷	-	-	-	
	Deferred taxation assets	_	i - i	_	- 1	
	Other assets	148 251	52 236	-	200 487	
	Property and equipment	_	-	_	-	
	Investment properties	-	_	-	-	
	Goodwill	_	-	_	_	
	Intangible assets	-	_	-	_	
	•	1 095 243	1 153 122	1 067 584	3 315 949	
	Liabilities					
	Deposits by banks					
	Derivative financial instruments*	582 600	_	_	582 600	
	Other trading liabilities	136 041	_ {	_	136 041	L
	Repurchase agreements and cash collateral on securities lent	77 154	_	_	77 154	
	Customer accounts (deposits)	_	_	_	_	
	Debt securities in issue	_	427 576	_	427 576	
	Liabilities arising on securitisation of other assets	_	128 838	_	128 838	
	Current taxation liabilities	_	_	_	_	
	Deferred taxation liabilities	_	_	_	_	
	Other liabilities	_	_	_	_	
		795 795	556 414	_	1 352 209	
	Subordinated liabilities	_	_	-		
		795 795	556 414	_	1 352 209	

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



(continued)

Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
				:
			ŀ	
2 851 074		2 851 074	_	2 853 571
1 001 986	_	1 001 986	_	1 130 998
1 001 900	_	1 001 966	_	1 130 998
465 145		465 145	_	536 173
400 140	_	405 145	_	952 902
176 559		176 559		184 626
258 112	_	258 112		398 278
200 112	_	200 112	_	604 175
_	_	_	_	522 760
· _	_	! _	_	459 745
8 534 260·		8 534 260	_	8 620 742
413 430	_	413 430	_	413 430
410400	_	410 400	i _	138 628
_	_	_	63 390	63 390
_	_	1	89 941	89 941
853 689	_	853 689	221 956	1 276 132
000 009	_	055 009	60 528	60 528
_	_	_	14 500	14 500
_	_		355 155	355 155
_	_	_	112 943	112 943
14 554 255	_	14 554 255	918 413	18 788 617
14 354 255	_	14 334 233	310410	10 700 011
		1		
-	690 749	690 749	-	690 749
-	-	-	-	582 600
=	-	-	-	136 041
-	146 843	146 843	-	223 997
=	11 021 581	11 021 581	-	11 021 581
-	1 527 871	1 527 871	-	1 955 447
-	_	-	-	128 838
-	_	-	143 585	143 585
-	_	-	26 236	26 236
_	868 601	868 601	400 067	1 268 668
-	14 255 645	14 255 645	569 888	16 177 742
-	579 356	579 356		579 356
	14 835 001	14 835 001	569 888	16 757 098

## Notes to the annual financial statements

(continued)

At fair value through profit or loss

March 2016	Trading	Designated at inception	Available- for-sale	Total instruments at fair value	
Analysis of financial assets and liabilities by category of financial instrument (continued)					
Assets					
Cash and balances at central banks	1 123		_	1 123	
Loans and advances to banks	-	106 426	_	106 426	1
Reverse repurchase agreements and cash collateral on securities					
borrowed	157 565	- 1	_	157 565	İ
Sovereign debt securities	_	_	1 252 991	1 252 991	
Bank debt securities	_	_	12 076	12 076	
Other debt securities	-	118 536	65 809	184 345	
Derivative financial instruments*	837 558	_	_	837 558	
Securities arising from trading activities	321 251	203 093	_	524 344	
Investment portfolio	_	395 430	55 570	451 000	ľ
Loans and advances to customers	_	87 270	_	87 270	
Other loans and advances	_	-	_	_	
Other securitised assets	-	147 590	_	147 590	
Interests in associated undertakings	-	-	_	_	
Deferred taxation assets	_	- 1	_	-	
Other assets	301 426	37 231	_	338 657	
Property and equipment	_	_	_	_	ŀ
Investment properties	_	_ [	_	_	
Goodwill	_	_	_	_	
Intangible assets	_	-	_	_	
	1 618 923	1 095 576	1 386 446	4 100 945	1
Liabilities					
Deposits by banks	-	- 1	-	- 1	
Derivative financial instruments*	964 362	-	-	964 362	
Other trading liabilities	226 598	-	-	226 598	
Repurchase agreements and cash collateral on securities lent	154 142	-	_	154 142	
Customer accounts (deposits)	_	ļ	-		ŀ
Debt securities in issue	-	358 548	_	358 548	
Liabilities arising on securitisation of other assets	-	120 617	-	120 617	
Current taxation liabilities	_	-	-	-	
Deferred taxation liabilities	-	- [	-	- (	
Other liabilities		-			
	1 345 102	479 165	-	1 824 267	
Subordinated liabilities	1 345 102 i	- 479 165	-	1 824 267	

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



(continued)

		Financial liabilities at	Total instruments		
	Loans and receivables	amortised cost	at amortised cost	Non-financial instruments	Total
				:	
	2 636 946	-	2 636 946	-	2 638 069
	1 006 015	-	1 006 015	_	1 112 441
	200 460	•	300.460		557.005
	399 460	_	399 460	_	557 025 1 252 991
	176 321	_ _ :	176 321	_	188 397
	209 307	- ,	209 307	_	393 652
•		-	-	-	837 558
	· -	_	+	-	524 344
	-	-	-	-	451 000
	7 716 332	-	7 716 332	-	7 803 602
	417 205	=	417 205	-	417 205
	2 975	_	2 975	_	150 565
	-	-	-	23 587	23 587
	-	-	<del>-</del>	85 050	85 050
	1 042 328	-	1 042 328	324 218	1 705 203
	-	-	-	56 374	56 374
	-	-	-	79 051	79 051
	- [	-	-	356 994	356 994
	10 606 000	-	40 606 000	123 480	123 480
	13 606 889	-	13 606 889	1 048 754	18 756 588
	_ [	544 210	544 210	_	544 210
	_	044210	544 210	_	964 362
	_	_	_	_	226 598
	_ 1	127 118	127 118	_	281 260
	-	10 808 980	10 808 980	_	10 808 980
	_ [	1 470 271	1 470 271	_	1 828 819
	-			-	120 617
	_	<b>-</b> j	_	140 959	140 959
	-	-	_	33 834	33 834
		1 013 545	1 013 545	315 287	1 328 832
	-	13 964 124	13 964 124	490 080	16 278 471
	-	597 309	597 309		597 309
		14 561 433	14 561 433	490 080	16 875 780



(continued)

#### 13. Reclassifications of financial instruments

During the year ended 31 March 2009 the group reclassified certain financial instruments out of fair value through profit or loss. These assets were originally classified as held-for-trading but the group's intentions in regard to these assets changed and the group reclassified £112.3 million and £7.8 million to the loans and receivables and available-for-sale classifications, respectively. The amount reclassified reflected the fair value of the financial assets at the date of reclassification.

The group did not undertake any further reclassifications under the amendment to IAS 39 in the current year and in the prior year.

The following table shows carrying values and fair values of the assets reclassified:

	201	7	2016	
At 31 March £'000	Carrying value	Fair value	Carrying value Fair value	
Trading assets reclassified to loans and receivables	9 220	3 481	9 278	5 852
	9 220	3 481	9 278	5 852

If the reclassifications had not been made, the group's income before tax in 2017 would have decreased by £2.3 million (2016: increase of £3.3 million).

In the current year the reclassified assets have contributed a £0.1 million loss through the margin line and a gain of £0.4 million through impairments before taxation. In the prior year, after reclassification, the assets contributed a £0.2 million loss to through the margin line and a gain of £22.3 million through impairments before taxation.



(continued)

#### 14. Fair value hierarchy

The following table 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 32 on page 232.

	Fair value catego			ry	
At 31 March £'000	Total instruments at fair value	Level 1	Level 2	Level 3	
2017					
Assets					
Cash and balances at central banks	2 497	2 497	-	_	
Loans and advances to banks	129 012	129 012		_	
Reverse repurchase agreements and cash collateral on securities					
borrowed	71 028	-	71 028	_	
Sovereign debt securities	952 902	952 902	-	_	
Bank debt securities	8 067	8 067	-	-	
Other debt securities	140 166	2 147	138 019	_	
Derivative financial instruments	604 175	-	545 675	58 500	
Securities arising from trading activities	522 760	491 675	22 014	9 071	
Investment portfolio	459 745	49 357	17 283	393 105	
Loans and advances to customers	86 482	_	-	86 482	
Other securitised assets	138 628	-	-	138 628	
Other assets	200 487	200 487	-	_	
	3 315 949	1 836 144	794 019	685 786	
Liabilities					
Derivative financial instruments	582 600	1 676	579 876	1 048	
Other trading liabilities	136 041	136 041	-	_	
Repurchase agreements and cash collateral on securities lent	77 154	-	77 154	_	
Debt securities in issue	427 576	_	414 894	12 682	
Liabilities arising on securitisation of other assets	128 838	_	-	128 838	
	1 352 209	137 717	1 071 924	142 568	
Net financial assets/(liabilities)	1 963 740	1 698 427	(277 905)	543 218	

## Notes to the annual financial statements

(continued

Fair value category Total At 31 March instruments £'000 at fair value Level 1 Level 2 Level 3 Fair value hierarchy (continued) 2016 Assets Cash and balances at central banks 1 123 1 123 106 426 106 426 Loans and advances to banks Reverse repurchase agreements and cash collateral on securities 157 565 157 565 Sovereign debt securities 1 252 991 1 252 991 Bank debt securities 12 076 5 044 7 032 184 345 2 122 10 930 171 293 Other debt securities 837 558 49 685 1 399 786 474 Derivative financial instruments 23 234 Securities arising from trading activities 524 344 493 654 7 456 451 000 47 789 25 631 377 580 Investment portfolio 87 270 Loans and advances to customers 87 270 Other securitised assets 147 590 147 590 338 657 Other assets 338 657 2 249 205 4 100 945 1 171 229 680 511 Liabilities Derivative financial instruments 964 362 963 007 1 355 Other trading liabilities 226 598 226 598 154 142 154 142 Repurchase agreements and cash collateral on securities lent 358 548 358 548 Debt securities in issue 120 617 120 617 Liabilities arising on securitisation of other assets 1 824 267 226 598 1 475 697 121 972

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

2 276 678

2 022 607

(304468)

558 539

#### Transfers between level 1 and level 2

Net financial assets/(liabilities) at fair value

During the year there were no significant transfers between level 1 and level 2. During the prior year derivative financial assets and liabilities to the value of £116.9 million and £210.3 million respectively were transferred from level 1 to level 2 to reflect the level of modelling which was being used to arrive at the fair value.



(continued)

	Total level 3 financial instruments	Fair value profit and loss instruments	Available- for-sale instruments
Fair value hierarchy (continued)			
The following table is a reconciliation of the opening balances to the closing balances for fair value measurements in level 3 of the fair value hierarchy:			
Balance as at 1 April 2015	455 829	405 059	50 770
Total gains	(3 032)	(6 197)	3 165
In the income statement	(2 760)	(6 197)	3 437
In the statement of comprehensive income	(272)	-	(272)
Purchases	148 576	139 632	8 944
Sales	(240 479)	(238 022)	(2 457)
Issues	79	79	· <b>-</b>
Settlements	166 458	177 321	(10 863)
Transfers into level 3	26 344	23 608	2 736
Transfers out of level 3	(4 607)	(4 607)	_
Foreign exchange adjustments	9 371	6 147	3 224
Balance as at 31 March 2016	558 539	503 020	55 519
Total gains or (losses)	72 550	58 374	14 176
In the income statement	74 751	58 374	16 377
In the statement of comprehensive income	(2 201)	_	(2 201)
Purchases	103 571	100 451	3 120
Sales	(164 886)	(153 377)	(11 509)
Issues .	(16 226)	(16 226)	_
Settlements	(51 847)	(30 404)	(21 443)
Transfers into level 3	-	-	. –
Transfers out of level 3	-	_	_
Foreign exchange adjustments	41 517	39 538	1 979
Balance as at 31 March 2017	543 218	501 376	41 842

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

For the year ended 31 March 2017, there were no significant transfers from level 3 into level 2 (31 March 2016 assets of £4.6 million). In the current and prior year the valuation methodologies were reviewed and observable inputs are used to determine the fair value.

Additionally there were no transfers from level 2 to the level 3 category (31 March 2016: £26.3 million).



(continued)

### 14. Fair value hierarchy (continued)

The following table quantifies the gains or (losses) included in the income statement and other comprehensive income recognised on level 3 financial instruments:

#### For the year to 31 March

£'000	Total	Realised	Unrealised
2017			
Total gains/(losses) included in the income statement for the year			
Net interest income	1 831	1 831	_
Fee and commission income	11 732	11 443	289
Investment income	34 490	35 034	(544)
Trading income arising from customer flow	26 661	16	26 645
Trading income arising from balance sheet management and other trading activities	37	37	-
	74 751	48 361	26 390
Total gains/(losses) included in other comprehensive income for the year			
Gains on realisation of available-for-sale assets recycled through the income	1		
statement	16 377	16 377	-
Fair value movements on available-for-sale assets taken directly to other			
comprehensive income	(2 201)	-	(2 201)
	14 176	16 377	(2 201)
2016			
Total gains/(losses) included in the income statement for the year			
Net interest income	238	238	_
Fee and commission income	4 938	4 938	-
Investment income	2 322	(8 118)	10 440
Trading income arising from customer flow	(10 258)	(10 962)	704
•	(2 760)	(13 904)	11 144
Total gains included in other comprehensive income for the year	i		
Gains on realisation of available-for-sale assets recycled through the income	·		
statement	3 437	3 437	_
Fair value movements on available-for-sale assets taken directly to other			
comprehensive income	(272)	-	(272)
	3 165	3 437	(272)



(continued)

#### 14. Fair value hierarchy (continued)

#### Level 2 financial assets and financial liabilities

The following table sets out the group's principal valuation techniques as at 31 March 2017 used in determining the fair value of its financial assets and financial liabilities that are classified within level 2 of the fair value hierarchy.

	Valuation basis/techniques	Main assumptions
Assets		
Reverse repurchase agreements and cash collateral on securities borrowed	Discounted cash flow model, Hermite interpolation, Black-Scholes	Discount rates
Bank debt securities	Black-Scholes Discounted cash flow model	Volatilities Discount rates, swap curves and NCD curves
Other debt securities	Discounted cash flow model	Discount rates, swap curves and NCD curves, external prices, broker quotes
Derivative financial instruments	Discounted cash flow model, Hermite interpolation, industry standard derivative pricing models including Black-Scholes	Discount rate, risk-free rate, volatilities, forex forward points and spot rates, interest rate swap curves and credit curves
Securities arising from trading activities	Standard industry derivative pricing model	Interest rate curves, implied bond spreads, equity volatilities
Investment portfolio	Discounted cash flow model, net asset, value model Comparable quoted inputs	Discount rate and fund unit price Net assets
Liabilities		
Derivative financial instruments	Discounted cash flow model, Hermite interpolation, industry standard derivative pricing models including Black-Scholes	Discount rate, risk-free rate, volatilities, forex forward points and spot rates, interest rate swap curves and credit curves
Repurchase agreements and cash collateral on securities lent	Discounted cash flow model, Hermite interpolation	Discount rates
Debt securities in issue	Discounted cash flow model	Discount rates



(continued)

#### 14. 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 reasonably possible alternative assumptions, determined at a transactional level:

Un-

At 31 March 2017	Balance sheet value £'000	Significant unobservable input	Range of unobservable input used	Favourable changes £'000	favourable changes £'000
Assets					
Derivative financial instruments	58 500	Effect on income statement		6 632	(4 956)
instruments	36 300	Volatilities	4% – 9.5%	2 465	(4 936)
		EBITDA	5% – 6 %	63	(1 337)
		Cash flow adjustments	CPR 6.25% - 8.4%	648	(1 086)
		Other^	^	3 456	(2 333)
Securities arising from					
trading activities	9 071	Effect on income statement			
		Cash flow adjustments	CPR 9%	1 290	(1 074)
Investment portfolio	393 105	Effect on income statement		42 162	(32 069)
		Price earnings multiple	3 x - 10.3 x	5 430	(5 788)
		Other^	^	36 732	(26 281)
		Effect on other comprehensive			
		income		6 228	(2 655)
		Price earnings multiple	4.0 x – 4.5 x	630	(301)
		Other^	^	5 598	(2 354)
Loans and advances to	00.400			0.005	(0.740)
customers	86 482	Effect on income statement	10%	9 825	(9 716)
		EBITDA Other	10%	5 681 4 144	(5 681)
			<u> </u>	4 144	(4 035)
Other securitised assets*	138 628	Effect on income statement			
		Cash flow adjustments	CPR 6.25%	48	(38)
Liabilities					
Derivative financial					
instruments	1 048	Effect on income statement			
		Cash flow adjustments	CPR 8.4%	983	(794)
Debt securities in issue	12 682	Effect on income statement			
	:= -3 <b>-</b>	Volatilities	7%	401	(608)
Liabilities arising on securitisation of other assets*	128 838	Effect on income statement			
		Cash flow adjustments	CPR 6.25%	931	(847)
Net level 3 assets	543 218		_	68 500	(52 757)

The sensitivity of the fair value of liabilities arising on securitisation of other assets has been considered together with other securitised assets.
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, earnings multiples rather than a single input. 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.



(continued)

#### 14. Fair value hierarchy (continued)

		Significant unobservable input	Range of unobservable input used	Favourable changes £'000	Un- favourable changes £'000	
Assets						
Other debt securities	10 930	Effect on income statement		525	(796)	
		Cash flow adjustments	CPR 9%	525	(472)	
		Other^	^		(324)	
Derivative financial						
instruments	49 685	Effect on income statement		8 258	(5 454)	
		Volatilities	3.75% - 9%	2 471	(1 015)	
		Cash flow adjustments	CPR 5% - 7.4%	834	(1 701)	
		Other^	^	4 953	(2 738)	
Securities arising from						
trading activities	7 456	Effect on income statement			<u> </u>	
		Cash flow adjustments	CPR 6.5% – 9%	1 380	(1 050)	
Investment portfolio	377 580	Effect on income statement		44 963	(28 612)	
		Price earnings multiple	3 x - 9.1 x	4 203	(4 272)	
		Other^	^	40 760	(24 340)	
		Effect on other comprehensive		-		
		income		5 668	(2 300)	
		Price earnings multiple	4.2 x	2 418	(1 340)	
		Other^	^	3 250	(960)	
Loans and advances to						
customers	87 270	Effect on income statement		1 550	(9 400)	
		Discount rates	16%	1 550	(987)	
		Other^	۸		(8 413)	
Other securitised assets*	147 590	Effect on income statement	1	2 825	(2 876)	
		Cash flow adjustments	CPR 5%	1 569	(1 727)	
		Other^	^	1 256	(1 149)	
Liabilities						
Derivative financial						
instruments	1 355	Effect on income statement		1 667	(797)	
		Cash flow adjustments	CPR 7.1%	1 661	(790)	
		Volatilities	9%	6	(7)	
Liabilities arising on						
securitisation of other	100 617	Effect on income statement				
assets*	120 617	Effect on income statement  Cash flow adjustments	CPR 5%	1 356	(1 254)	
		Oddit now adjustitionits	-			
Net level 3 assets	558 539			68 192	(52 539)	

<sup>\*</sup> The sensitivity of the fair value of liabilities arising on securitisation of other assets has been considered together with other securitised assets.

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, earnings multiples rather than a single input. 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 singleinput.



(continued)

#### 14. Fair value hierarchy (continued)

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 an instrument. 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. It is an unobservable input into a discounted cash flow valuation.

#### Discount rates

Discount rates are the interest rates used to discount future cash flows in a 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. Volatilities are a key input into the Black-Scholes valuation method.

#### Cash flows

Cash flows relate to the future cash flows which can be expected from the instrument and require judgement. Cash flows are input into a discounted cash flow valuation.

#### Price earnings multiple

The price-to-earnings ratio is an equity valuation multiple used in the adjustment and underlying market prices. It is a key driver in the valuation of unlisted investments.

#### **EBITDA**

Earnings before interest, taxes, depreciation and amortisation. This is the main input into a price earnings multiple valuation method.



(continued)

Level within the fair value hierarchy

At 31 £'000	March	Carrying amount	Fair value	Level 1	Level 2	Level 3
15.	Fair value of financial instruments at amortised	· <del>-</del> · · ·			_	
	cost					
	2017		i			
	Assets					
	Cash and balances at central banks	2 851 074	2 851 074	^	^	^
	Loans and advances to banks	1 001 986	1 001 986	990 161	11 825	_
	Reverse repurchase agreements and cash collateral on securities borrowed	465 145	465 145	^	^	^
	Bank debt securities	176 559	189 296	55 499	133 797	_
	Other debt securities	258 112	252 213	-	158 937	93 276
	Loans and advances to customers	8 534 260	8 521 880	-	1 049 575	7 472 305
	Other loans and advances	413 430	395 600	22 760	245 088	127 752
	Other assets	853 689	853 629	610 342	229 373	13 914
		14 554 255	14 530 823			
	Liabilities					
	Deposits by banks	690 749	701 315	211 830	489 485	_
	Repurchase agreements and cash collateral on securities lent	146 843	146 843	^		^
	Customer accounts (deposits)	11 021 581	11 067, 136	7 770 034	3 280 509	16 593
	Debt securities in issue	1 527 871	1 556 400	306 687	1 242 622	7 091
	Other liabilities .	868 601	868 596	598 901	233 301	36 394
	Subordinated liabilities	579 356	707 146	707 146	-	_
		14 835 001	15 047 436			

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, savings accounts without a specific maturity which are included in customer accounts (deposits) and variable rate instruments.

#### Fixed rate financial instruments

The fair value of fixed rate financial assets and financial liabilities carried at amortised cost are estimated by comparing spreads earned on the transactions with spreads earned on similar new transactions entered into by the group. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows, using prevailing money market interest rates for debts with similar credit risk and maturity. For quoted sub-debt issued, the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

Certain financial instruments that would normally be carried at fair value continue to be recognised at transaction price. This occurs when the fair value would normally be determined using valuation techniques which cannot be relied on due to insufficient external inputs. This results in gains or losses which have not been recognised on balance sheet.

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### Notes to the annual financial statements

(continued)

Level within the fair value hierarchy

At 31   £'000	March	Carrying amount	Fair value	Level 1	Level 2	Level 3
15.	Fair value of financial instruments at amortised					
	COST (continued) 2016					
	Assets					
	Cash and balances at central banks	2 636 946	2 636 946	^	^ \	^
	Loans and advances to banks	1 006 015	1 006 006	996 266	9 740	_
	Reverse repurchase agreements and cash collateral on securities borrowed	399 460	399 460		^	^
	Bank debt securities	176 321	192 775	53 123	139 652	_
	Other debt securities	209 307	195 201	_	138 385	56 816
	Loans and advances to customers	7 716 332	7 738 359	763 819	200 936	6 773 604
	Other loans and advances	417 205	393 199	10 403	241 946	140 850
	Other securitised assets	2 975	2 975	2 975	- 1	_
	Other assets	1 042 328	1 042 099	713 526	318 393	10 180
		13 606 889	13 607 020			
	Liabilities					
	Deposits by banks	544 210	551 273	431 346	21 748	98 179
	Repurchase agreements and cash collateral on securities lent	127 118	127 118	^	^	^
	Customer accounts (deposits)	10 808 980	10 823 145	7 114 534	3 708 611	_
	Debt securities in issue	1 470 271	1 439 975	287 120	1 085 321	67 534
	Other liabilities	1 013 545	1 013 354	649 483	323 541	40 330
	Subordinated liabilities	597 309	689 074	689 074	-	_
		14 561 433	14 643 939		+	

<sup>^</sup> Financial instruments for which fair value approximates carry 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, savings accounts without a specific maturity which are included in customer accounts (deposits) and variable rate instruments.



(continued)

#### 15. Fair value of financial instruments at amortised cost (continued)

The following table sets out the group's principal valuation techniques used in determining the fair value of its financial assets and financial liabilities:

Bank debt securities Valued using a cash flow model of the bonds, discounted by an observable market

credit curve.

Other debt securities Priced with reference to similar trades in an observable market.

Loans and advances to customers 
Calculation of the present value of future cash flows, discounted as appropriate.

Other loans and advances Calculation of the present value of future cash flows, discounted as appropriate.

Other securitised assets Calculated using a model based on future cash flows, discounted as appropriate.

Other assets Calculation of the present value of future cash flows, discounted as appropriate.

**Deposits by banks**Calculation of fair value using appropriate funding rates.

**Customer accounts (deposits)** Where the deposits are short-term in nature, carrying amounts are assumed to

approximate fair value. Where deposits are of longer-term maturities, they are valued

using a cash flow model discounted as appropriate.

**Debt securities in issue**Where the debt securities are fully collateralised, fair value is equal to the carrying value.

Other debt securities are valued using a cash flow model discounted as appropriate to

the securities for funding and interest rates.

Other liabilities Where the other liabilities are short term in nature, carrying amounts are assumed to

approximate fair value.

Subordinated liabilities Valued with reference to market prices.

(continued)

,		Fair value	adjustment		ange in fair vautable to crec	
March	Carrying value	Year to date	Cumulative	Year to date	Cumulative	Maximum exposure to credit risk
Designated at fair value: loans and receivables and financial liabilities  Loans and receivables designated at fair value through profit or loss						
2017						
Loans and advances to customers	86 482	(381)	(36 360)	-	-	86 482
Other securitised assets	138 628	(5 222)	(18 095)	5 222	(18 095)	138 628
	225 110	(5 603)	(54 455)	5 222	(18 095)	225 110
2016						
Loans and advances to customers	87 270	(2 752)	(30 284)	-	-	33 804
Other securitised assets	138 909	(13 541)	(29 938)	(13 541)	(29 938)	138 909
<u> </u>	226 179	(16 293)	(60 222)	(13 541)	(29 938)	172 713
			Fair value	adjustment	Change ir attributable	ı fair value to credit risk
At 31 March £'000	Carrying value	Remaining contractual amount to be repaid at maturity	Year to date	Cumulative	Year to date	Cumulative
Financial liabilities designated at fair value through profit or loss						
2017					1	
Debt securities in issue Liabilities arising on securitisation of	427 576	428 264	39 000	46 564	10 453	4 691
other assets	128 838	139 572	(6 563)	10 998	(6 563)	10 998
	556 414	567 836	32 437	57 562	3 890	15 689
2016						
		1		21 143	(7 406)	(3 632
Debt securities in issue	358 548	366 400	[ (7.416)	2 1 140		
Debt securities in issue  Liabilities arising on securitisation of	358 548	366 400	(7 416)	21 143	(1 400)	(5 002
	358 548 120 61 <u>7</u>	366 400 139 851	(6 019)	(19 549)	(6 019)	(19 549

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.



(continued)

At 31 £'000	March	2017	2016
17.	Cash and balances at central banks		
	The country risk of cash and balances at central banks lies in the following geographies:		
	United Kingdom	2 797 953	2 589 087
	Europe (excluding UK)	55 618	48 982
	Total	2 853 571	2 638 069
At 31 £'000	March	2017	2016
18.	Loans and advances to banks	I	
	The country risk of loans and advances to banks lies in the following geographies:		
	South Africa	33 074	9 783
	United Kingdom	570 044	629 487
	Europe (excluding UK)	258 719	259 863
	Australia	55 775	67 958
	United States of America	146 947	116 797
	Other	66 439	28 553
	Total	1 130 998	1 112 441
At 31 £'000	March	2017	2016
19.	Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent		
	Reverse repurchase agreements	446 326	476 308
	Cash collateral on securities borrowed	89 847	80 717
		536 173	557 025
	As part of the reverse repurchase and securities borrowing agreements, the group has received securities that it is allowed to sell or repledge. £133.2 million (2016: £228.3 million) has been resold or repledged to third parties in connection with financing activities or to comply with commitments under short sale transactions.		
	Liabilities		
	Repurchase agreements	77 154	154 142
	Cash collateral on securities lent	146 843	127 118
		223 997	281 260

The assets transferred and not derecognised in the above repurchase agreements are fair valued at £186.7 million (2016: £283.9 million). They are pledged as security for the term of the underlying repurchase agreement.

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### Notes to the annual financial statements

(continued)

At 31	March

£'000		2017	2016
20.	Sovereign debt securities		
	Floating rate notes	- 1	. 5
	Government securities	159 381	643 352
	Treasury bills	793 521	609 634
		952 902	1 252 991
	The country risk of the sovereign debt securities lies in the following geographies:		
	United Kingdom	613 605	1 235 317
	Europe (excluding UK)*	12 127	17 674
	United States of America	327 170	_
	•	952 902	1 252 991

Where Europe (excluding UK) includes securities held largely in Germany and France.

#### At 31 March

£'000		2017	2016
21.	Bank debt securities		
	Bonds	58 067	57 164
	Floating rate notes	126 559	131 233
		184 626	188 397
	The country risk of bank debt securities lies in the following geographies:		
	South Africa	8 067	7 033
	United Kingdom	77 565	82 520
	Europe (excluding UK)	98 994	98 844
	Total	184 626	188 397

#### At 31 March

00		2017	2016
) <u> </u>	Other debt securities		
	Bonds	371 613	303 687
	Commercial paper	24 518	22 100
	Asset-based securities	-	65 743
	Other investments	2 147	2 122
		398 278	393 652
	The country risk of other debt securities lies in the following geographies:	Į	
	United Kingdom	117 311	150 376
	Europe (excluding UK)	166 515	146 405
	United States of America	81 193	58 804
	Other	33 259	38 067
	Total	398 278	393 652



(continued)

#### 23. Derivative financial instruments

The group enters into various contracts for derivatives both as principal for trading purposes and as customer for hedging foreign exchange and interest rate exposures. These include financial futures, options, swaps and forward rate agreements. The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations.

In the tables that follow, notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair value of a derivative financial instrument represents the 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 the balance sheet date.

		2017			2016		
At 31 March £'000	Notional principal amounts	Positive fair value	Negative fair value	Notional principal amounts	Positive fair value	Negative fair value	
Foreign exchange derivatives							
Forward foreign exchange contracts	11 284 280	163 348	143 827	13 249 208	187 454	218 032	
Currency swaps	841 005	92 639	74 489	721 710	55 372	60 032	
OTC options bought and sold	1 256 596	60 220	29 906	3 263 811	64 499	40 630	
Other foreign exchange contracts	=	_	-	16 413	230	-	
OTC derivatives	13 381 881	316 207	248 222	17 251 142	307 555	318 694	
Interest rate derivatives							
Caps and floors	5 743 182	27 173	10 499	2 929 163	39 655	7 972	
Swaps	17 857 245	133 104	130 018	14 720 572	161 825	170 649	
OTC derivatives	23 600 427	160 277	140 517	17 649 735	201 480	178 621	
Equity and stock index derivatives							
OTC options bought and sold	2 573 946	68 714	166 308	2 274 481	68 223	66 917	
Equity swaps and forwards	. –	· -	_	16 071	-	-	
OTC derivatives	2 573 946	68 714	166 308	2 290 552	68 223	66 917	
Exchange traded futures	269 002	24	-	295 222	1 834	1 271	
Exchange traded options	5 597 630	2 977	-	5 763 502	169 628	352 743	
Warrants	11 820	479	-	321	321	-	
	8 452 398	72 194	166 308	8 349 597	240 006	420 931	
Commodity derivatives							
OTC options bought and sold	38 971	443	403	13 309	673	673	
Commodity swaps and forwards	645 <sup>.</sup> 818	22 061	13 447	636 104	39 929	35 363	
OTC derivatives	684 789	22 504	13 850	649 413	40 602	36 036	
Credit derivatives	718 103	15 278	13 703	592 204	15 334	10 080	
Embedded derivatives*		17 715	_		32 581	_	
Derivatives per balance sheet		604 175	582 600		837 558	964 362	

Mainly includes profit shares received as part of lending transactions.



(continued)

At 31 £'000	March	2017	2016
24.	Securities arising from trading activities		
	Bonds	207 047	194 485
	Government securities	130 714	198 181
	Listed equities	183 730	130 013
	Unlisted equities	1 269	329
	Other investments	-	1 336
		522 760	524 344
At 31	March		
£'000		. 2017	2016
25.	Investment portfolio		
	Listed equities	76 478	87 940
	Unlisted equities⁺	383 267	363 060
		459 745	451 000
	Unlisted equities includes loan instruments that are convertible into equity.		
At 31   £'000	March	2017	2016
<del>26</del> .	Loans and advances to customers and other loans		
	and advances		
	Gross loans and advances to customers	8 747 618	7 946 793
	Impairments of loans and advances to customers	(126 876)	(143 191)
	Net loans and advances to customers	8 620 742	7 803 602
	Gross other loans and advances	421 004	424 090
	Impairments of other loans and advances	(7 574)	(6 885)
	Net other loans and advances	413 430	417 205



For further analysis on loans and advances refer to pages 69 to 76 in the risk management section.



(continued)

000	/larch	2017	2016
6.	Loans and advances to customers and other loans		
	and advances (continued)	•	
	Specific and portfolio impairments		
	Reconciliation of movements in specific and portfolio impairments		
	Loans and advances to customers		
	Specific impairment		
	Balance at the beginning of the year	121 791	154 26
	Charge to the income statement	57 186	102 74
	Reversals and recoveries recognised in the income statement	(4 146)	(3 96
	Utilised	(95 203)	(137 05
	Exchange adjustment	3 860	5 80
	Balance at the end of the year	83 488	121 79
	Portfolio impairment		
	Balance at the beginning of the year	21 400	34 18
	Charge to the income statement	21 955	(12 83
	Exchange adjustment	33	4
	Balance at the end of the year	43 388	21 40
	Other loans and advances		
	Specific impairment		
	Balance at the beginning of the year	6 112	29 16
	Charge to the income statement	18	(1 67
	Utilised	5	(21 65
	Exchange adjustment	723	27
	Balance at the end of the year	6 858	6 11
	Portfolio impairment		
	Balance at the beginning of the year	773	83
	Charge to the income statement	(57)	(6
	Exchange adjustment	-	
	Balance at the end of the year	716	77
	Total specific impairments	90 346	127 90
	Total portfolio impairments	44 104	22 17
	Total impairments	134 450	150 07
	Interest income recognised on loans that have been impaired	1 857	3 51
	Reconciliation of income statement charge:		
	Loans and advances to customers	74 995	85 95
	Specific impairment charged to income statement	53 040	98 78
	Portfolio impairment charged to income statement	21 955	(12 83
	Other loans and advances	(39)	(1 73
	Specific impairment charged to income statement	18	(1 67
	Portfolio impairment charged to income statement	(57)	(6
	Total income statement charge	74 956	84 21



(continued)

At 31 £'000	March	2017	2016
<del></del> 27.	Securitised assets and liabilities arising	T	
	on securitisation		
	Other securitised assets are made up of the following categories of assets:		
	Cash and cash equivalents	-	2 975
	Loans and advances to customers	131 370	138 910
	Other debt securities	7 258	8 680
	Total other securitised assets	138 628	150 565
	The associated liabilities are recorded on balance sheet in the following line items:	1	
	Liabilities arising on securitisation of other assets	128 838	120 617



(continued)

At 31 £'000	March	2017	2016
28.	Interests in associated undertakings		
	Interests in associated undertakings consist of:	•	
	Net asset value	55 979	16 564
	Goodwill	7 411	7 023
	Investment in associated undertakings	63 390	23 587
	Associated undertakings comprise unlisted investments.		
	Analysis of the movement in our share of net assets:		
	At the beginning of the year	· 16 564	14 897
	Exchange adjustments	432	294
	Disposals	(6 141)	_
	Acquisitions	5 528	-
	Transfer from investment portfolio^	39 572	_
	Increase in investment	-	969
	Operating income from associate	2 349	2 321
	Dividends received	(2 325)	(1 917)
	At the end of the year	55 979	16 564
	Analysis of the movement in goodwill:		
	At the beginning of the year	7 023	7 034
	Exchange adjustments	388	(11)

<sup>^</sup> The increase in the associates during the year is due to the reclassification of an investment which was previously held at fair value in the investment portfolio. If this associate had been accounted for in this way in the March 2016 accounts the interests in associated undertakings line would have increased by £30.5 million and the investment portfolio would have decreased by £30.5 million. There would have been no change to the income statement or any other balance sheet line.

At the end of the year

7 023

# 04

### Notes to the annual financial statements

(continued)

At 31 March £'000

00		2017	2016
<del>)</del> .	Deferred taxation		
	Deferred taxation assets	89 941	85 050
	Deferred taxation liabilities	(26 236)	(33 834)
	Net deferred taxation assets	63 705	51 216
	The net deferred taxation assets arise from:		
	Deferred capital allowances	33 552	34 827
	Income and expenditure accruals	17 770	11 356
	Asset in respect of unexpired options	23 584	26 766
	Unrealised fair value adjustments on financial instruments	(5 201)	(1 288)
	Losses carried forward	10 460	9 754
	Liability in respect of pensions surplus	(7 883)	(8 365)
	Asset in respect of pension contributions	8 675	_
	Deferred tax on acquired intangibles	(17 100)	(20 987)
	Other temporary differences	(152)	(847)
	Net deferred taxation assets	63 705	51 216
	Reconciliation of net deferred taxation assets:		
	At the beginning of the year	51 216	28 215
	Charge to income statement – current year taxation	12 384	21 743
	Charge directly in other comprehensive income	4 730	1 007
	Acquisitions	(4 939)	(171)
	Exchange adjustments	314	422
	At the year end	63 705	51 216

The tax reconciling item for taxation adjustments relating to foreign earnings in 2016 contains mark to market movements and loss utilisation which have been included under more appropriate headings in 2017.

The effective tax rate is lower in 2017 than in 2016. The main reason for this is because of utilisation of losses in 2017 that have not been previously recognised. Deferred tax assets are recognised to the extent it is likely that profits will arise 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 and excess management expenses as crystallisation of capital gains and the eligibility of potential losses is uncertain. There are trading losses carried forward of £216.1 million (2016: £189.4 million), capital losses carried forward of £41.9 million (2016: £27.4 million) and excess management expenses of £9.5 million (2016: £11.4 million) on which deferred tax assets have not been recognised due to uncertainty regarding future profits against which these losses can be utilised.

The Finance Act 2015 reduced the main rate of corporate taxation to 19% with effect from 1 April 2017. In addition, the bank corporation tax surcharge of 8% effective from 1 January 2016 was enacted in November 2015. On 16 March 2016, the Chancellor of the Exchequer announced a further reduction of the corporation tax rate to 17% effective from 1 April 2020. The effect of these legislative changes is reflected in the above calculation of the deferred taxation asset as the rate was substantially enacted before 31 March 2017.

#### At 31 March

£'000		2017	2016
30.	Other assets		
	Settlement debtors	730 658	911 395
	Trading properties	129 148	104 021
	Prepayments and accruals	120 684	109 153
	Pension assets	2 076	46 472
	Trading initial margin	148 251	301 426
	Other	145 315	232 736
		1 276 132	1 705 203



(continued)

At 31 £'000	March	Freehold properties	Leasehold improvements	Furniture and vehicles	Equipment	Operating leases*	Total
<del></del> 31.	Property and						
	equipment						
	2017		[		[	f	
	Cost						
	At the beginning of the year	2 755	75 588	6 428	36 632	9 220	130 623
	Exchange adjustments	_	4 367	78	414	_	4 859
	Additions	_	9 064	942	2 452	3 197	15 655
	Disposals	_	(1 283)	(330)	(7 356)	(2 871)	(11 840)
	At the end of the year	2 755	87 736	7 118	32 142	9 546	139 297
	Accumulated depreciation						
	At the beginning of the year	(266)	(34 929)	(5 710)	(28 070)	(5 274)	(74 249)
	Exchange adjustments	_	(651)	(8)	(207)	-	(866)
	Disposals	_	538	269	4 973	2 524	8 304
	Depreciation charge for year	(81)	(6 809)	(947)	(1 980)	(2 141)	(11 958)
	At the end of the year	(347)	(41 851)	(6 396)	(25 284)	(4 891)	(78 769)
	Net carrying value	2 408	45 885	722	6 858	4 655	60 528
	2016				ì	•	
	Cost				į	+	
	At the beginning of the year	2 755	73 668	5 886	33 687	25 935	· 141 931
	Exchange adjustments	-	1 369	2	301	-	1 672
	Additions	-	6 125	558	4 738	2 360	13 781
	Disposals	-	(5 574)	(18)	(2 094)	(19 075)	(26 761)
	At the end of the year	2 755	75 588	6 428	36 632	9 220	130 623
	Accumulated depreciation						
	At the beginning of the year	(219)	(29 221)	(5 537)	(25 858)	(18 027)	(78 862)
	Exchange adjustments	_	(302)	_	(230)	-	(532)
	Disposals	_	_	8	1 354	14 902	16 264
	Depreciation charge for year	(47)	(5 406)	(181)	(3 336)	(2 149)	(11 119)
	At the end of the year	(266)	(34 929)	(5 710)	(28 070)	(5 274)	(74 249)
	Net carrying value	2 489	40 659	718	8 562	3 946	56 374

<sup>\*</sup> These are assets held by the group, in circumstances where the group is the lessor.

On 3 December 2010, the group acquired a portfolio of operating leased assets comprising motor vehicles. The operating lease income from this portfolio has been included in other operating income (note 5) and the depreciation of these operating leased assets has been shown separately on the face of the income statement.

(continued)

At 31 March £'0

£'000		2017	2016
32.	Investment properties		
	At the beginning of the year	79 051	65 736
	Additions	14 500	8 951
	Disposals	(90 904)	-
	Fair value movement	-	1 282
	Exchange adjustment	11 853	3 082
	At the end of the year	14 500	79 051

All investment properties are classified as level 3 in the fair value hierarchy.

#### Fair value hierarchy - Investment properties

For all investment properties that are measured at fair value, the current use of the property is considered the highest and best use.

Properties are valued under the income capitalisation method or discounted cash flow method (DCF).

Under the income capitalisation method a property's fair value is estimated based on the normalised net operating income generated by the property, which is divided by the capitalisation rate.

Under the DCF method, a property's fair value is estimated using explicit assumptions about the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This involves the projection of a series of cash flows and to this; an appropriate, market-derived discount rate is applied to establish the present value of the income stream.

#### Valuation techniques used to derive level 3 fair values

For all classes of investment property, the significant unobservable inputs listed below are used in the income capitalisation method to determine the fair value measurement at the end of the reporting period.

Significant unobservable inputs	Relationship between unobservable inputs and fair value measurement
Expected rental value (ERV)	Increases/(decreases) in ERV would increase/(decrease) estimated fair value.
Equivalent yield	Increases/(decreases) in the equivalent yield would result in decreases/(increases) in the estimated fair value.



(continued)

£'000	March	2017	2016
33.	Goodwill		
	Cost		•
	At the beginning of the year	382 794	381 890
	Acquisition of subsidiaries	148	_
	Disposals of subsidiaries	-	_
	Exchange adjustments	1 147	904
	At the end of the year	384 089	382 794
	Accumulated impairments		
	At the beginning of the year	(25 800)	(25 800)
	Income statement amount	(3 134)	-
	Disposals of subsidiaries	-	-
	At the end of the year	(28 934)	(25 800)
	Net carrying value	355 155	356 994
	Analysis of goodwill by line of business	·	
	Asset Management	88 045	88 045
	Wealth & Investment	. 243 170	242 673
	Specialist Banking	23 940	26 276
		355 155	356 994

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

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

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

The two most significant cash-generating units giving rise to goodwill are Investec Asset Management and Investec Wealth & Investment (IWI) which now includes the business of Williams de Broë (acquired in 2012 as part of the Evolution Group) which was merged with IWI in August 2012.

For Investec Wealth & Investment, goodwill of £236.3 million has been tested for impairment on the basis of the cash flow projections for the next three years discounted at 8.8% (2016: 8.9%) which incorporate an expected revenue growth rate of 2% in perpetuity (2016: 2%). The valuation is based on value in use of the business.

Sensitivity analysis has been carried out and it has been concluded that no reasonably possible change in the key assumptions would cause an impairment to be recognised.

For Investec Asset Management, goodwill of £88.0 million has been tested for impairment on the basis of a valuation of the business based on 3% of funds under management. The valuation is based on management's assessment of appropriate external benchmarks to estimate the fair value less cost to sell business. Valuing an asset management business as a percentage of funds under management, taking into account asset mix, is in line with market practice and the percentage used by management reflects external transactions that are comparable to Investec Asset Management. The valuation would be level 3 in the fair value hierarchy.

Sensitivity analysis has been carried out and it has been concluded that no reasonably possible change in the key assumptions would cause an impairment to be recognised.

#### Movement in goodwill

#### 2017

An impairment of £3.1m was recognised in relation to a historic acquisition in the Specialist Banking businesses, due to a change in the nature of the ongoing business.

#### 2016

There were no significant movements in goodwill during the prior year.

# **4**

### Notes to the annual financial statements

(continued)

At 31 I 2'000	March	Acquired software	Internally generated software	Management contracts	Client relationships	Total
34.	Intangible assets					
	Cost					
	At the beginning of the year	37 746	582	520	188 226	227 074
	Exchange adjustments	122	-	63	(549)	(364)
	Additions	3 587	1 961	-	-	5 548
	Disposals	(16)	-	-	-	(16)
	At the end of the year	41 439	2 543	583	187 677	232 242
	Accumulated amortisation and impairments				1	
	At the beginning of the year	(33 155)	_	(196)	(70 243)	(103 594)
	Exchange adjustments	(107)	_	(37)	692	548
	Disposals	16	_	_	-	16
	Amortisation	(1 883)	_	(139)	(14 247)	(16 269)
	At the end of the year	(35 129)	-	(372)	(83 798)	(119 299)
	Net carrying value	6 310	2 543	211	103 879	112 943
	2016	Ĭ			] ]	
	Cost				[	
	At the beginning of the year	35 159	61	727	187 931	223 878
	Exchange adjustments	120	-	69	295	484
	Additions	2 667	521	-	-	3 188
	Disposals	(200)	-	(276)	-	(476)
	At the end of the year	37 746	582	520	188 226	227 074
	Accumulated amortisation and impairments					
	At the beginning of the year	(31 150)	-	(313)	(55 760)	(87 223)
	Exchange adjustments	(110)	_	(30)	(135)	(275)
	Disposals	200	-	276	-	476
	Amortisation	(2 095)	-	(129)	(14 348)	(16 572)
	At the end of the year	(33 155)	-	(196)	(70 243)	(103 594)
	Net carrying value	4 591	582	324	117 983	123 480

Internally

Client relationships all relate to the acquisition of Rensburg Sheppards plc in June 2010 and EVG in December 2011, Investec Capital Asia Limited in April 2011 and NCB Group in June 2012.

#### 35. Acquisitions and disposals

#### 2017

#### Acquisitions

There were no significant acquisitions of subsidiaries during the year ended 31 March 2017.

#### Disposals

There were no significant disposals of subsidiaries during the year ended 31 March 2017.

#### 2016

#### Acquisitions

There were no significant acquisitions of subsidiaries during the year ended 31 March 2016.

#### Disposals

There were no significant disposals of subsidiaries during the year ended 31 March 2016. As part of the sale of Kensington Group plc, a final net settlement was paid after the 31 March 2015 year end. As a result of this payment, a further loss before taxation of £4.8 million was recognised during the 2016 financial year.



(continued)

At 31 £'000	March	2017	2016
36.	Other trading liabilities		
	Short positions		
	- Equities	83 932	64 657
	- Gilts	52 109 <b>136 041</b>	161 941 <b>226 598</b>
At 31 £'000	March	2017	2016
37.	Debt securities in issue		
01.	Bonds and medium-term notes repayable:		
	Less than three months	48 630	35 001
	Three months to one year	94 129	116 680
	One to five years	955 682	873 712
	Greater than five years	857 006	803 426
		1 955 447	1 828 819
	March		
£,000		2017	2016
38.	Other liabilities		
	Settlement liabilities	690 875	849 025
	Other creditors and accruals	446 205	372 924
	Other non-interest-bearing liabilities	131 588	106 883
		1 268 668	1 328 832
At 31	March		
£,000		2017	2016
39.	Pension commitments		
	Income statement charge		
	Defined benefit obligations net income included in net interest income	(1 631)	(1 208)
	Defined benefit net costs included in administration costs	998	647
	Cost of defined contribution schemes included in staff costs	27 231	22 579
•	Net income statement charge in respect of pensions	26 598	22 018

The group operates pension schemes throughout its areas of operation. The majority of the schemes are defined contribution schemes with the exception of two schemes in the United Kingdom being the Guinness Mahon Pension Fund scheme (GM scheme) and the Investec Asset Management Pension scheme (IAM scheme). Both schemes are final salary pension plans with assets held in separate trustee administered funds. The plan is subject to UK regulations, which require the trustees to agree a funding strategy and contribution schedule for the plan. The role of the trustees is to ensure that the schemes are administered in accordance with the scheme rules and relevant legislation, and to safeguard the assets in the best interest of all members and beneficiaries.

The trustees are solely responsible for setting investment policy and for agreeing funding requirements with the employer through the triennial valuation process. The schemes are closed to new members and the accrual of service ceased on 31 March 2002. The schemes have been valued at 31 March 2017 by qualified independent actuaries in accordance with IAS 19. There were no unpaid contributions in relation to the defined contribution schemes outstanding at the year end.

In November 2016, the trustees of the GM scheme entered into a "buy-in" insurance agreement with Aviva Annuity UK Ltd ("Aviva"). As a result Aviva provide the accrued pension benefits of members of the scheme, as the previous assets held in the scheme are now replaced by this insurance agreement. As a result the group has reduced its exposure to the risks associated with the scheme. The administrative transition between the scheme trustees and Aviva is ongoing.

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### Notes to the annual financial statements

(continued)

At 31 March £'000

39

	2017	2016
Pension commitments (continued)		
The major assumptions used were:		
Discount rate	2.50%	3.40%
Rate of increase in salaries	3.20%	2.90%
Rate of increase in pensions in payment	1.80% - 3.00%	1.80% – 3.00%
Inflation (RPI)	3.20%	2.90%
Inflation (CPI)	2.10%	1.90%
Demographic assumptions		
One of the most significant demographic assumptions underlying the valuation is mortality. The specific mortality rates used are based on the S1PA base tables with allowance for future improvements in line with CMI 2014 core projections and a long term improvement of 1.25% per annum. The life expectancies underlying the valuation are as follows:		
	Years	Years
Male aged 65	88.4	88.3
Female aged 65	91.0	90.9
Male aged 45	90.2	90.1
Female aged 45	92.9	92.8

#### Sensitivity analysis of assumptions

The sensitivities are only presented for the GM scheme as the equivalent increases/decreases in assumptions for the IAM scheme do not have a material impact.

If the discount rate was 0.25% higher (lower), the scheme liabilities would decrease by approximately £6 801 000 (increase by £7 284 000) if all the other assumptions remained unchanged.

If the inflation assumption was 0.25% higher (lower), the scheme liabilities would increase by approximately £3 047 000 (decrease by £2 877 000). In this calculation all assumptions related to the inflation assumption have been appropriately adjusted, that is the salary, deferred pension and pension in payment increases. The other assumptions remain unchanged.

If the salary increase assumption was 0.25% higher (lower), the scheme liabilities would increase by approximately £274 000 (decrease by £269 000) if all the other assumptions remained unchanged.

If the deferred revaluation assumption was 0.25% higher (lower) the scheme liabilities would increase by £890 000 (decrease by £872 000) if all the other assumptions remained unchanged.

If the pension increases assumptions were 0.25% higher (lower), the scheme liabilities would increase by approximately  $\Omega$  426 000 (decrease by  $\Omega$  296 000) if all the other assumptions remained unchanged.

If life expectancies were to increase (decrease) by 1 year, the scheme liabilities would increase by approximately £6 257 000 (decrease by £5 455 000) if all the other assumptions remained unchanged.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. The sensitivity analysis has been performed on the basis that the relevant assumption would occur in isolation, holding other

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the same methodology that applied in calculating the defined benefit obligation liability recognised in the balance sheet.

#### Risk exposures



A description of the risks which the pension schemes expose Investec can be found in the risk management report on page 103.

The group ultimately underwrites the risks relating to the defined benefit plans. If the contributions currently agreed are insufficient to pay the benefits due, the group will need to make further contributions to the plans.



(continued)

At 31 March £'000

)0		2017	2016
).	Pension commitments (continued)		
	GM scheme		
	Gilts	- }	168 451
	Bulk annuity insurance agreement	141 419	_
	Cash	2 914	2 792
	Total market value of assets	144 333	171 243
	IAM scheme		
	Managed funds	21 637	21 887
	Cash .	12	84
	Total market value of assets	21 649	21 971

There are no assets in the IAM scheme which are unquoted.

None of the group's own assets or properties occupied or used by the group held within the assets of the scheme.

The investment strategy previously in place for the GM scheme was to switch to gilts over the period to 31 March 2021. At 31 March 2016, the allocation of the GM scheme's invested assets was 100% to gilts and cash, ahead of the investment strategy. The higher allocation was due to additional switches from equities to gilts during the first and third quarter of 2013 under the agreed outperformance trigger mechanism. However, as set out above during the year to 31 March 2017 the trustees have converted to a buy-in insurance agreement. Details of the investment strategy can be found in the GM scheme's Statement of Investment Principles, which the Trustees update as its policy evolves.

The Trustee's current investment strategy is to strike a balance between maximising the returns on the scheme's assets and minimising the risks associate with lower than expected returns.

		2017			2016	
At 31 March £'000	GM	IAM	Total	GM	IAM	Total
Recognised in the balance sheet			-			
Fair value of fund assets	144 333	21 649	165 982	171 243	21 971	193 214
Present value of obligations	(148 862)	(19 573)	(168 435)	(129 467)	(17 275)	(146 742)
Net (liability)/asset (recognised in other liabilities/						
other assets)	(4 529)	2 076	(2 453)	41 776	4 696	46 472
Recognised in the income statement						
Net interest income	1 473	158	1 631	1 033	175	1 208
Administration costs	(887)	(111)	(998)	(535)	(112)	(647)
Net amount recognised in the income statement	586	47	633	498	63	561
Recognised in the statement of comprehensive income						
Return on plan assets (excluding amounts in net interest income)	27 769	(886)	26 883	339	2 169	2 508
Actuarial loss/(gain) arising from changes in financial assumptions	23 139	3 553	26 692	(5 317)	(814)	(6 131)
Actuarial loss arising from changes in demographic assumptions	-	_	-	2 393	243	2 636
Actuarial gain arising from experience adjustments	-	-	-	(3 995)	(713)	(4 708)
Remeasurement of defined benefit liability/asset	50 908	2 667	53 575	(6 580)	885	(5 695)
Deferred tax	(9 497)	(498)	(9 995)	1 222	(265)	957
Remeasurement of net defined benefit liability/asset	41 411	2 169	43 580	(5 358)	620	(4 738)



(continued)

At 31 March £'000

£'000		GM	IAM	Total
<u> </u>	Pension commitments (continued)			
	Changes in the net asset/(liabilities) recognised in the balance sheet			
	Opening balance sheet asset at 1 April 2015	30 382	5 518	35 900
	Expenses charged to the income statement	498	63	561
	Amount recognised in other comprehensive income	6 580	(885)	5 695
	Contributions paid	4 316	-	4 316
	Opening balance sheet asset at 1 April 2016	41 776	4 696	46 472
	Expenses charged to the income statement	586	47	633
	Amount recognised in other comprehensive income	(50 908)	(2 667)	(53 575)
	Contributions paid	4 017		4 017
	Closing balance sheet (liability)/asset at 31 March 2017	(4 529)	2 076	(2 453)
	Changes in the present value of defined benefit obligations			
	Opening defined benefit obligation at 1 April 2015	137 947	18 973	156 920
	Interest expense	4 320	588	4 908
•	Remeasurement gains and losses:			
	- Actuarial gain arising from demographic assumptions	2 393	243	2 636
	- Actuarial (loss) arising from changes in financial assumptions	(5 317)	(814)	(6 131)
	- Actuarial (loss) arising from experience adjustments	(3 995)	(713)	(4 708
	Benefits and expenses paid	(5 881)	(1 002)	(6 883
	Opening defined benefit obligation at 1 April 2016	129 467	17 275	146 742
	Interest expense	4 266	568	4 834
	Remeasurement gains and losses:			
	- Actuarial gain arising from changes in financial assumptions	23 139	3 553	26 692
	Benefits and expenses paid	(8 010)	(1 823)	(9 833
	Closing defined benefit obligation at 31 March 2017	148 862	19 573	168 435
	Changes in the fair value of plan assets	·		
	Opening fair value of plan assets at 1 April 2015	168 329	24 491	192 820
	Interest income	5 353	763	6 116
	Remeasurement gain/loss:			
	<ul> <li>Return on plan assets (excluding amounts in net interest income)</li> </ul>	(339)	(2 169)	(2 508
	Contributions by the employer	4 316	- ]	4 316
	Benefits and expenses paid	(5 881)	(1 002)	(6 883
	Administration expenses	(535)	(112)	(647
	Opening fair value of plan assets at 1 April 2016	171 243	21 971	193 214
	Interest income	5 739	726	6 465
	Remeasurement gain/loss:	.		
	- Return on plan assets (excluding amounts in net interest income)	(27 769)	886	(26 883
	Contributions by the employer	4 017	-	4 017
	Benefits and expenses paid	(8 010)	(1 934)	(9 944)
	Administration expenses	(887)	-	(887)
	Closing fair value of plan assets at 31 March 2017	144 333	21 649	165 982



(continued)

#### 39. Pension commitments (continued)

There is no restriction on the pension surplus as Investec has an unconditional right to a refund of the surpluses assuming the gradual settlement of the plan over time until all members have left the scheme.

The triennial funding valuation of the schemes was carried out as at 31 March 2015. Contributions requirements, including any deficit recovery plans, were agreed between the group and the Trustees in March 2013 and March 2016 to address the scheme deficit. Under the agreed contribution plan deficit contributions of £4.0 million were paid into the GM scheme in the year to March 2017 and the group will make an additional contribution to the GM scheme in the 2017/18 financial year when the finalisation of the transfer of the administration from the trustees to Aviva is completed. The IAM scheme is fully funded.

The weighted average duration of the GM scheme's liabilities at 31 March 2017 is 18 years (31 March 2016: 17 years). This includes average duration of active members of 22 years, average duration of deferred pensioners of 22 years and average duration of pensioners in payment of 12 years.

The weighted average duration of the IAM scheme's liabilities at 31 March 2017 is 19 years (31 March 2016: 18 years). This includes average duration of deferred pensioners of 22.3 years and average duration of pensioners in payment of 13.5 years.

At 31 March

£'000		2017	2016
40.	Subordinated liabilities	1	
	Issued by Investec Finance plc	·	
	Guaranteed undated subordinated callable step-up notes	- 1	18 272
	Issued by Investec Bank pic		
	Subordinated fixed rate medium-term notes	579 356	579 037
		579 356	597 309
	Remaining maturity:		
	In one year or less, or on demand*	-	18 272
	In more than one year, but not more than two years	- 1	_
	In more than two years, but not more than five years	579 356	
	In more than five years	-	579 037
		579 <b>3</b> 56	597 309

<sup>\*</sup> Where notes are undated the maturity has been taken as the first potential call date.

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.

#### Guaranteed undated subordinated callable step-up notes

At 31 March 2016 Investec Finance plc had in issue £17 861 000 of 6.25% guaranteed undated subordinated step-up notes callable in 2017 at a discount (perpetual notes). Interest was paid semi-annually. The notes were guaranteed by Investec Bank plc and were listed on the Luxembourg Stock Exchange. The step-up notes were redeemed by the issuer, at par, on 23 January 2017.

#### Medium-term notes

#### Subordinated fixed rate medium-term notes (denominated in Pounds Sterling)

On 17 February 2011 Investec Bank plc issued £500 000 000 of 9.625% subordinated notes due in 2022 at a discount (2022 notes). Interest is paid annually. The notes are listed on the London Stock Exchange. The notes will be redeemed at par on 17 February 2022. On 29 June 2011 Investec Bank plc issued £75 000 000 of 9.625% subordinated notes due in 2022 at a premium (2022 Notes) (to be consolidated and form a single series, and to be fungible, with the £500 000 000 2022 Notes issued on 17 February 2011).



(continued)

At 31 March £'000

)	2017	201
Ordinary share capital		
Investec plc		
Issued, allotted and fully paid		
Number of ordinary shares	Number	Numb
At the beginning of the year	617 418 864	613 609 64
Issued during the year	39 686 761	3 809 22
At the end of the year	657 105 625	617 418 86
Nominal value of ordinary shares	£'000	£'00
At the beginning of the year	124	12
Issued during the year	8	
At the end of the year	132	12
Number of special converting shares	Number	Numb
At the beginning of the year	291 363 706	285 748 62
Issued during the year	9 801 468	5 615 0
At the end of the year	301 165 174	291 363 76
Nominal value of special converting shares	£'000	£'00
At the beginning of the year	58	
Issued during the year	1	
At the end of the year	59	!
Number of UK DAN shares	Number	Numb
At the beginning and end of the year	1	
Nominal value of UK DAN share	£'000 i	£'00
At the beginning and end of the year	*	
Number of UK DAS shares	Number	Numb
At the beginning and end of the year	1	
Nominal value of UK DAS share	£'000	£'0(
At the beginning and end of the year	*	
Number of special voting shares	Number	Numb
At the beginning and end of the year	1	
At the beginning and end of the year		
Nominal value of special voting share	£'000	£'00

Less than £1 000.

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(continued)

#### 41. Ordinary share capital (continued)

#### Staff share scheme

The group operates a share option and a share purchase scheme for employees. The number of ordinary shares conditionally allocated to employees are disclosed in note 7.

Movements in the number of share options issued to (each option is in respect of one share) employees are as follows:

For the year to 31 March	Number 2017	Number 2016
Opening balance	28 760 479	32 430 764
Issued during the year	6 501 494	6 810 928
Exercised	(8 239 897)	(9 203 122)
Lapsed	(1 030 469)	(1 278 091)
Closing balance	25 991 607	28 760 479

The purpose of the Staff Share scheme is to promote an esprit de corps within the organisation, create an awareness of Investec'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.

The group makes awards available to staff members via the underlying share trusts. The particular instrument used varies from time to time, depending on taxation legislation and factors affecting the group structure. Nevertheless, whatever the instrument chosen, its underlying value depends solely on the performance of the group's share price.

At present, the practice of the group is to grant all permanent staff members a share allocation, based on their annual package, after completing six months of employment. In line with the objective of providing a long-term incentive for staff, these share awards vest over periods varying from four to five years.

After the initial allocation referred to above, additional allocations are made to staff members at the discretion of group management and depending on the individual performance and contribution made by the respective staff members.

(continued)

At 31	March
CIOOO	

March	2017	2016
Perpetual preference shares of holding company		·
Perpetual preference share capital	29	15
Perpetual preference share premium (refer to note 43)	24 765	149 44
	24 794	149 600
Issued by Investec plc		
2 754 587 (2016: 15 081 149) non-redeemable, non-cumulative, non-participating preference	се	
shares of £0.01 each, issued at a premium of £8.58 per share.		
Preference share capital	29	15
- Preference share premium	23 607	129 40
Preference shareholders will receive an annual dividend if declared based on the coupon rat (being equivalent to the base rate plus 1%) multiplied by the deemed value on a daily basis a		
payable in two semi-annual instalments.	aliu .	
.,		
An ordinary dividend will not be declared by Investec plc unless the preference dividend has	;	
been declared.		
If declared preference dividends are payable semi-annually at least seven business days pric the date on which Investec plc pays its ordinary dividends, if any, but shall be payable no la		
than 120 business days after 31 March and 30 September respectively.		
On the 27 July 2016 the company announced that 12 176 826 sterling Preference Shares		
had been purchased for cash consideration resulting from the company's tender offer to the	ne	
preference shareholders. The sterling purchase price of GBP5.75096 comprised of a princi	*	
amount of GBP5.70 per share and an amount equal to the accrued but undeclared and un dividend from 1 April 2016 to settlement date. The purchased shares have been cancelled.	•	
A further 149 736 sterling preference Shares were purchased under the same terms as above		
2 November 2016.	ve on	
•		
Issued by Investec plc – Rand-denominated		
131 447 (2016: 2 275 940) non-redeemable, non-cumulative, non-participating perpetual preference shares of ZAR0.001 each, issued at a average premium of ZAR99.999 per share	<b>.</b>	
- Preference share capital	• 1	
- Preference share premium	1 158	20 04
Rand-denominated preference shareholders will receive a dividend if declared based on the		
coupon rate (being equivalent to South African prime rate multiplied by 95%) multiplied by		
the deemed value on a daily basis and payable in two semi-annual instalments.		
An ordinary dividend will not be declared by Investec plc unless the Rand preference divider	nd	
has been declared.		·
If declared Rand preference dividends are payable semi-annually at least seven business de prior to the date on which Invested pays its ordinary dividends, if any, but shall be payable in	•	
later than 120 business days after 31 March and 30 September respectively.	ilo i	
On the 27 July 2016 the company announced that 1 994 493 Rand Preference Shares had	heen	
purchased for cash consideration resulting from the company's tender offer to the preference		
shareholders. The sterling purchase price of ZAR103.38877 comprised of a principle amour		
ZAR100 per share and an amount equal to the accrued but undeclared and unpaid dividence	d from	
1 April 2016 to settlement date. The purchased shares have been cancelled.		
A further 150 000 Rand preference Shares were purchased under the same terms as above	e on	
2 November 2016.		



(continued)

At 31 £'000	March	2017	2016
<del></del> 43.	Share premium		
	Share premium account – Investec plc	1 221 517	1 044 808
	Perpetual preference share premium	24 765	149 449
		1 246 282	1 194 257
At 31 (	March	. 2017	2016
2.000		2017	2016
44.	Treasury shares	£'000	£'000
	Treasury shares held by subsidiaries of Investec plc	90 411	81 309
		Number	Number
	Investec plc ordinary shares held by subsidiaries	18 293 688	16 141 177
	Reconciliation of treasury shares	Number	Number
	At the beginning of the year	16 141 177	8 325 971
	Purchase of own shares by subsidiary companies	11 242 889	17 994 897
	Shares disposed of by subsidiaries	(9 090 378)	(10 179 691)
	At the end of the year	18 293 688	16 141 177
	Market value of treasury shares	£'000	£'000
	Investec plc	99 518	82 724
		99 518	82 724

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## Notes to the annual financial statements

(continued)

At 31 March

€'000		2017	2016
45.	Non-controlling interests		· · · · · · · · · · · · · · · · · · ·
	Non-controlling interests in partially held subsidiaries	15 000	13 317
		15 000	13 317

		Investec Asset Management		
31 March 00	2017	2016		
The following table summarises the information relating to the group's subsidiary that has material non-controlling interests.				
Non-controlling interests (NCI) (%)	16.0	15.0		
Summarised financial information	£'000	£'000		
Total assets	409 429	380 891		
Total liabilities	301 526	283 817		
Revenue	316 729	276 063		
Profit	76 041	66 015		
Carrying amount of NCI	17 000	14 763		
Profit allocated to NCI	11 807	10 263		

During the year the group sold an additional 1% of its Asset Management business to the senior management of the business, on the exercise of the option granted in July 2013 as part of the sale of the original 15% stake.

		2017	2016		
At 31 March £'000		Total future minimum payments	Present value	Total future minimum payments	Present value
46.	Finance lease disclosures				• •
	Finance lease receivables included in loans and advances to customers				
	Lease receivables due in:				
	Less than one year	237 007	188 749	209 268	165 542
	One to five years	361 949 .	315 763	338 891	294 898
	Later than five years	2 247	2 129	5 488	5 244
	•	601 203	506 641	553 647	465 684
	Unearned finance income	94 562		87 963	

At 31 March 2017, unguaranteed residual values accruing to the benefit of Investec were £2.0 million (2016: £2.4 million). Finance leases in the group mainly relate to leases on property, equipment and motor vehicles.



(continued)

the 00	year to 31 March	2017	2016
	Notes to cash flow statement		
	Profit before taxation adjusted for non-cash items is derived as follows:		
	Profit before taxation	207 194	159 078
	Adjustment for non-cash items included in net income before taxation:		
	Impairment of goodwill	· 3 134	_
	Amortisation of intangible assets	14 386	14 477
	Net loss on disposal of subsidiaries	_	-
	Depreciation of operating lease assets	2 141	2 149
	Depreciation and impairment of property, equipment and intangibles	11 700	11 064
	Impairment of loans and advances	74 956	84 217
	Operating (income) from associates	(2 349)	(2 32
	Dividends received from associates	2 325	1 91
	Share-based payment charges	25 987	27 70
	Profit before taxation adjusted for non-cash items	339 474	298 28
	Decrease/(increase) in operating assets		
	Loans and advances to banks	23 259	(129 22
	Reverse repurchase agreements and cash collateral on securities borrowed	20 852	891 18
	Sovereign debt securities	300 089	(40 08
	Bank debt securities	· 3 771	37 87
	Other debt securities	. (4 626)	(171 16
	Derivative financial instruments	233 383	(62 53
	Securities arising from trading activities	1 585	145 95
	Investment portfolio	(6 743)	(76 59
	Loans and advances to customers	(892 136)	(828·43
-	Other loans and advances	3 814	139 44
	Securitised assets	11 937	261 41
-	Other assets	305 491	(364 88
	Investment properties	79 051	(10 68
		79 727	(207 73
	(Decrease)/increase in operating liabilities	1	
	Deposits by banks	146 539	322 54
	Derivative financial instruments	(381 763)	10 97
	Other trading liabilities	(90 557)	(25 28
	Repurchase agreements and cash collateral on securities lent	(57 262)	(315 99
	Customer accounts	212 601	502 64
	Debt securities in issue	. 126 628	476 50
	Securitised liabilities	8 221	(209 90
	Other liabilities	(44 377)	(51 26
		(79 970)	710 21

(continued)

For the year to 31 March £'000

£'000		2017	2016
48.	Commitments		
	Undrawn facilities	1 264 485	1 141 530
	Other commitments	111 662	104 016
		1 376 147	1 245 546
	The group has entered into forward foreign exchange contracts and loan commitments in the normal course of its banking business, for which the fair value is recorded on balance sheet.		
	Operating lease commitments	ı	
	Future minimum lease payments under non-cancellable operating leases:		
	Less than one year	32 798	27 494
	One to five years	102 566	115 013
	Later than five years	98 023	108 602
		233 387	251 109
	Operating lease receivables		
	Future minimum lease payments under non-cancellable operating leases:		
	Less than one year	4	4 499
	One to five years	6 343	10 150
	Later than five years .	-	749
		6 347	15 398

Investec leases assets to third parties under operating and finance lease arrangements including transport assets, machinery and property. The term of the leases range between three and five years with no annual escalation clauses. The majority of the leases have renewal options.

	Carrying a	Related liability			
At 31 March £'000	2017	2016	2017	2016	
Pledged assets	·				
Loans and advances to customers	351 650	374 394	209 550	17 479	
Other loans and advances	5 031	6 731	2 998	5 246	
Loans and advances to banks	112 096	174 353	65 907	157 752	
Sovereign debt securities	139 879	183 881	86 667	169 587	
Bank debt securities	28 516	33 564	23 641	30 955	
Securities arising from trading activities	· 427 665	452 520	430 020	447 717	
	1 064 837	1 225 443	818 783	987 736	

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)

For th	e year to 31 March	2017	2016
49.	Contingent liabilities		
	Guarantees and assets pledged as collateral security:	•	
	- Guarantees and irrevocable letters of credit	289 491	136 257
	· · · · · · · · · · · · · · · · · · ·	289 491	136 257

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 plc and its subsidiaries on behalf of third parties and other group companies. The guarantees are issued as part of the banking business.

#### Financial services compensation scheme

The Financial Services Compensation Scheme (FSCS), the UK's statutory fund of last resort, provides compensation to customers of UK authorised financial institutions in the event that an institution which is a participating member of the FSCS is unable, or is likely to be unable, to pay claims against it.

The FSCS raises annual levies from participating members based on their level of participation (in the case of deposits, the proportion that their protected deposits represent to total protected deposits) as at 31 December of the year preceding the scheme year.

Following the default of a number of deposit takers in 2008, the FSCS has borrowed from HM Treasury to fund the compensation costs for customers of those firms. Although the majority of this loan is expected to be repaid from funds the FSCS receives from asset sales, surplus cash flow or other recoveries in relation to the assets of the firms that defaulted, any shortfall will be funded by deposit-taking participants of the FSCS.

Investec Bank plc is a participating member of the FSCS and the bank has accrued £1.4 million for its share of levies that will be raised by the FSCS. The accrual is based on estimates for the interest the FSCS will pay on the loan and estimates of the level of the bank's market participation in the relevant periods. Interest will continue to accrue to the FSCS on the HM Treasury loan and will form part of future FSCS levies.

At the date of these financial statements, it is not possible to estimate whether there will ultimately be additional levies on the industry, the level of Investec's market participation or other factors that may affect the amount or timing of amount that may ultimately become payable, nor the effect that such levies may have upon operating results in any particular financial period.

#### Legal proceedings

Investec operates in a legal and regulatory environment that exposes it to litigation risks. As a result, Investec is involved in disputes and legal proceedings which arise in the ordinary course of business. Investec does not expect the ultimate resolution of any of the proceedings to which Investec is party to have a significant adverse effect on the financial position of the group. These claims, if any, cannot be reasonably estimated at this time.

Specifically, a claim has been made in the Royal Court of Guernsey against ITG Limited, a subsidiary of Investec plc, for breach of equitable duty for skill and care with a related claim for liability for the debts of a client trust. These claims are currently the subject of appeals before the Judicial committee of the Privy Council. The outcome of these claims cannot reasonably be estimated at this time but Investec does not expect the ultimate resolution of the proceedings to have a material adverse effect on the financial position of the group.

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### Notes to the annual financial statements

(continued)

For the year to 31 March £'000

	2017	2016
Related party transactions		
Transactions, arrangements and agreements involving directors and others:		
Transactions, arrangements and agreements involving directors with directors and connected		
persons and companies controlled by them, and with officers of the company, were as follows:		
Directors, key management and connected persons and companies controlled by them		
Loans		
At the beginning of the year	34 062	37 215
Increase in loans	6 352	3 870
Repayment of loans	(10 232)	(6 775)
Exchange adjustments	(3 467)	(248)
At the end of the year	26 715	34 062
Guarantees		
At the beginning of the year	11 330	8 512
Additional guarantees granted	80	3 748
Guarantees cancelled	(5 884)	(449)
Exchange adjustments	566	(481)
At the end of the year	6 092	11 330
Deposits		
At the beginning of the year	(25 711)	(35 537)
Increase in deposits	(21 130)	(12 189)
Decrease in deposits	12 023	21 317
Exchange adjustments	(1 420)	698
At the end of the year	(36 238)	(25 711)

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 has been impaired.

For the year to 31 March		Investec Limited and subsidiaries		
'000	2017	2016		
Transactions with other related parties				
Assets	1			
Loans and advances to banks	28 645	9 243		
Reverse repurchase agreement	- 1	110 071		
Bank debt securities	8 067	7 032		
Derivative financial instruments	5 216	6 263		
Other assets ·	17 816 🕯	21 913		
Liabilities				
Deposits by banks	67 605	42 951		
Derivative financial instruments	35 278	16 861		
Customer accounts	8 772	8 312		
Debt securities in issue	94 106	126 721		
Other liabilities	10 479	10 687		

During the year to March 2017, interest of  $\Omega$ 3.9 million (2016:  $\Omega$ 6.6 million) was paid to entities in the Investec Limited group. Interest of  $\Omega$ 3.3 million (2016:  $\Omega$ 5.8 million) was received from Investec Limited group.

In the normal course of business, services are rendered between Investec plc and Investec Limited entities. In the year to 31 March 2017, this resulted in a net payment to Investec Limited of £22.3 million (2016: £16 million).

During the year to March 2017, Investec Wealth and Investment Limited was charged £75 000 (2016: £ 21 000) for research service provided by Grovepoint (UK) Limited. Bradley Fried is a former non-executive director of Investec Wealth and Investment Limited, is a former director of Investec Bank plc and Investee plc, and is a director of Grovepoint (UK) Limited.



(continued)

#### 50. Related party transactions (continued)

During the year to 31 March 2017 Investec Bank (Channel Islands) issued guarantees of £2.3 million (2016: £2.2 million) to Investec Bank Limited.

During the prior year the group made an investment in a private equity vehicle in which Bradley Fried an Invested director, has significant influence. Bradley Fried resigned from the board on 31 March 2016. The group has an investment of £36.3 million (2016: £30.5 million) and has committed further funding of £63.7 million to the vehicle. The terms and conditions of the transaction were no more favourable than those available, or which might be expected to be available, on similar transactions to non-related entities on an arm's length basis.

	2017	2016
Amounts due from associates	4 634	8 401
Interest income from loans to associates	632	1 024
Fees and commission income from associates	-	262

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.

#### 51. 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, Central Treasury is required to exercise tight control of funding, liquidity, concentration and non-trading interest rate risk within defined parameters.

The accounting treatment of accounting hedges is dependent 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. Below is a description of each category of accounting hedges achieved by the group.

#### 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 £'000	Description of financial instrument designated as hedging instrument	Fair value of hedging instrument	Cumulative gains or (losses) on hedging instrument	Current year gains or (losses) on hedging instrument	Cumulative gains or (losses) on hedged item	Current year gains or (losses) on hedged item
2017						
Assets	Interest rate swap	(44 917)	(44 917)	92 010	43 524	(79 889)
Liabilities	Interest rate swap	6 661	6 661	(4 427)	(6 578)	4 424
		(38 256)	(38 256)	87 583	36 946	(75 465)
2016						
Assets	Interest rate swap	(136 927)	(136 927)	(33 458)	123 413	32 182
Liabilities	Interest rate swap	11 088	11 088	2 812	(11 003)	(2 841)
		(125 839)	(125 839)	(30 646)	112 410	29 341

#### Hedges of net investments in foreign operations

During the current year the Investec Bank plc has entered into foreign exchange contracts to hedge its balance sheet exposure to its net investment, in Australian Dollars, in the Australian operations of the group.

At 31 March £'000	Hedging instrument negative fair value
2017	 36
2016	_ •

There was no ineffective portion recognised in the income statement for the current or prior year.



(continued)

### 52. Liquidity analysis of financial liabilities based on undiscounted cash flows

		· Up	One month	Three months	Six months	One year	Greater	
At 31 March £'000	Demand	to one month	to three months	to six months	to one year	to five vears	than five years	Total
	Demand	month	IIIOIIIII	1110111110	, year	, care	Tive years	Total
2017								
Liabilities								
Deposits by banks	199 481	720	3 908	531	1 069	408 974	87 784	702 467
Derivative financial								
instruments	76 356	21 294	51 392	21 077	35 991	243 033	146 639	595 782
Derivative financial instruments – held for				•				
trading	65 883	-	_	_	-	-	-	65 883
Derivative financial instruments – held for								
hedging risk	10 473	21 294	51 392	21 077	35 991	243 033	146 639	529 899
Other trading liabilities	136 041	-	_	_	-		-	136 041
Repurchase agreements					i		İ	
and cash collateral on							,	
securities lent	223 998	_	_	_	-	-	-	223 998
Customer accounts (deposits)	3 230 769	1 526 270	2 262 232	827 704	694 734	2 489 498	111 570	11 142 777
Debt securities in issue	_	39 085	108 642	142 309	228 040	1 000 811	721 809	2 240 696
Liabilities arising on securitisation of other								
assets	_	-	7 644	3 521	5 851	66 081	86 891	169 988
Other liabilities	114 977	740 202	235 180	25 220	16 969	123 547	12 744	1 268 839
Subordinated liabilities	-	-	-	-	55 344	796 375		851 719
Total on balance								
sheet liabilities	3 981 622	2 327 571	2 668 998	1 020 362	1 037 998	5 128 319	1 167 437	17 332 307
Contingent liabilities	5 701	2 272	11 513 <sup>^</sup>	148 633	36 496	68 461	16 415	289 491
Commitments	194 170	106 193	19 393	52 214	116 924	645 395	241 858	1 376 147
Total liabilities	4 181 493	2 436 036	2 699 904	1 221 209	1 191 418	5 842 175	1 425 710	18 997 945

The balances in the above 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 pages 93 and 94.



(continued)

## 52. Liquidity analysis of financial liabilities based on undiscounted cash flows (continued)

At 31 March £'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
2010		1			,	T	T	
2016								
Liabilities								
Deposits by banks	107 407	53 221	1 936	14 031	4 428	291 483	96 399	568 905
Derivative financial	70.404	54.000	04.440		04 500	000 455	40.740	1 1 10 001
instruments	72 101	51 003	94 140	31 344	21 589	829 155	49 749	1 149 081
Derivative financial instruments – held for trading	63 928	_	_	_	_	_	_	63 928
Derivative financial instruments – held for hedging risk	8 173	51 003	94 140	31 344	21 589	829 155	49 749	1 085 153
Other trading liabilities	222 921	01000	34 140	01044	21 000	023 100	40140	222 921
Repurchase agreements and cash collateral on securities lent		_	_	_	_	_	_	281 260
Customer accounts (deposits)	2 580 974	1 845 861	1 382 791	1 948 037	987 058	2 122 643	45.014	10 912 378
Debt securities in issue	2 300 974	8 598	81 482	123 328	264 455	1 016 751	575 648	2 070 351
Liabilities arising on securitisation of other	09	0 390	01402	123 320	204 455	1010731	373 040	2 070 001
assets	-	-	3 688	4 727	10 557	73 141	97 580	189 693
Other liabilities	159 802	815 064	184 265	21 494	11 434	129 486	7 649	1 329 194
Subordinated liabilities	-	-	_	561	73 767	221 375	630 344	926 047
Total on balance				i				;
sheet								
liabilities	3 424 554	2 773 747	1 748 302	2 143 522	1 373 288	4 684 034		17 649 830
Contingent liabilities	35 046	20 902	2 353	77	29 440	43 246	5 193	136 257
Commitments	105 741	25 706	57 883	44 546	198 886	680 879	131 905	1 245 546
Total liabilities	3 565 341	2 820 355	1 808 538	2 188 145	1 601 614	5 408 159	1 639 481	19 031 633



(continued)

#### 53. Principal subsidiaries and associated companies - Investec plc

	•	ŀ	Interest		
At 31 March	Principal activity	Country of incorporation	. % 2017	% 2016	
Direct subsidiaries of Investec plc					
Investec 1 Limited	Investment holding	England and Wales	100.0%	100.0%	
Investec Holding Company Limited	Investment holding	England and Wales	100.0%	100.0%	
Indirect subsidiaries of Investec plc					
Investec Asset Finance plc	Leasing company	England and Wales	100.0%	100.0%	
Investec Asset Management Limited	Asset management	England and Wales	84.0%	85.0%	
Investec Bank plc	Banking institution	England and Wales	100.0%	100.0%	
Investec Bank (Channel Islands) Limited	Banking institution	Guernsey	100.0%	100.0%	
Investec Bank (Switzerland) AG	Banking institution	Switzerland	100.0%	100.0%	
Investec Capital Asia Limited	Investment banking	Hong Kong	100.0%	100.0%	
Investec Capital & Investments (Ireland) Limited	Financial services	Ireland	100.0%	100.0%	
Investec Finance Limited (previously Investec					
Finance plc)	Debt issuer	England and Wales	100.0%	100.0%	
Investec Group (UK) Limited (previously Investec					
Group (UK) plc)	Holding company	England and Wales	100.0%	100.0%	
Investec Group Investments (UK) Limited	Investment holding	England and Wales	100.0%	100.0%	
Investec Holdings (Australia) Limited	Holding company	Australia	100.0%	100.0%	
Investec Investments (UK) Limited	Investment holding	England and Wales	100.0%	100.0%	
Investec Ireland Limited	Financial services	Ireland	100.0%	100.0%	
Investec Securities (US) LLC	Financial services	USA	100.0%	100.0%	
Investec Trust Holdings AG	Investment holding	Świtzerland	100.0%	100.0%	
Investec Wealth & Investment Limited	Investment				
•	management services	England and Wales	100.0%	100.0%	
Reichmans Geneva SA	Trade finance	Switzerland	100.0%	100.0%	
Rensburg Sheppards plc	Holding company	England and Wales	100.0%	100.0%	
Williams de Broë Limited	Stockbroking and	Faciand and Walse	100.0%	100.00/	
	portfolio management	England and Wales	100.0%	100.0%	

All of the above subsidiary undertakings are included in the consolidated accounts.

The subsidiaries listed above are only in relation to subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the financial statements.



A complete list of subsidiary and associated undertakings as required by the Companies Act 2006 is included in note h to the Investec plc company accounts on page 265.

(continued)

#### 53. Principal subsidiaries and associated companies – Investec plc (continued)

			Interest		
At 31 March	Principal activity	Country of incorporation	% 2017	% 2016	
Principal associated companies Hargreave Hale Limited	Stockbroking and portfolio management	England and Wales	35.0%	35.0%	

For more details on associated companies refer to note 28.

#### **Consolidated structured entities**

Investec plc has no equity 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
Bedrock CMBS GMBH	Structured commercial real estate loan assets
Foundation CMBS Limited	Structured commercial real estate loan assets
Landmark Mortgage Securities No 2 plc	Securitised Residential Mortgages
Residential Mortgage Securities 23 plc	Securitised Residential Mortgages
Tamarin Securities Limited	Structured debt and loan portfolios
Temese Funding 1 plc	Securitised receivables
Temese Funding 2 plc	Securitised receivables
Yorker Trust	Structured debt and loan portfolios

For additional detail on the assets and liabilities arising on securitisation refer to note 27.



For details of the risks to which the group is exposed through all of its securitisations are included in the risk management report on page 82.

# 04

### Notes to the annual financial statements

(continued)

#### 53. Principal subsidiaries and associated companies – Investec plc (continued)

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 equity notes combined with its control over servicing activities. 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.

#### Structured debt and loan portfolios

The group has structured debt and loan portfolios for the purpose of issuing asset-backed securities. These structured entities are consolidated due to the group's retention of equity notes and because it continues to act as the collateral manager. The group is not required to fund any losses above those incurred on the notes it has retained.

#### Structured commercial real estate loan assets

The group has securitised a number of commercial real estate loan assets. These structured entities are consolidated as the group has retained all of the notes issued. The group continues to recognise the commercial real estate loan assets on its balance sheet. The group is not required to fund any losses above those incurred on the notes it has retained.

#### Securitised receivables

The group has securitised portfolios of medium-term lease and hire purchase receivables. These structured entities are consolidated as the group has retained the equity notes and control over servicing activities. The group is not required to fund any losses above those incurred on the notes it has retained.

#### Other structured entities - commercial operations

The group also consolidates a number of structured entities where control arises from rights attached to lending facilities and similar commercial involvement. These arise primarily in the areas of aircraft funds, where the group has rights which allow it to maximise the value of the assets held and investments in mining projects due to its exposure to equity like returns and ability to influence the strategic and financial decision-making.

The group is not required to fund any losses above those which could be incurred on debt positions held or swaps which exist with these structured entities. The risks to which the group is exposed from these structured entities are related to the underlying assets held in the structures. The total assets held in structured entities arising from commercial operations is £130.0 million (2016: £231.1 million).

#### Significant restrictions

As is typical for a large group of companies, there are restrictions on the ability of the group to obtain distributions of capital, access the assets or repay the liabilities of members of the group due to the statutory, regulatory and contractual requirements of its subsidiaries. These are considered below:

#### Regulatory requirements

Subsidiary companies are subject to prudential regulation and regulatory capital requirements in the countries in which they are regulated. These require entities to maintain minimum capital, leverage and exposure ratios restricting the ability of these entities to make distributions of cash or other assets to the parent company. Regulated subsidiaries of the group are required to maintain liquidity pools to meet PRA and local regulatory requirements. The main subsidiaries affected are: Investec Bank plc, Investec Bank (Channel Islands) Limited and Investec Bank (Switzerland) AG, which must maintain compliance with the regulatory minimum.



Capital management within the group is discussed in the risk management report on page 104.



(continued)

### 53. Principal subsidiaries and associated companies – Investec plc (continued) Statutory requirements

The group's subsidiaries are subject to statutory requirements not to make distributions of capital and unrealised profits and generally maintain solvency. These requirements restrict the ability of subsidiaries to remit dividends, except in the case of a legal capital reduction or liquidation.

#### **Contractual requirements**

Asset encumbrance – the group uses its financial assets to raise finance in the form of securitisations and through the liquidity schemes of central banks. Once encumbered, the assets are not available for transfer around the group. The assets typically affected are disclosed in notes 19 and 56.

#### Structured associates

The group has investments in a number of structured funds specialising in aircraft financing, where the group acts as adviser or fund manager in addition to holding units within the fund. As a consequence of these roles and funding, the group has significant influence over the fund and therefore the funds are treated as associates.

The group applies the venture capital exemption to these holdings and, as such, the investments in the funds are accounted for at fair value and held within the investment portfolio on the balance sheet.

Type of structured entity	Nature and purpose	Interest held by the group/income earned
Aircraft investment funds	To generate fees from managing assets on behalf of third party investors	Investments in units issued by the fund
	These vehicles are financed through the issue of units to investors	Management fees

The table below sets out an analysis of the carrying amounts of interests held by the group in structured associate entities.

Carrying

31 March 2017 £'000	Line on the balance sheet	value £'000	Maximum exposure to loss	Income earned from structured entity	£'000
Aircraft investment funds	Investment portfolio	19 963	Limited to the carrying value	Investment income	3 302
31 March 2016 £'000	Line on the balance sheet	Carrying value £'000	Maximum exposure to loss	Income earned from structured entity	£'000
Aircraft investment funds	Investment portfolio	68 904	Limited to the carrying value	Investment income	4 308

(continued)

#### 54. Unconsolidated structured entities

The table below describes the types of structured entities that the group does not consolidate but in which it holds an interest and originally set up. In making the assessment of whether to consolidate these structured entities, the group has concluded that it does not have control after consideration in line with the accounting policies as set out on page 158.

Type of structured entity	Nature and purpose	Interest held by the group/income earned
Investment funds	To generate fees from managing assets on behalf of third party investors	Investments in units issued by the fund
	These vehicles are financed through the issue of units to investors	Management fees
Residential mortgage securitisations	To generate a return for investors through providing exposure to residential mortgage risk	Investments in notes
	These vehicles are financed through the issue of notes to investors	

The table below sets out an analysis of the carrying amounts of interests held by the group in unconsolidated structured entities.

The maximum exposure to loss is the carrying amount of the assets held.

At 31 March 2017	Line on the balance sheet	Carrying value £'000	Maximum exposure to loss of the group	Total assets of the entity £'000	Income earned from structured entity	£'000
Investment funds	Investment portfolio	4 916	Limited to the carrying value	166 896	Investment loss	329
Residential mortgage securitisations	Other debt securities	15 349	Limited to the carrying value	214 081	Investment income Net interest income	530 12
	Other loans and advances	31 641	Limited to the carrying value	271 591	Net interest income Investment income	. 112 . – –

At 31 March 2016	Line on the balance sheet	Carrying value £'000	Maximum exposure to loss of the group	Total assets of the entity £'000	Income earned from structured entity	£'000
Investment funds	Investment portfolio	5 245	Limited to the carrying value	185 724	Investment loss	1
Residential mortgage securitisations	Other debt securities	9 734	Limited to the carrying value	105 258	Investment income Net interest income	113 94
	Other loans and advances	15 490	Limited to the carrying value	343 604	Net interest income	(75)
				,	Investment income	20

#### Financial support provided to the unconsolidated structured entities

There are no contractual agreements which require the group to provide any additional financial or non-financial support to these structured entities.

During the year, the group has not provided any such support and does not have any current intentions to do so in the future.



(continued)

#### 54. Unconsolidated structured entities (continued)

#### Sponsoring

The group considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity.

The table below sets out information in respect of structured entities that the group sponsors, but in which the group does not have an interest.

#### Structured entities with no interest held

	2017	2016
	Structured CDO and CLO securitisations	Structured CDO and CLO securitisations
Why it is considered a structured entity	This is a CDO and CLO securitisation where Investec has no continuing interest as the notes previously held have been redeemed or fully written off. The entity is considered structured as the vehicle was set up so that the variable returns do not follow the shareholding.	This is a CDO and CLO securitisation where Investec has no continuing interest as the notes previously held have been redeemed or fully written off. The entity is considered structured as the vehicle was set up so that the variable returns do not follow the shareholding.
Income amount and type	Nil	Nil ·
Carrying amount of all assets transferred	£222 million of CDO and CLO assets	£222 million of CDO and CLO assets

### Interests in structured entities which the group has not set up Purchased securitisation positions

The group buys and sells interest in structured entities that it has not originated as part of its trading activities, e.g. residential mortgage securities, commercial mortgage securities, loans to corporates and resecuritisations. In such cases, the group typically has no other involvement with the structured entity other than the securities it holds as part of its trading activities and its maximum exposure to loss is restricted to the carrying value of the asset.



Details of the value of these interests is included in the risk management report on page 83.

(continued)

### 55. Offsetting

Amounts subject to enforce	Amounts subject to enforceable netting arrangements			
Effects of offsetting on	Related amounts			
balance sheet	not offset			

At 31 March £'000	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Cash collateral	Net amount
2017						
Assets				i l		
Cash and balances at central banks	2 853 571	_	2 853 571	-	_	2 853 571
Loans and advances to banks	1 130 998	_	1 130 998	- i	(195 242)	935 756
Reverse repurchase agreements and cash collateral on securities borrowed	536 173	-	536 173	(131 867)	_	404 306
Sovereign debt securities	952 902	-	952 902	(14 198)	_	938 704
Bank debt securities	184 626	-	184 626	(28 516)	_	156 110
Other debt securities	398 278	-	398 278	· -	_	398 278
Derivative financial instruments	604 175	-	604 175	(167 564)	(188 518)	248 093
Securities arising from trading activities	522 760	-	522 760	(367 890)	-	·154 870
Investment portfolio	459 745	-	459 745	-	-	459 745
Loans and advances to customers	8 620 742	-	8.620 742	-	-	8 620 742
Other loans and advances	413 430	-	413 430	-	_	413 430
Other securitised assets	138 628	-	138 628	-	_	138 628
Other assets	1 276 899	(767)	1 276 132	· -	-	1 276 132
	18 092 927	(767)	18 092 160	(710 035)	(383 760)	16 998 365
Liabilities				Į l		
Deposits by banks	690 749	_	690 749	_	(211 802)	478 947
Derivative financial instruments	582 600	-	582 600	(167 564)	(66 240)	348 796
Other trading liabilities	136 041	_	136 041	(131 867)	_	4 174
Repurchase agreements and cash collateral on securities lent	224 507	(510)	223 997	(147 368)	(21 404)	55 225
Customer accounts (deposits)	11 021 581	_	11 021 581	<b>i</b> -	(21 145)	11 000 436
Debt securities in issue	1 955 447	_	1 955 447	(263 236)	(40 264)	1 651 947
Liabilities arising on securitisation of other				]		
assets	128 838	-	128 838	- !	_	128 838
Other liabilities	1 268 925	. (257)	1 268 668	- \	-	1 268 668
Subordinated liabilities	579 356	-	579 356	] -	-	579 356
	16 588 044	(767)	16 587 277	(710 035)	(360 855)	15 516 387



(continued)

### 55. Offsetting (continued)

Amounts subject to enfor	ceable netting arrangements
Effects of offsetting on	Related amounts
balance sheet	not offset

At 31 March £'000	Gross amounts		Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Cash collateral	Net amount
2016						
Assets						
Cash and balances at central banks	2 638 069	_	2 638 069	-	_	2 638 069
Loans and advances to banks	1 112 441	_	1 112 441	-	(159 775)	952 666
Reverse repurchase agreements and cash collateral on securities borrowed	557 110	(85)	557 025	(221 151)	(849)	335 025
Sovereign debt securities	1 252 991	`-	1 252 991	(183 881)		1 069 110
Bank debt securities	188 397	_	188 397	(33 564)	_	154 833
Other debt securities	393 652	_	393 652	_	_	393 652
Derivative financial instruments	837 558	_	837 558	(247 749)	(267 660)	322 149
Securities arising from trading activities	524 344	_	524 344	(449 383)	_	74 961
Investment portfolio	451 000	_	451 000	-	_	451 000
Loans and advances to customers	7 844 602	(41 000)	. 7 803 602	_	_	7 803 602
Other loans and advances	417 205	-	417 205	. –	(7 933)	409 272
Other securitised assets	150 565		150 565	-	-	150 565
Other assets	1 705 319	(116)	1 705 203	-	(183 115)	1 522 088
· · · · · · · · · · · · · · · · · · ·	18 073 253	(41 201)	18 032 052	(1 135 728)	(619 332)	16 276 992
Liabilities						
Deposits by banks	544 210	_	544 210	-	(69 276)	474 934
Derivative financial instruments	964 362		964 362	(247 749)	(518 932)	197 681
Other trading liabilities	226 598	-	226 598	(221 151)	_	5 447
Repurchase agreements and cash collateral on securities lent	281 260	_	281 260	(280 806)	(454)	_
Customer accounts (deposits)	10 849 980	(41 000)	10 808 980		(16 118)	10 792 862
Debt securities in issue	1 828 819		1 828 819	(386 022)	(1 057)	1 441 740
Liabilities arising on securitisation of other					·	
assets	120 617	-	120 617	-	_	120 617
Other liabilities	1 329 033	(201)	1 328 832	-	-	1 328 832
Subordinated liabilities	597 309	_	597 309	-	-	597 309
	16 742 188	(41 201)	16 700 987	(1 135 728)	(605 837)	14 959 422



(continued)

#### 56. Derecognition

#### Transfer of financial assets that do not result in derecognition

The group 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.

•	20	17	20	16
Ãt 31 March £'000	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
No derecognition achieved				
Loans and advances to customers	295 182	<u> </u>	657 947	(42 748)
Other loans and advances	141 136	_	153 551	_
	436 318	-	811 498	(42 748)

For transfer of assets in relation to repurchase agreements see note 19.

#### **Balance sheet**

At 31 March £'000	Notes	2017	2016
Assets		1	
Fixed assets			
Investments in subsidiary undertakings	b	1 817 840	1 817 840
Current assets			
Amounts owed by group undertakings		488 592	481 494
Taxation		12 867	15 433
Other debtors		-	-
Prepayments and accrued income		. 22	75
Cash at bank and in hand			
- with subsidiary undertakings		104 978	35 414
- balances with other banks		605	469
		607 064	532 885
Current liabilities			
Creditors: amounts falling due within one year			
Derivatives financial instruments		6	15
Amounts owed to group undertakings		477 161	478 316
Other liabilities		1 130	992
Accruals and deferred income		8 297	6 326
Net current assets		120 470	47 236
Creditors: amounts falling due after one year		ļ.	
Debt securities in issue	С	324 089	329 544
Net assets	•	1 614 221	1 535 532
Capital and reserves			
Called up share capital	d	191	182
Perpetual preference shares	d	29	151
Share premium account	d	1 246 282	1 194 257
Capital reserve	d	180 606	180 483
Retained earnings	d	187 113	160 459
Total capital and reserves		1 614 221	1 535 532



The notes on pages 265 and 269 form an integral part of the financial statements.

The company's profit for the year, determined in accordance with the Companies Act 2006, was £93 027 000 (2016: £27 803 000). Approved and authorised for issue by the board of directors on 9 June 2017 and signed on its behalf by:

Stephen Koseff
Chief executive officer

9 June 2017



(continued)

### Statement of changes in shareholders' equity

£'000	Share capital	Perpetual preference shares	Share premium	Capital reserve	Profit and loss account	Total shareholders' equity
Balance at 31 March 2015	180	151	1 171 441	180 483	239 650	1 591 905
Issue of ordinary shares	2	_	22 816	-	-	22 818
Total comprehensive income	- 1	_	_	-	27 803	27 803
Dividends paid to preference shareholders	_	_	_	_	(3 203)	(3 203)
Dividends paid to ordinary shareholders	_	_	_	-	(103 791)	(103 791)
At 31 March 2016	182	151	1 194 257	180 483	160 459	1 535 532
Issue of ordinary shares	9		174 073	_	_	174 082
Redemption of preference shares	-	(122)	(122 048)	123	40 427	(81 620)
Total comprehensive income	-	-	_	_	93 816	93 816
Dividends paid to preference		ı				1
shareholders	-	- 1	-	_	(1 862)	(1 862)
Dividends paid to ordinary shareholders	-	-	_	_	(105 727)	(105 727)
At 31 March 2017	191	29	1 246 282	180 606	187 113	1 614 221



(continued)

#### a Basis of preparation

The parent accounts of Investec plc are prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards. The company is incorporated and domiciled in England and Wales and the company's accounts are presented in Pounds Sterling and all values are rounded to the nearest thousand (£'000) except where otherwise indicated.

The accounts have been prepared on the historical cost basis. The principal accounting policies adopted are set out below.

The company has taken advantage of the following disclosure exemptions under FRS 101 where applicable to the company:

- The requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share-based Payment
- The requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(h), B64(h), B64(n), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations. Equivalent disclosures are included in the consolidated financial statements of Investec plc in which the entity is consolidated
- The requirements of paragraph 33(c) of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- The requirements of IFRS 7 Financial Instruments: Disclosures
- The requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- The requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of: (i) paragraph 79(a)(iv) of IAS 1, (ii) paragraph 73(e) of IAS 16 Property Plant and

Equipment (iii) paragraph 118(e) of IAS 38 Intangibles Assets, (iv) paragraphs 76 and 79(d) of IAS 40 Investment Property and (v) paragraph 50 of IAS 41 Agriculture

- The requirements of paragraphs 10(d), 10(f), 16, 38A to 38D, 40A to 40D,111 and 134-136 of IAS 1 Presentation of Financial Statements
- The requirements of IAS 7 Statement of Cash Flows
- The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- The requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- The requirements in IAS 24
  Related Party Disclosures
  to disclose related party
  transactions entered into
  between two or more members
  of a group, provided that any
  subsidiary which is a party to
  the transaction is wholly owned
  by such a member
- The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of a cash flow statement, presentation of comparative information in respect of certain assets, standards not yet effective, impairment of assets, business combinations, discontinued operations and related party transactions.

Where required, equivalent disclosures are given in consolidated financial statements of the group.

#### Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into Pounds Sterling at exchange rates ruling at the balance sheet date. All foreign currency transactions are translated into Pounds Sterling at the exchange rate ruling at the time of the transaction. Forward foreign exchange contracts are revalued at the market rates ruling at the date applicable to their respective maturities. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the income statement.

#### Investments

Investments in subsidiaries and interests in associated undertakings are stated at cost less any accumulated impairment in value.

#### Income

Dividends from subsidiaries are recognised when received. Interest is recognised on an accrual basis.

#### **Taxation**

Current tax payable is provided on the amount expected to be payable on taxable profit at rates that are enacted or substantively enacted and applicable to the relevant period.

Deferred taxation is provided using the balance sheet method on temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base, except where such temporary differences arise from:

- The initial recognition of goodwill
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction has no effect on the income statement or taxable profit



(continued)

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

### Company's own profit and loss account

The company has taken advantage of the exemption in section 408 of the Companies Act 2006 to not present its own profit and loss account.

#### Financial assets

Financial assets are recorded at amortised cost applying the effective interest rate method where they are classified as loans and receivables or fair value through profit and loss.

#### Financial liabilities

Financial liabilities are recorded at amortised cost applying the effective interest rate method.

#### b Investments in subsidiary undertakings

£000	·	2017	2016
At the beginning and end of the year		1 817 840	1 817 840

#### c Debt securities in issue

On 5 May 2015, the company issued £300 million 4.50% Senior Unsecured Notes from its European Medium-Term Note programme (EMTN).  $\cdot$ 

The notes mature on 5 May 2022 and pay interest at a fixed rate annually in arrears.

The company also has in issue a Euro-denominated note of €25 million issued on 14 February 2014. The notes mature on 29 September 2017 and pays interest at a fixed rate of 3.48% semi-annually in arrears.

#### d Audit fees

Details of the company's audit fees are set out in note 6 of the group financial statements.

#### e Dividends

Details of the company's dividends are set out in note 9 of the group financial statements.

#### f Share capital

Details of the company's ordinary share capital are set out in note 41 of the group financial statements. Details of the perpetual preference shares are set out in note 42 of the group financial statements.

#### g Audit opinion

The audit opinion on the financial statements of the Investec plc parent company is included within the independent auditor's report to the members of Investec plc within the combined consolidated Investec annual financial statements of Investec plc and Investec Limited for the year ended 31 March 2017.

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(continued)

#### h Subsidiaries

**Directly owned by Investec Bank pic** United Kingdom Registered Office: 2 Gresham Street, London, EC2V 7OP, UK  Invested T. Ltd* Invested Plotting Company Limited* Invested Plotting Company Limited* Invested Circle Clus Limited Invested Circle Clus Limited Invested Circle Clus Limited Invested Circle Clus Limited Invested Circle Clus Limited Invested Circle Clus Limited Invested Circle Clus Limited Invested Circle Clus Limited Invested Circle Clus Limited Invested Circle Clus Limited Guinness Mahon Group Edit Guinness Mahon Group Edit Guinness Mahon Group Edit Guinness Mahon Pension Fund Tustees Ltd Guinness Mahon Pension Fund Tustees Ltd Holding company 100% Guinness Mahon Holdings Ltd Holding company 100% Guinness Mahon Holdings Ltd Holding company 100% Guinness Mahon Holdings Ltd Holding company 100% Non trading 100% N	At 31 March 2017	Principal activity	Interest held
Investred office: 2 Gresham Street, London, EC2V 7OP, UK   Investred 1 Ltd   Investment holding   100%   Invested Holding Company Limited   Investment holding   100%   Invested (Invested Childing Company Limited   Investment holding   100%   Invested Childing Company   100%   Invested Childing Company   100%   Invested Childing Company   100%   100	*Directly owned by Investec Bank plc		
Investec Ltd* Investec Holding Company Limited * Investec Holding Company Limited * Investec Westments Limited   Investec Group (UK) Ltd Investec Group (UK) Ltd Investec Group (UK) Ltd Investec Group (UK) Ltd Investec Group (UK) Ltd Investec Group (UK) Ltd Investec Group (UK) Ltd Investec Group (UK) Ltd Investec Group (UK) Ltd Investec Group (UK) Ltd Investec Group (UK) Ltd Investec Group (UK) Ltd Investec Group (UK) Ltd Investec Bank Group Services Ltd Investec Bank Group Services Ltd Investec Bank Group Services Ltd Investec Bank Rplc Investec Bank Rplc Investec Bank Rplc Investec Bank Rplc Investec Wealth & Investment Limited Investec Wealth & Investment Limited Investec Wealth & Investment Limited Investec Wealth & Investment Limited Investec Wealth & Investment Limited Investec Wealth & Investment Limited Investec Wealth & Investment Limited Investec Wealth & Investment Limited Investec Wealth & Investment Limited Investec Wealth & Investment Limited Investec Wealth & Investment Invested Investec Wealth & Investment Invested Investec Wealth & Investment Invested Investec Click & Invest Limited Investec Click & Invest Limited Investec Click & Invest Limited Investec Wealth & Investment Tustees Limited Invester Wealth & Investment Tustees Limited Invester Wealth & Investment Tustees Limited Invester Wealth & Investment Tustees Limited Invester Wealth & Investment Tustees Limited Invester Wealth & Investment Tustees Limited Invester Wealth & Investment Invested Invester Wealth & Investment Invested Invester Wealth & Investment Invested Invester Wealth & Investment Invested Invester Wealth & Investment Invested Invester Wealth & Investment Invested Invester Wealth & Investment Invested Invester Wealth & Investment Invested Invester Wealth & Investment Investment Invested Invester Wealth & Investment Invested Invester Wealth & Investment Invested Invester Wealth & Investment Invested Invester Wealth & Investment Invested Invester Wealth & Investment Invested Invester Wealth & Investment Invested Invester Click	United Kingdom		
Investec Holding Company Limited Investment holding Investee (IVI) Limited Investee (IVI) Limited Investments Limited Investment holding Investee (IVI) Limited Holding Company 100% Investee Group (UK) Ltd Holding Company 100% Investee Group (UK) Ltd Holding Company 100% Guinness Mahon Group Ltd Holding Company 100% Guinness Mahon Group Services Ltd Holding Company 100% Guinness Mahon Pension Fund Trustees Ltd Pension fund trustee 100% Guinness Mahon Pension Fund Trustees Ltd Pension fund trustee 100% Guinness Mahon Holdings Ltd Investee Gank (IVI) Banking Gompany 100% Investee Wealth & Investment Limited Banking Gompany 100% Investee Wealth & Investment Limited Investment management services 100% Anston Trustees Limited Investment Services Nominees Limited Non trading 100% Carr Investment Services Nominees Limited Non trading 100% Carr PEP Nominees Limited Non trading 100% Cilck Nominees Limited Non trading 100% Glick Nominees Limited Nominees Elimited Nominees Services 100% Investment Administration Nominees Limited Nominees services 100% Investment Administration Nominees Limited Non trading 100% Investee Cilck & Invest Limited Nominees Limited Non trading 100% Investment Administration Nominees Limited Non trading 100% Investment Administration Nominees Limited Non trading 100% Investment Administration Nominees Limited Non trading 100% R & R Nominees Limited Non trading 100% R S R Nominees Limited Non trading 100% Rensburg Cilent Nominees Limited Non trading 100% Rensburg Cilent Nominees Limited Non trading 100% Rensburg Cilent Nominees Limited Non trading 100% Rensburg Cilent Nominees Limited Non trading 100% Rensburg Cilent Nominees Limited Non trading 100% Rensburg Cilent Nominees Limited Non trading 100% Rensburg Cilent Nominees Limited Non trading 100% Rensburg Investment Management Limited Non trading 100% Rensburg Cilent Nominees Limited Non trading 100% Rensburg Investment Management Limited Non trading 100% Rensburg Investment Management Limited Domant nominee company 100% Rensburg Investment Ltd (	Registered office: 2 Gresham Street, London, EC2V 7QP, UK		
Investee Uk/S Limited Investee (UK/S Limited Investee (UK/S Limited Investee (UK/S Limited Investee (UK/S Limited Investee (UK/S Limited Investee Group (UK) Ltd Guinness Mahon Group Ltd Guinness Mahon Group Ltd Guinness Mahon Pension Fund Trustees Ltd Guinness Mahon Pension Fund Trustees Ltd Holding company 100% Guinness Mahon Pension Fund Trustees Ltd Pension Inut trustee 100% Investee Bank plc Guinness Mahon Holdings Ltd Holding company 100% Investee Bank plc Banking institution 100% Investee Wealth & Investment Limited Investee Wealth & Investment Limited Investee Wealth & Investment Limited Investee Wealth & Investment Limited Investee Ukealth & Investment Services Nominees Limited Non trading 100% Carr Investment Services Nominees Limited Non trading 100% Carr Investment Services Nominees Limited Non trading 100% Ferlim Nominees Limited Non trading 100% Investee Click & Invest Limited Non trading 100% Investee Click & Invest Limited Non trading 100% Investee Click & Invest Limited Non trading 100% Investee Click & Invest Limited Non trading 100% Investee Click & Invest Limited Non trading 100% Investee Click & Invest Limited Non trading 100% Investee Click & Invest Limited Non trading 100% Investee Click & Invest Limited Non trading 100% Investee Click & Invest Limited Non trading 100% Investee Click & Invest Limited Non trading 100% Investee Click & Invest Limited Non trading 100% R & R Noninnees Limited Non trading 100% R & R Noninnees Limited Non trading 100% Rensburg Client Nominees Limited Non trading 100% Rensburg Client Nominees Limited Non trading 100% Rensburg Client Nominees Limited Non trading 100% Rensburg Client Nominees Limited Non trading 100% Rensburg Client Nominees Limited Non trading 100% Rensburg Client Nominees Limited Non trading 100% Rensburg Client Nominees Limited Non trading 100% Rensburg Client Nominees Limited Non trading 100% Rensburg Client Nominees Limited Non trading 100% Rensburg Client Nominees Limited Non trading 100% Rensburg Client Nominees Limited Non trading 100% Rens	Investec 1 Ltd *	Investment holding	100%
Investec (UK) Limited Investec Group (UK) Ltd Investec Group (UK) Ltd Investec Group (UK) Ltd Investec Group (UK) Ltd Guinness Mahon Group Sen/ices Ltd Holding company 100% Guinness Mahon Pension Fund Trustees Ltd Pension fund Trustee 100% Guinness Mahon Pension Fund Trustees Ltd Pension fund Trustee 100% Guinness Mahon Pension Fund Trustees Ltd Pension fund Trustee 100% Investec Bank ptc Banking institution 100% Investee Bank ptc Banking institution 100% Investee Wealth & Investment Limited Investee Wealth & Investment Limited Investee Wealth & Investment Limited Investee Wealth & Investment Limited Non trading 100% Anston Trustees Limited Non trading 100% Carr Investment Services Nominees Limited Non trading 100% Carr PEP Nominees Limited Non trading 100% Carr PEP Nominees Limited Non trading 100% Investee Click & Invest Invited Non trading 100% Investee Click & Invest Limited Non trading 100% Investee Click & Invest Limited Non trading 100% Investee Click & Invest Limited Non trading 100% Investee Click & Invest Limited Non trading 100% Investee Click & Invest Limited Non trading 100% Investee Click & Invest Limited Non trading 100% Investee Click & Invest Limited Non trading 100% Investee Wealth & Investment Trustees Limited Non trading 100% Investee Wealth & Investment Trustees Limited Non trading 100% Investee Nominees Limited Non trading 100% R & R Nominees Limited Non trading 100% R S Trustees Limited Non trading 100% R S Trustees Limited Non trading 100% R S Trustees Limited Non trading 100% R S Trustees Limited Non trading 100% R S Trustees Limited Non trading 100% R S Trustees Limited Non trading 100% R S Trustees Limited Non trading 100% R S Trustees Limited Non trading 100% R S Trustees Limited Non trading 100% R S Trustees Limited Non trading 100% R S Trustees Limited Non trading 100% R S Trustees Limited Non trading 100% R S Trustees Limited Non trading 100% R S Trustees Limited Non trading 100% R S Trustees Limited Non trading 100% R S Trustees Limited Non trading 100% R S Trustees Limited Non t	Investec Holding Company Limited *	Investment holding	100%
Investec Group (UK) Ltd Guinness Mahon Group Ltd Guinness Mahon Group Sevices Ltd Guinness Mahon Group Sevices Ltd Guinness Mahon Posion Fund Trustees Ltd Guinness Mahon Posion Fund Trustees Ltd Guinness Mahon Holdings Ltd Investee Bank plc Banking institution Investee Sank plc Investee Wealth & Investment Limited Investee Wealth & Investment Limited Investee Wealth & Investment Limited Investee Wealth & Investment Limited Investee Limited Investment management services In0% Anston Trustees Limited Non trading In0% Carr Investment Services Nominees Limited Non trading In0% Carr Investment Services Nominees Limited Non trading Investment Services Investment Services Investment Services Investment Services Investment Services Investment Services Investment Services Investment Services Investment Services Investment Services Investment Services Investment Services Investment Services Investment Services Investment Services Investment Administration Nominees Limited Non trading Investment Administration Nominees Limited Investee Wealth & Investment Trustees Limited Non trading Investment Administration Nominees Limited Non trading Investment Administration Nominees Limited Non trading Investment Administration Nominees Limited Non trading Investment Management Limited Non trading Investment Management Limited Non trading Investment Services Investment Nominees Limited Non trading Investment Services Investment Nominees Limited Non trading Investment Services Investment Management Limited Non trading Investment Services Investment Management Limited Non trading Investment Services Investment Management Limited Non trading Investment Services Investment Services Investment Services Investment Services Investment Services Investment Services Investment Services Investment Services Investment Services Investment Services Investment Services Investment Services Investment Services Investment Services Investment Services Investment Services Investment Services Investment Services Investment Services Investment Holding co	Investec Investments Limited	Investment holding	100%
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Guinness Mahon Pension Fund Trustees Ltd Guinness Mahon Pension Fund Trustees Ltd Guinness Mahon Pension Fund Trustees Ltd Guinness Mahon Pension Fund Trustees Ltd Guinness Mahon Holdings Ltd Investee Bank pic Banking institution 100% Investee Wealth & Investment Limited Investee Wealth & Investment Limited Investee Wealth & Investment Limited Investee Wealth & Investment Limited Investee Wealth & Investment Limited Non trading 100% Bell Nominees Limited Non trading 100% Carr Investment Services Nominees Limited Non trading 100% Carr Investment Services Nominees Limited Non trading 100% Carr Investment Services Nominees Limited Non trading 100% Click Nominees Limited Non trading 100% Click Nominees Limited Non trading 100% Non trading 100% Investee Click & Invest Limited Non trading 100% Investee Click & Invest Limited Non trading 100% Investee Click & Invest Limited Non trading 100% Investee Wealth & Investment Trustees Limited Non trading 100% Investee Wealth & Investment Trustees Limited Non trading 100% Investee Wealth & Investment Trustees Limited Non trading 100% Investee Wealth & Investment Trustees Limited Non trading 100% Investee Services 100% Investee Services 100% Investee Services 100% Investee Services Nominees Limited Non trading 100% R & R Nominees Limited Non trading 100% R & R Nominees Limited Non trading 100% Scarwood Nominees Limited Non trading 100% Scarwood Nominees Limited Non trading 100% Scarwood Nominees Limited Non trading 100% Scarwood Nominees Limited Non trading 100% Scarwood Nominees Limited Non trading 100% Scarwood Nominees Limited Non trading 100% Non trading 100% Scarwood Nominees Limited Non trading 100% Non trading 100% Scarwood Nominees Limited Non trading 100% Non trading 100% Non trading 100% Scarwood Nominees Limited Non trading 100% Non trading 100% Non trading 100% Non trading 100% Non trading 100% Non trading 100% Non trading 100% Non trading 100% Non trading 100% Non trading 100% Non trading 100% Non trading 100% Non trading 100% Non trading 100% Non trading 100% Non	Investec Group (UK) Ltd	Holding company	100%
Guinness Mahon Pension Fund Trustees Ltd Guinness Mahon Holdings Ltd Investee Bank plc Investee Bank plc Investee Bank plc Investee Wealth & Investment Limited Investees Limited Investment management services Investment Management Limited Investm	Guinness Mahon Group Ltd	Holding company	100%
Guinness Mahon Holdings Ltd Investee Bank plc Banking institution 100% Investee Wealth & Investment Limited Investment Services Nominees Limited Anston Trustees Limited Bell Nominees Limited Non trading 100% Carr PEP Nominees Limited Non trading 100% Carr PEP Nominees Limited Non trading 100% Carr PEP Nominees Limited Non trading 100% Carr PEP Nominees Limited Non trading 100% Carr PEP Nominees Limited Non trading 100% Carr PEP Nominees Limited Non trading 100% Carr PEP Nominees Limited Non trading 100% Cilck Nominees Limited Non trading 100% Investee Cilck & Invest Limited Non trading 100% Investee Cilck & Invest Limited Non trading 100% Investee Wealth & Investment Trustees Limited Non trading 100% Investee Wealth & Investment Trustees Limited Non trading 100% Investee Wealth & Investment Trustees Limited Non trading 100% Investment Administration Nominees Limited Non trading 100% Investment Administration Nominees Limited Non trading 100% PEP Services (Nominees) Limited Non trading 100% Rensburg Client Nominees Limited Non trading 100% Rensburg Client Nominees Limited Non trading 100% Rensburg Client Nominees Limited Non trading 100% Non trading 100% Non trading 100% Non trading 100% Rensburg Client Nominees Limited Non trading 100% Non trad	Guinness Mahon Group Services Ltd	Holding company	100%
Investec Bank pic Rensburg Sheppards pic Investec Wealth & Investment Limited Investment wealth & Investment Limited Investment management services Investment Management Services Investment Services Nominees Limited Ron trading Investment Services Nominees Limited Ron trading Investment Services Nominees Limited Ron trading Investment Services Nominees Limited Ron trading Investment Services Nominees Limited Ron trading Investment Services Nominees Limited Ron trading Investment Services Nominees Limited Ron trading Investment Services Nominees Limited Rorinees	Guinness Mahon Pension Fund Trustees Ltd	Pension fund trustee	100%
Rensburg Sheppards pic Investment Limited Investment management services 100% Anston Trustees Limited Non trading 100% Bell Nominees Limited Non trading 100% Carr Investment Services Nominees Limited Non trading 100% Carr Investment Services Nominees Limited Non trading 100% Carr PEP Nominees Limited Non trading 100% Carr PEP Nominees Limited Non trading 100% Cilck Nominees Limited Non trading 100% Investment Services Investment Services Limited Non trading 100% Investee Click & Invest Limited Nominees services 100% Investee Wealth & Investment Trustees Limited Non trading 100% Investment Administration Nominees Limited Non trading 100% Investment Administration Nominees Limited Non trading 100% PEP Services (Nominees) Limited Non trading 100% PEP Services (Nominees) Limited Non trading 100% R & R Nominees Limited Non trading 100% Scarwood Nominees Limited Non trading 100%	Guinness Mahon Holdings Ltd	Holding company	100%
Investec Wealth & Investment Limited Anston Trustees Limited Bell Nominees Limited Non trading 100% Carr Investment Services Nominees Limited Non trading 100% Carr PEP Nominees Limited Non trading 100% Carr PEP Nominees Limited Non trading 100% Carr PEP Nominees Limited Non trading 100% Cilck Nominees Limited Non trading 100% Ferlim Nominees Limited Non trading 100% Investec Cilck & Invest Limited Non trading 100% Investec Wealth & Investment Trustees Limited Investec Wealth & Investment Trustees Limited Investec Wealth & Investment Trustees Limited Investec Wealth & Investment Administration Nominees Limited Non trading 100% Investment Administration Nominees Limited Non trading 100% Investment Administration Nominees Limited Non trading 100% R & R Nominees Limited Non trading 100% R & R Nominees Limited Non trading 100% R & R Nominees Limited Non trading 100% Scarwood Nominees Limited Non trading 100% Spring Nominees Limited Non trading 100% Spring Nominees Limited Non trading 100% Non trading 100% Fill Non trading 100% Non trading 100% Fill Nominees Limited Non trading 100% Rensburg Investment Management Limited Non trading 100% Rensburg Investment Management Limited Non trading 100% Rensburg Investment Management Limited Non trading 100% Fill Investments Ltd (previously G. P. International Ltd) Dormant Dormant nominee company 100% For Corporate Finance Limited Dormant nominee company 100% Fill Investments Ltd (previously G. P. International Ltd) Dormant nominee company 100% Fill Investments Limited Dormant nominee company 100% For Leasing company 100% Investec Asset Finance (Management) Limited Leasing company 100% Mental Finance Limited Leasing company 100% Investec Brank (Nominees) Limited Leasing company 100% Investec Brank (Nominees) Limited Nominee company 100% Investec Brank (Nominees) Limited Nominee company 100% Investec Brank (Nominees) Limited Nominee company 100% Investec Group Investments (UK) Limited Investment holding company 100% Investec Group Investments (UK) Limited Investment holding comp	Investec Bank plc	Banking institution	100%
Anston Trustees Limited	Rensburg Sheppards plc	Holding company	100%
Bell Nominees Limited Carr Investment Services Nominees Limited Non trading Non trading 100% Carr PEP Nominees Limited Non trading 100% Carr PEP Nominees Limited Non trading 100% Cick Nominees Limited Non trading 100% Ferlim Nominees Limited Nominees services 100% Investec Click & Invest Limited Non trading 100% Investec Wealth & Investment Trustees Limited Non trading 100% Invester Wealth & Investment Trustees Limited Non trading 100% INV Fund Management Limited Non trading 100% INV Fund Management Limited Non trading 100% PEP Services (Nominees) Limited Non trading 100% R & R Nominees Limited Non trading 100% R & R Nominees Limited Non trading 100% Rensburg Client Nominees Limited Non trading 100% Scarwood Nominees Limited Non trading 100% Scarwood Nominees Limited Non trading 100% Scarwood Nominees Limited Non trading 100% Scarwood Nominees Limited Non trading 100% Scarwood Nominees Limited Non trading 100% Scarwood Nominees Limited Non trading 100% Scarwood Nominees Limited Non trading 100% Williams De Broe Limited Non trading 100% Williams De Broe Limited Non trading 100% PIF Investments Ltd (previously G. P. International Ltd) Beason Gregory Index Nominees Limited Dormant 100% CF Corporate Finance Limited Dormant nominee company 100% EVO Nominees Limited Leasing company 100% Investec Asset Finance (Capital No. 3) Limited Leasing company 100% Mann Island Finance Limited Leasing company 100% Investec Sank (Nominees) Limited Nominee company 100% Investec Bank (Nominees) Limited Nominee company 100% Investec Brance Limited Nominee company 100% Investec Bank (Nominees) Limited Nominee company 100% Investec Group Investments (UK) Limited Investec Group Investment holding company 100% Investec Group Investments (UK) Limited Investec Group Investment holding company 100% Investec Group Investments (UK) Limited Investec Group Investment holding company	Investec Wealth & Investment Limited	Investment management services	100%
Carr Investment Services Nominees Limited	Anston Trustees Limited	Non trading	100%
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Ferlim Nominees Limited Invester Click & Invest Limited Invester Click & Invest Limited Invester Wealth & Investment Trustees Limited Invester Wealth & Investment Trustees Limited Invester Wealth & Investment Trustees Limited Investment Administration Nominees Limited Investment Administration Nominees Limited Investment Administration Nominees Limited Investment Administration Nominees Limited Investment Administration Nominees Limited Investment Administration Nominees Limited Investment Administration Nominees Limited Investment I	Carr PEP Nominees Limited	Non trading	100%
Investec Click & Invest Limited Investec Wealth & Investment Trustees Limited Invester Wealth & Investment Trustees Limited Investment Administration Nominees Limited Investment Administration Nominees Limited Investment Administration Nominees Limited Investment Administration Nominees Limited Investment Kinding Investment Investment Kinding Investment Kinding Investment Investment Kinding Investment Investment Kinding Investment Investment Kinding Investment Investment Investment Kinding Investment Investme	Click Nominees Limited	Non trading	100%
Investee Wealth & Investment Trustees Limited Investment Administration Nominees Limited Investment Administration Nominees Limited Investment Administration Nominees Limited Investment Administration Nominees Limited Investment Administration Nominees Limited Investment Administration Nominees Limited Investment Administration Nominees Limited Investment Inves	Ferlim Nominees Limited	Nominee services	100%
Investment Administration Nominees Limited  IWI Fund Management Limited  Non trading  Non tradin	Investec Click & Invest Limited	Non trading	100%
IWI Fund Management Limited Non trading 100% PEP Services (Nominees) Limited Non trading 100% R & R Nominees Limited Non trading 100% R S Trustees Limited Non trading 100% Rensburg Client Nominees Limited Nominees Limited Nominees Limited Nominees Limited Non trading 100% Scarwood Nominees Limited Non trading 100% Scarwood Nominees Limited Non trading 100% Spring Nominees Limited Non trading 100% Validiams De Broe Limited Non trading 100% Non trading 100% Williams De Broe Limited Non trading 100% Non trading 100% PIF Investment Management Limited Non trading 100% PIF Investments Ltd (previously G. P. International Ltd) Dormant 100% Beeson Gregory Index Nominees Limited Dormant nominee company 100% CF Corporate Finance Limited Leasing company 100% EVO Nominees Limited Dormant nominee company 100% EVO Nominees Limited Dormant nominee company 100% Investec Asset Finance (Capital No. 3) Limited Leasing company 100% Investec Asset Finance Limited Leasing company 100% Mann Island Finance Limited Leasing company 100% Mann Island Finance Limited Leasing company 100% Leasing company 100% Investec Asset Finance Limited Leasing company 100% Investec Bank (Nominees) Limited Leasing company 100% Investec Finance Limited Leasing company 100% Investec Bank (Nominees) Limited Nominee company 100% Investec Bank (Nominees) Limited Nominee company 100% Investec Finance Limited Nominees Company 100% Investec Finance Limited Nominees Company 100% Investec Finance Limited Nominees Company 100% Investec Finance Limited Nominees Company 100% Investec Finance Limited Nominees Company 100% Investec Finance Limited Nominees Company 100% Investec Finance Limited Nominees Company 100% Investec Finance Limited Nominees Company 100% Investec Finance Limited Nominees Company 100% Investec Finance Limited Nominees Company 100% Investec Finance Limited Nominees Limited Nominees Company 100% Investec Finance Limited Nominees Limited Nominees Company 100% Investec Finance Limited Nominees Limited Nominees Limited Nominees Limited Nominees Limited	Investec Wealth & Investment Trustees Limited	Trustee services ·	· 100%
PEP Services (Nominees) Limited R & R Nominees Limited Non trading	Investment Administration Nominees Limited	Non trading	100%
R & R Nominees Limited R S Trustees Limited Non trading Non tradin	IWI Fund Management Limited	Non trading	100%
R S Trustees Limited Rensburg Client Nominees Limited Nominee services 100% Scarwood Nominees Limited Non trading 100% Spring Nominees Limited Non trading 100% Tudor Nominees Limited Non trading 100% Williams De Broe Limited Non trading 100% Rensburg Investment Management Limited Non trading 100% Rensburg Investment Management Limited Non trading 100% PIF Investments Ltd (previously G. P. International Ltd) Dormant 100% Beeson Gregory Index Nominees Limited Dormant nominee company 100% CF Corporate Finance Limited Leasing company 100% EVO Nominees Limited Dormant nominee company 100% Investec Asset Finance (Capital No. 3) Limited Leasing company 100% Investec Asset Finance Limited Leasing company 100% Mann Island Finance Limited Leasing company 100% MI Vehicle Finance Limited Leasing company 100% MI Vehicle Finance Limited Leasing company 100% Investec Bank (Nominees) Limited Nominees company 100% Investec Bank (Nominees) Limited Nominee company 100% Investec Bank (Nominees) Limited Nominee company 100% Investec Finance Ltd (previously Investec Finance ptc) Investec Finance Ltd (previously Investec Finance ptc) Investec Group Investments (UK) Limited Investment holding company 100%	PEP Services (Nominees) Limited	Non trading	100%
Rensburg Client Nominees Limited  Scarwood Nominees Limited  Non trading  Non tradi	R & R Nominees Limited	Non trading	100%
Scarwood Nominees Limited  Spring Nominees Limited  Non trading  Non trading  100%  Tudor Nominees Limited  Non trading  Non trading  100%  Williams De Broe Limited  Non trading  Non trading  Non trading  100%  Rensburg Investment Management Limited  PIF Investments Ltd (previously G. P. International Ltd)  Beeson Gregory Index Nominees Limited  Dormant  Dormant nominee company  100%  EVO Nominees Limited  Evolution Securities Nominees Limited  Dormant nominee company  100%  Evolution Securities Nominees Limited  Leasing company  100%  Investec Asset Finance (Management) Limited  Leasing company  100%  Mann Island Finance Limited  Leasing company  100%  MI Vehicle Finance Limited  Leasing company  100%  MI Vehicle Finance Limited  Leasing company  100%  Investec Bank (Nominees) Limited  Nominee company  100%  The Leasing Acquisition General Partnership  Investec Bank (Nominees) Limited  Nominee company  100%  Investec Finance Ltd (previously Investec Finance plc)  Investec Group Investments (UK) Limited  Investment holding company  100%	R S Trustees Limited	Non trading	100%
Spring Nominees Limited  Tudor Nominees Limited  Non trading  Non  Non trading  Non trading  Non  Non trading  Non trading  Non  Invester Asset Finance Limited  Leasing company  100%  Leasing company  100%  Non trading  Non trading  Non trading  Non trading  Non trading  Non trading  Non trading  Non trading  Non trading  Non trading  Non trading  Non trading  Non trading  Non  Non  trading  Non  trading  Non  trading  Non  trading  Non  trading  Non  trading  Non  trading  Non  trading  Non  trading  Non  trading  Non  trading  Non  trading  Non  trading  Non  trading  Non  trading  Non  trading  Non  trading  Invester Asset Finance Limited  Leasing company  100%  Leasing company  100%  Non  The Leasing Acquisition General Partnership  Leasing company  100%  Non  The Leasing Acquisition General Partnership  Non  Invester Bank (Nominees) Limited  Non  Non  Invester Group Investments (UK) Limited  Non  Investment holding company  100%	Rensburg Client Nominees Limited	Nominee services	100%
Tudor Nominees Limited  Williams De Broe Limited  Non trading  Non trading  Non trading  100%  Rensburg Investment Management Limited  PIF Investments Ltd (previously G. P. International Ltd)  Beeson Gregory Index Nominees Limited  Dormant nominee company  100%  EVO Nominees Limited  Dormant nominee company  100%  EVO Nominees Limited  Dormant nominee company  100%  Evolution Securities Nominees Limited  Dormant nominee company  100%  Investec Asset Finance (Capital No. 3) Limited  Leasing company  100%  Investec Asset Finance Limited  Leasing company  100%  Mann Island Finance Limited  Leasing company  100%  MI Vehicle Finance Limited  Leasing company  100%  The Leasing Acquisition General Partnership  Investec Bank (Nominees) Limited  Nominee company  100%  Investec Finance Ltd (previously Investec Finance plc)  Investec Group Investments (UK) Limited  Investment holding company  100%	Scarwood Nominees Limited	Non trading	100%
Williams De Broe Limited Rensburg Investment Management Limited PIF Investments Ltd (previously G. P. International Ltd) Dormant Dormant Dormant Dormant nominee company 100% EVO Nominees Limited Dormant nominee company EVO Nominees Limited Dormant nominee company 100% Evolution Securities Nominees Limited Dormant nominee company 100% Investec Asset Finance (Capital No. 3) Limited Leasing company 100% Investec Asset Finance (Management) Limited Leasing company 100% Mann Island Finance Limited Leasing company 100% MI Vehicle Finance Limited Leasing company 100% Investec Bank (Nominees) Limited Leasing partnership Investec Bank (Nominees) Limited Nominee company 100% Investec Finance Ltd (previously Investec Finance plc) Investec Group Investments (UK) Limited Investment holding company 100% Investment holding company 100% Investment holding company 100% Investment holding company	Spring Nominees Limited	Non trading	100%
Rensburg Investment Management Limited PIF Investments Ltd (previously G. P. International Ltd) Dormant Dormant 100% Beeson Gregory Index Nominees Limited Dormant nominee company 100% EVO Nominees Limited Dormant nominee company 100% Evolution Securities Nominees Limited Dormant nominee company 100% Investec Asset Finance (Capital No. 3) Limited Leasing company 100% Investec Asset Finance (Management) Limited Leasing company 100% Mann Island Finance Limited Leasing company 100% MI Vehicle Finance Limited Leasing company 100% The Leasing Acquisition General Partnership Investec Bank (Nominees) Limited Nominee company 100% Investec Finance Ltd (previously Investec Finance plc) Investec Group Investments (UK) Limited Investment holding company 100% Investment holding company 100% Investment holding company 100%	Tudor Nominees Limited	Non trading	100%
PIF Investments Ltd (previously G. P. International Ltd)  Beeson Gregory Index Nominees Limited  CF Corporate Finance Limited  EVO Nominees Limited  Evolution Securities Nominees Limited  Investec Asset Finance (Capital No. 3) Limited  Investec Asset Finance (Management) Limited  Mann Island Finance Limited  Leasing company  Investec Finance Limited  Leasing company  Investec Bank (Nominees) Limited  Investec Finance Ltd (previously Investec Finance plc)  Investec Group Investments (UK) Limited  Investment holding company  Inves	Williams De Broe Limited	Non trading	100%
Beeson Gregory Index Nominees Limited  CF Corporate Finance Limited  EVO Nominees Limited  EVO Nominees Limited  Dormant nominee company  100%  Evolution Securities Nominees Limited  Dormant nominee company  100%  Investec Asset Finance (Capital No. 3) Limited  Leasing company  100%  Investec Asset Finance (Management) Limited  Leasing company  100%  Mann Island Finance Limited  Leasing company  100%  MI Vehicle Finance Limited  Leasing company  100%  The Leasing Acquisition General Partnership  Investec Bank (Nominees) Limited  Nominee company  100%  Investec Finance Ltd (previously Investec Finance plc)  Investec Group Investments (UK) Limited  Investment holding company  100%	Rensburg Investment Management Limited	Non trading	100%
CF Corporate Finance Limited  EVO Nominees Limited  Evolution Securities Nominees Limited  Dormant nominee company  100%  Evolution Securities Nominees Limited  Investec Asset Finance (Capital No. 3) Limited  Investec Asset Finance (Management) Limited  Leasing company  100%  Mann Island Finance Limited  Leasing company  100%  Leasing company  100%  MI Vehicle Finance Limited  Leasing company  100%  Leasing company  100%  Investec Finance Limited  Leasing partnership  Investec Bank (Nominees) Limited  Nominee company  100%  Investec Finance Ltd (previously Investec Finance plc)  Investec Group Investments (UK) Limited  Investment holding company  100%	PIF Investments Ltd (previously G. P. International Ltd)	Dormant .	100%
EVO Nominees Limited  Evolution Securities Nominees Limited  Investec Asset Finance (Capital No. 3) Limited  Investec Asset Finance (Management) Limited  Mann Island Finance Limited  MI Vehicle Finance Limited  Leasing company  The Leasing Acquisition General Partnership  Investec Bank (Nominees) Limited  Nominee company  100%  Leasing company  100%  Leasing company  100%  Leasing partnership  Investec Bank (Nominees) Limited  Nominee company  100%  Investec Finance Ltd (previously Investec Finance plc)  Investec Group Investments (UK) Limited  Investment holding company  100%	Beeson Gregory Index Nominees Limited	Dormant nominee company	100%
Evolution Securities Nominees Limited  Investec Asset Finance (Capital No. 3) Limited  Investec Asset Finance (Management) Limited  Investec Asset Finance (Management) Limited  Mann Island Finance Limited  Investec Finance Limited  Investec Finance Limited  Investec Bank (Nominees) Limited  Investec Finance Ltd (previously Investec Finance plc)  Investec Group Investments (UK) Limited  Investment holding company  100%  Investment holding company  100%  Investment holding company  100%  Investment holding company  100%	CF Corporate Finance Limited	Leasing company	100%
Evolution Securities Nominees Limited  Investec Asset Finance (Capital No. 3) Limited  Investec Asset Finance (Management) Limited  Mann Island Finance Limited  MI Vehicle Finance Limited  The Leasing Acquisition General Partnership  Investec Bank (Nominees) Limited  Investec Finance Ltd (previously Investec Finance plc)  Investec Group Investments (UK) Limited  Dormant nominee company  Leasing company  100%  Leasing company  100%  Leasing partnership  Nominee company  100%  Investec Group Investments (UK) Limited  Investment holding company  100%	EVO Nominees Limited	Dormant nominee company	100%
Investec Asset Finance (Capital No. 3) Limited  Leasing company  Leasing company  Leasing company  100%  Mann Island Finance Limited  Leasing company  100%  MI Vehicle Finance Limited  Leasing company  100%  Leasing company  100%  Leasing company  100%  Leasing company  100%  Leasing company  100%  The Leasing Acquisition General Partnership  Investec Bank (Nominees) Limited  Nominee company  100%  Investec Finance Ltd (previously Investec Finance plc)  Investec Group Investments (UK) Limited  Investment holding company  100%	Evolution Securities Nominees Limited	· ·	100%
Investec Asset Finance (Management) Limited  Leasing company  Leasing company  100%  Leasing company  100%  Leasing company  100%  Leasing company  100%  The Leasing Acquisition General Partnership  Investec Bank (Nominees) Limited  Nominee company  100%  Investec Finance Ltd (previously Investec Finance plc)  Investec Group Investments (UK) Limited  Leasing company  100%  Leasing company  100%  Leasing company  100%  Leasing company  100%  Leasing company  100%  Investec Bank (Nominees) Limited  Nominee company  100%  Investment holding company  100%	Investec Asset Finance (Capital No. 3) Limited	· · ·	100%
Mann Island Finance LimitedLeasing company100%MI Vehicle Finance LimitedLeasing company100%The Leasing Acquisition General PartnershipLeasing partnershipInvestec Bank (Nominees) LimitedNominee company100%Investec Finance Ltd (previously Investec Finance plc)Debt issuance100%Investec Group Investments (UK) LimitedInvestment holding company100%	· · ·	1 ' '	100%
MI Vehicle Finance Limited  The Leasing Acquisition General Partnership  Investec Bank (Nominees) Limited  Investec Finance Ltd (previously Investec Finance plc)  Investec Group Investments (UK) Limited  Leasing company  Leasing partnership  Nominee company  100%  Debt issuance  Investment holding company  100%		Leasing company	100%
The Leasing Acquisition General Partnership Investec Bank (Nominees) Limited Investec Finance Ltd (previously Investec Finance plc) Investec Group Investments (UK) Limited  Leasing partnership Nominee company 100% Debt issuance Investment holding company 100%		· · ·	
Investec Bank (Nominees) Limited Investec Finance Ltd (previously Investec Finance plc) Investec Group Investments (UK) Limited  Nominee company Debt issuance 100% Investment holding company 100%	The Leasing Acquisition General Partnership		
Investec Finance Ltd (previously Investec Finance plc)  Debt issuance Investments (UK) Limited  Debt issuance Investment holding company  100%	- · ·	1 '	100%
Investec Group Investments (UK) Limited Investment holding company 100%	•	· •	
			1
	ICF Investments Limited	Investment holding company	100%



(continued)

#### h Subsidiaries (continued)

At 31 March 2017	Principal activity	Interest held
GFT Holdings Limited	Holding company	100%
Investec Investment Trust plc	Debt issuer	100%
Investec Investments (UK) Limited	Investment holding company	100%
Panarama Properties (UK) Limited	Property holding company	100%
Inv - German Retail Ltd (previously Canada Water (Developments) Ltd)	Property company	100%
Investec Securities Limited	Investment holding company	100%
PEA Leasing Limited	Leasing company	100%
Quantum Funding Limited	Leasing company	100%
Quay Nominees Limited	Nominee company	100%
Technology Nominees Limited	Nominee	100%
Torteval LM Limited	Investment holding company	100%
Torteval Funding LLP	Financing company	100%
Tudor Tree Properties Limited	Property company	100%
Willbro Nominees Limited	Nominee company	100%
Evolution Capital Investment Limited	Investment holding company	100%
Registered office: Reading International Business Park, Reading, RG2 6AA, UK		
Investec Asset Finance plc	Leasing company	100%
Registered office: Woolgate Exchange, 25 Basinghall Street, London, EC2V 5HA, UK		
Investec Asset Management Limited	Investment management services	84%
nvestec Fund Managers Limited **	Management company	100%
Australia		
Australia Registered office: Level 23, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000, Australia		100%
Australia Registered office: Level 23, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000, Australia Investec Asset Management Australia Pty Limited **	Sales and distribution	100%
Australia Registered office: Level 23, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000, Australia Investec Asset Management Australia Pty Limited ** Investec Australia Property Holdings Pty Ltd	Sales and distribution Holding company	100%
Australia Registered office: Level 23, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000, Australia Investec Asset Management Australia Pty Limited ** Investec Australia Property Holdings Pty Ltd Investec Propco Pty Ltd	Sales and distribution Holding company Property fund trustee	100% 100%
Australia Registered office: Level 23, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000, Australia Investec Asset Management Australia Pty Limited ** Investec Australia Property Holdings Pty Ltd Investec Propco Pty Ltd Investec Property Ltd	Sales and distribution Holding company Property fund trustee Property fund trustee	100% 100% 100%
Australia Registered office: Level 23, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000, Australia Investec Asset Management Australia Pty Limited ** Investec Australia Property Holdings Pty Ltd Investec Propco Pty Ltd Investec Property Ltd Investec Property Management Pty Ltd	Sales and distribution Holding company Property fund trustee Property fund trustee Property fund manager	100% 100% 100% 100%
Australia Registered office: Level 23, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000, Australia Investec Asset Management Australia Pty Limited ** Investec Australia Property Holdings Pty Ltd Investec Propco Pty Ltd Investec Property Ltd Investec Property Management Pty Ltd Investec Wentworth Pty Limited	Sales and distribution Holding company Property fund trustee Property fund trustee Property fund manager Security trustee	100% 100% 100% 100% 100%
Australia Registered office: Level 23, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000, Australia Investec Asset Management Australia Pty Limited ** Investec Australia Property Holdings Pty Ltd Investec Propco Pty Ltd Investec Property Ltd Investec Property Management Pty Ltd Investec Wentworth Pty Limited Investec Holdings Australia Limited	Sales and distribution Holding company Property fund trustee Property fund trustee Property fund manager Security trustee Holding company	100% 100% 100% 100% 100%
Australia Registered office: Level 23, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000, Australia  nvestec Asset Management Australia Pty Limited ** nvestec Australia Property Holdings Pty Ltd nvestec Propco Pty Ltd nvestec Property Ltd nvestec Property Management Pty Ltd nvestec Wentworth Pty Limited nvestec Holdings Australia Limited nvestec Australia Property Investments Pty Ltd	Sales and distribution Holding company Property fund trustee Property fund trustee Property fund manager Security trustee Holding company Investment company	100% 100% 100% 100% 100% 100%
Australia Registered office: Level 23, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000, Australia Investec Asset Management Australia Pty Limited ** Investec Australia Property Holdings Pty Ltd Investec Propco Pty Ltd Investec Property Ltd Investec Property Management Pty Ltd Investec Wentworth Pty Limited Investec Holdings Australia Limited Investec Australia Property Investments Pty Ltd Investec Australia Property Limited Investec Australia Finance Pty Limited	Sales and distribution Holding company Property fund trustee Property fund trustee Property fund manager Security trustee Holding company Investment company Lending company	100% 100% 100% 100% 100% 100% 100%
Australia Registered office: Level 23, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000, Australia Investec Asset Management Australia Pty Limited ** Investec Australia Property Holdings Pty Ltd Investec Propco Pty Ltd Investec Property Ltd Investec Property Management Pty Ltd Investec Wentworth Pty Limited Investec Holdings Australia Limited Investec Australia Property Investments Pty Ltd Investec Australia Finance Pty Limited Investec Australia Finance Pty Limited Investec Australia Limited Investec Australia Limited Investec Australia Limited	Sales and distribution Holding company Property fund trustee Property fund trustee Property fund manager Security trustee Holding company Investment company Lending company Financial Services	100% 100% 100% 100% 100% 100% 100%
Australia Registered office: Level 23, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000, Australia Investec Asset Management Australia Pty Limited ** Investec Australia Property Holdings Pty Ltd Investec Propco Pty Ltd Investec Property Ltd Investec Property Ltd Investec Property Management Pty Ltd Investec Wentworth Pty Limited Investec Holdings Australia Limited Investec Australia Property Investments Pty Ltd Investec Australia Finance Pty Limited Investec Australia Limited Bowden (Lot 32) Holdings Pty Ltd	Sales and distribution Holding company Property fund trustee Property fund trustee Property fund manager Security trustee Holding company Investment company Lending company Financial Services Holding company	100% 100% 100% 100% 100% 100% 100% 100%
Australia Registered office: Level 23, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000, Australia  nvestec Asset Management Australia Pty Limited ** nvestec Australia Property Holdings Pty Ltd nvestec Propco Pty Ltd nvestec Property Ltd nvestec Property Management Pty Ltd nvestec Property Management Pty Ltd nvestec Wentworth Pty Limited nvestec Holdings Australia Limited nvestec Australia Property Investments Pty Ltd nvestec Australia Finance Pty Limited nvestec Australia Limited Bowden (Lot 32) Holdings Pty Ltd	Sales and distribution Holding company Property fund trustee Property fund trustee Property fund manager Security trustee Holding company Investment company Lending company Financial Services Holding company Development company	100% 100% 100% 100% 100% 100% 100% 100%
Australia Registered office: Level 23, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000, Australia  nvestec Asset Management Australia Pty Limited ** nvestec Australia Property Holdings Pty Ltd nvestec Propco Pty Ltd nvestec Property Ltd nvestec Property Management Pty Ltd nvestec Property Management Pty Ltd nvestec Wentworth Pty Limited nvestec Holdings Australia Limited nvestec Australia Property Investments Pty Ltd nvestec Australia Finance Pty Limited nvestec Australia Limited Bowden (Lot 32) Holdings Pty Ltd nvestec Australia Direct Investment Pty Limited	Sales and distribution Holding company Property fund trustee Property fund trustee Property fund manager Security trustee Holding company Investment company Lending company Financial Services Holding company Development company Investment company	100% 100% 100% 100% 100% 100% 100% 100%
Australia Registered office: Level 23, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000, Australia  nvestec Asset Management Australia Pty Limited ** nvestec Australia Property Holdings Pty Ltd nvestec Propco Pty Ltd nvestec Property Ltd nvestec Property Management Pty Ltd nvestec Property Management Pty Ltd nvestec Wentworth Pty Limited nvestec Holdings Australia Limited nvestec Australia Property Investments Pty Ltd nvestec Australia Finance Pty Limited nvestec Australia Limited Bowden (Lot 32) Holdings Pty Ltd Rowden (Lot 32) Pty Ltd nvestec Australia Direct Investment Pty Limited nvestec Australia Direct Investment Pty Limited nvestec CWFIH Pty Limited	Sales and distribution Holding company Property fund trustee Property fund trustee Property fund manager Security trustee Holding company Investment company Lending company Financial Services Holding company Development company Investment company Investment company	100% 100% 100% 100% 100% 100% 100% 100%
Australia Registered office: Level 23, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000, Australia Investec Asset Management Australia Pty Limited ** Investec Australia Property Holdings Pty Ltd Investec Propco Pty Ltd Investec Property Ltd Investec Property Management Pty Ltd Investec Property Management Pty Ltd Investec Wentworth Pty Limited Investec Holdings Australia Limited Investec Australia Property Investments Pty Ltd Investec Australia Finance Pty Limited Investec Australia Limited Bowden (Lot 32) Holdings Pty Ltd Bowden (Lot 32) Pty Ltd Investec Australia Direct Investment Pty Limited Investec CWFIH Pty Limited Mannum Powerco Pty Limited	Sales and distribution Holding company Property fund trustee Property fund trustee Property fund manager Security trustee Holding company Investment company Lending company Financial Services Holding company Development company Investment company Investment company Dormant Dormant	100% 100% 100% 100% 100% 100% 100% 100%
Australia Registered office: Level 23, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000, Australia Investec Asset Management Australia Pty Limited ** Investec Australia Property Holdings Pty Ltd Investec Propco Pty Ltd Investec Property Management Pty Ltd Investec Property Management Pty Ltd Investec Wentworth Pty Limited Investec Holdings Australia Limited Investec Australia Property Investments Pty Ltd Investec Australia Finance Pty Limited Investec Australia Limited Investec Australia Limited Investec Australia Direct Investment Pty Limited Investec Australia Direct Investment Pty Limited Investec Australia Direct Investment Pty Limited Investec CWFIH Pty Limited Investec CWFIH Pty Limited Inngkillo Powerco Pty Limited Inngkillo Powerco Pty Limited	Sales and distribution Holding company Property fund trustee Property fund trustee Property fund manager Security trustee Holding company Investment company Lending company Financial Services Holding company Development company Investment company Dormant Dormant Dormant	100% 100% 100% 100% 100% 100% 100% 100%
Australia Registered office: Level 23, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000, Australia Investec Asset Management Australia Pty Limited ** Investec Australia Property Holdings Pty Ltd Investec Propco Pty Ltd Investec Property Ltd Investec Property Management Pty Ltd Investec Property Management Pty Ltd Investec Wentworth Pty Limited Investec Holdings Australia Limited Investec Australia Property Investments Pty Ltd Investec Australia Finance Pty Limited Investec Australia Limited Bowden (Lot 32) Holdings Pty Ltd Investec Australia Direct Investment Pty Limited Investec Australia Direct Investment Pty Limited Investec CWFIH Pty Limited Mannum Powerco Pty Limited Investec Australia Financial Markets Pty Limited Investec Australia Financial Markets Pty Limited	Sales and distribution Holding company Property fund trustee Property fund trustee Property fund manager Security trustee Holding company Investment company Lending company Financial Services Holding company Development company Investment company Investment company Dormant Dormant Dormant Dormant	100% 100% 100% 100% 100% 100% 100% 100%
Australia Registered office: Level 23, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000, Australia Investec Asset Management Australia Pty Limited ** Investec Australia Property Holdings Pty Ltd Investec Propco Pty Ltd Investec Property Ltd Investec Property Ltd Investec Property Management Pty Ltd Investec Wentworth Pty Limited Investec Holdings Australia Limited Investec Australia Property Investments Pty Ltd Investec Australia Finance Pty Limited Investec Australia Limited Bowden (Lot 32) Holdings Pty Ltd Investec Australia Direct Investment Pty Limited Investec CWFIH Pty Limited Investec CWFIH Pty Limited Mannum Powerco Pty Limited Investec Australia Financial Markets Pty Limited Investec Australia Financial Markets Pty Limited Investec Australia Financial Markets Pty Limited Investec Australia Financial Markets Pty Limited Investec Australia Financial Markets Pty Limited Investec Australia Financial Markets Pty Limited Investec Australia Financial Markets Pty Limited Investec Australia Financial Markets Pty Limited Investec Australia Financial Markets Pty Limited Investec Australia Financial Markets Pty Limited Investec Australia Funds Management Limited	Sales and distribution Holding company Property fund trustee Property fund trustee Property fund manager Security trustee Holding company Investment company Lending company Financial Services Holding company Development company Investment company Dormant Dormant Dormant	100% 100% 100% 100% 100% 100% 100% 100%
Australia Registered office: Level 23, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000, Australia Investec Asset Management Australia Pty Limited ** Investec Australia Property Holdings Pty Ltd Investec Propco Pty Ltd Investec Property Ltd Investec Property Management Pty Ltd Investec Property Management Pty Ltd Investec Wentworth Pty Limited Investec Holdings Australia Limited Investec Australia Property Investments Pty Ltd Investec Australia Finance Pty Limited Investec Australia Limited Bowden (Lot 32) Holdings Pty Ltd Bowden (Lot 32) Pty Ltd Investec Australia Direct Investment Pty Limited Investec CWFIH Pty Limited Mannum Powerco Pty Limited Investec Australia Financial Markets Pty Limited Investec Australia Financial Markets Pty Limited Investec Australia Financial Markets Pty Limited Investec Australia Financial Markets Pty Limited Investec Australia Financial Management Limited Investec Australia Financial Management Pty Limited Investec (Australia) Investment Management Pty Limited	Sales and distribution Holding company Property fund trustee Property fund trustee Property fund manager Security trustee Holding company Investment company Lending company Financial Services Holding company Development company Investment company Investment company Dormant Dormant Dormant Dormant Dormant Aviation trustee company Aviation fund company	100% 100% 100% 100% 100% 100% 100% 100%
Australia Registered office: Level 23, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000, Australia Investec Asset Management Australia Pty Limited ** Investec Australia Property Holdings Pty Ltd Investec Propco Pty Ltd Investec Property Ltd Investec Property Management Pty Ltd Investec Property Management Pty Ltd Investec Wentworth Pty Limited Investec Holdings Australia Limited Investec Australia Property Investments Pty Ltd Investec Australia Finance Pty Limited Investec Australia Limited Bowden (Lot 32) Holdings Pty Ltd Investec Australia Direct Investment Pty Limited Investec Australia Direct Investment Pty Limited Investec Australia Direct Investment Pty Limited Investec CWFIH Pty Limited Mannum Powerco Pty Limited Investec Australia Financial Markets Pty Limited Investec Australia Financial Markets Pty Limited	Sales and distribution Holding company Property fund trustee Property fund trustee Property fund manager Security trustee Holding company Investment company Lending company Financial Services Holding company Development company Investment company Investment company Dormant Dormant Dormant Dormant Dormant Aviation trustee company	100% 100% 100% 100% 100% 100% 100% 100%



(continued)

#### h Subsidiaries (continued)

At 31 March 2017	Principal activity	Interest held
British Virgin Islands Registered office: Palm Grove House, PO Box 438, Road Town, Tortola, British Virgin Islands		
Finistere Directors Limited	Corporate director	100%
GFT Directors Limited	Corporate director	100%
Registered office: PO Box 186 Road Town, Tortola, British Virgin Islands		
Curlew Investments Limited	Investment holding company	100%
Canada		
Registered office: One Brunswick Square, Suite 1500, PO Box 1324, Saint John, New Brunswick, Canada E2L 4H8		
Curlew Group Holdings Limited	Investment holding company	42.50%
Registered office: 44 Chipman Hill Suite 1000, Saint John NB, E2L 4S6, Canada		
Investec North America Limited	Trading company	100%
Cayman Islands	·	
Registered office: 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005		
Investec Pallinghurst (Cayman) LP	Investment holding partnership	58.30%
Curação	·	
Registered office: Kaya W.F.G., (Jombi) Mensing 14, 2nd floor, Willemstad, Curaçao		
Curacao Investec Finance NV	Dormant	100%
Guernsey Registered office: Glategny Court, Glategny Esplanade, St. Peter Port, GY1 1WR, Guernsey, Channel Islands		
Investec Asset Management Guernsey Limited **	Management company and global distributor	100%
Guinness Flight (Guernsey Nominees) Limited **	Nominee company	100%
Investec Africa Frontier Private Equity Fund GP Limited **	General partner to funds	100%
Investec Africa Private Equity Fund 2 GP Limited **	General partner to funds	100%
Growthpoint Investec African Property Management Limited **	Dormant	100%
Hero Nominees Limited	Nominee services	100%
Torch Nominees Limited	Nominee services	100%
Investec Bank (Channel Islands) Limited .	Banking institution	100%
Bayeux Limited	Corporate trustee	100%
Finistere Limited	Corporate nominee	100%
Finistere Secretaries Limited	Corporate secretary	100%
ITG Limited	Trust and company administration	100%
Investec Bank (Channel Islands) Nominees Limited	Nominee company	100%
Registered office: PO Box 290, Glategny Court, Glategny Esplanade, St Peter Port, Guernsey, GY1 3RP, Channel Islands		
Investec Wealth & Investment (Channel Islands) Limited	Investment management services	100%
Registered office: P.O. Box 188, Glategny Court, Glategny Esplanade, St Peter Port, Guernsey, GY1 3LP, Channel Islands		
Investec Asset Finance (Channel Islands) Limited	Leasing company	100%
Registered office: Heritage Hall, Le Marchant Street, St Peter Port, Guernsey, GY1 4JH, Channel Islands		
Investec Captive Insurance Limited	Captive insurance company	100%



(continued)

#### h Subsidiaries (continued)

At 31 March 2017	Principal activity	Interest held
Registered office: Western Suite, Ground Floor, Mill Court, La Charroterie, St Peter Port, Guernsey, GY1 1EJ, Channel Islands		
HEV (Guernsey) Limited	Investment holding company	100%
Hong Kong		
Registered office: Suites 2602-06, Tower 2, The Gateway,	·	
Harbour City, Tsimshatsui, Kowloon, Hong Kong		
nvestec Asset Management Hong Kong Limited **	Sales and distribution	100%
Registered office: Room 3609-3613, 36/F, Two International		
Finance Centre, 8 Finance Street, Central, Hong Kong		
Investec Asia Limited	Investment banking	100%
nvestec Capital Asia Limited	Investment banking	100%
nvestec Capital Markets Limited	Investment banking	100%
India		
Registered office: A 607, The Capital, Bandra Kurla Complex, Mumbai – 400 051, INDIA		
nvestec Capital Services (India) Private Limited	Trading company	75%
Ireland		
Registered office: The Harcourt Building, Harcourt Street,		
Dublin 2, Ireland		1
Aksala Limited	Property company	100%
nvestec Holdings (Ireland) Ltd	Holding company	100%
investec Ireland Ltd	Financial services	100%
nvestec International Ltd	Aircraft leasing	100%
Neontar Limited	Holding company	100%
nvestec Securities Holdings Ireland Ltd	Holding company	100%
Investec Capital & Investments (Ireland) Ltd	Wealth management and investment services	100%
Aurum Nominees Ltd	Nominee company	100%
Investec (Airtricity) Nominees Ireland Ltd	Nominee company	100%
investec (CapVest) Ireland Ltd	Nominee company	100%
Investec (Development) Nominees Ireland Ltd	Nominee company	100%
Invested (Placings) Ireland Ltd	Nominee company	100%
nvestec (Thomas Street) Nominees No 2 Ltd	Nominee company	100%
Investec Broking Nominees Ireland Ltd	Nominee company	100%
nvestec Corporate Finance (Ireland) Limited	Corporate finance (inactive)	100%
Invested Ventures Ireland Limited	Venture capital	100%
Venture Fund Principals Limited	Special partner	100%
nvestec Personal Portfolio Ireland Limited	Investment services	100%
		.55%
Jersey Bogistored office: One The Eaplaneds St Helier, Jersey, JE2		ļ
Registered office: One The Esplanade, St Helier, Jersey, JE2 3QA, Channel Islands		
nvestec Finance (Jersey) Ltd *	Share trust	100%
Registered office: PO Box 344 One The Esplanade St Helier		
Jersey JE4 8UW, Channel Islands	<u> </u>	<u> </u>
nvestec GP (Jersey) Limited	Investment holding company	100%
Luxembourg		
Registered office: 560, rue de Neudorf, L-2220 Luxembourg	•	<u> </u>
nvestec Finance SARL	Dormant	100%
nvestec Asset Management Luxembourg S.A. **	Management company	100%
Singapore		
Registered office: 8 Wilkie Road, #03-01 Wilkie Edge,		
Singapore 228095		
nvestec Asset Management Singapore Pte. Limited **	Sales and distribution	100%
	1	100%



### h Subsidiaries (continued)

At 31 March 2017	Principal activity	Interest held
Switzerland		
Registered office: Seefeldstrasse 69, 8008 Zurich, Switzerland		
Investec Asset Management Switzerland GmbH **	Sales and distribution	100%
Registered office: 23 Avenue de France, CH – 1202, Geneva, Switzerland		
Reichmans Geneva SA	Investment holding company	100%
Registered offices: Löwenstrasse 29, CH-8001 Zurich, Switzerland		
Investec Bank (Switzerland) AG	Banking institution	100%
Registered office: c/o Dr. Leo Granziol, Bahnhofstrasse 32, 6300 Zug, Switzerland		
Investec Trust Holdings AG	Investment holding company	100%
Taiwan		
Registered office: 49F Taipei 101 Tower, 7 Xin Yi Road, Sec.5, Taipei 110, Taiwan	·	
Investec Asset Management Taiwan Limited **	Sales and distribution	100%
United States of America		
Registered office: 2711 Centerville Road, Suite 400, Wilmington, New Castle, DE 19808, USA		
Investec Asset Management North America, Inc. **	Sales and distribution	100%
Registered office: 10 E. 53rd St., 22nd floor, New York, NY 10022, USA		
Investec USA Holdings Corporation Inc	Holding company	100%
Investec Inc	Investment holding company	100%
Fuel Cell IP 1 LLC	Investment holding company	100%
Fuel Cell IP 2 LLC	Investment holding company	100%
Investec Securities (US) LLC	Financial services	100%

<sup>\*\* 100%</sup> owned by Investec Asset Management Limited which is itself 84% owned

#### **Associates**

Associates		Interest
At 31 March 2017	Principal Activity	held
United Kingdon		
Registered office: Talisman House, Boardmans Way, Blackpool, England, FY4 5FY		
Hargreave Hale Limited	Stockbroking and portfolio management	35%
Registered office: Dee House Lakeside Business Village, St. Davids Park, Ewloe, Deeside, Clwyd, CH5 3XF		
Virtual Lease Services	Lease services provider	49%
Australia		
Registered office: Point Cook Road, Point Cook, Victoria, Australia		
Point Cook (Trust Project No 9)	Property development	50%
British Virgin Islands		
Registered office: Vistra Corporate Service Centre, Wickhams Cay II, Road Town, Tortola VG1110, British Virgin Islands		
imarkets (Holdings) Limited	Online trading platform	33%
Luxembourg		
Registered office: 15, Rue Bender, L-1229 Luxembourg		
Investec GLL Global Special Opportunities Real Estate Fund	Property development	5%
Registered office: 19, Rue Eugene Ruppert, L-2453 Luxembourg		
Grovepoint S.a.r.I.	Investment and advisory	42%

#### Contact details

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#### Guernsey

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#### Switzerland, Zurich

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