Investec Bank plc
Annual Financial Statements 2010

Out of the Ordinary®

Investec

Specialist Bank and
Asset Manager

Investec in perspective

Investec in perspective | ONE

1

Who we are

Investec (comprising Investec plc and Investec Limited) is an international, specialist bank and asset manager that provides a diverse range of financial products and services to a select client base.

Founded as a leasing company in Johannesburg in 1974, we acquired a banking licence in 1980 and were listed on the JSE Limited South Africa in 1986.

In July 2002, we implemented a Dual Listed Companies (DLC) structure with linked companies listed in London and Johannesburg. A year later, we concluded a significant empowerment transaction in which our empowerment partners collectively acquired a 25.1% stake in the issued share capital of Investec Limited.

Since inception, we have expanded through a combination of substantial organic growth and a series of strategic acquisitions. Today, we have an efficient integrated international business platform, offering all our core activities in the UK and South Africa and select activities in Australia.

What we do

We are organised as a network comprising six business divisions: Asset Management, Private Wealth, Property Activities, Private Banking, Investment Banking and Capital Markets. Our head office provides certain group-wide integrating functions and is also responsible for our central funding and the Trade Finance business.

Our strategic goals and objectives are based on the aspiration to be recognised as a distinctive specialist bank and asset manager. This distinction is embodied in our entrepreneurial culture, which is balanced by a strong risk management discipline, client-centric approach and ability to be nimble, flexible and innovative. We do not seek to be all things to all people and aim to build well-defined, value-added businesses focused on serving the needs of select market niches where we can compete effectively.

Values

- Outstanding talent – empowerment, enabled and inspired
- Meritocracy
- Passion, energy, stamina, tenacity
- Entrepreneurial spirit

Distinctive Performance

- Respect for others
- Embrace diversity
- Open and honest dialogue
- Unselfish contribution to colleagues, clients and society

Dedicated Partnership

Client Focus

- Distinctive offering
- Leverage resources
- Break china for the client

Cast-iron Integrity

- Moral strength
- Risk consciousness
- Highest ethical standards

Mission statement

We strive to be a distinctive specialist bank and asset manager, driven by commitment to our core philosophies and values

Philosophies

- Single organisation
- Meritocracy
- Focused businesses
- Differentiated, yet integrated
- Material employee ownership
- Creating an environment that stimulates extraordinary performance

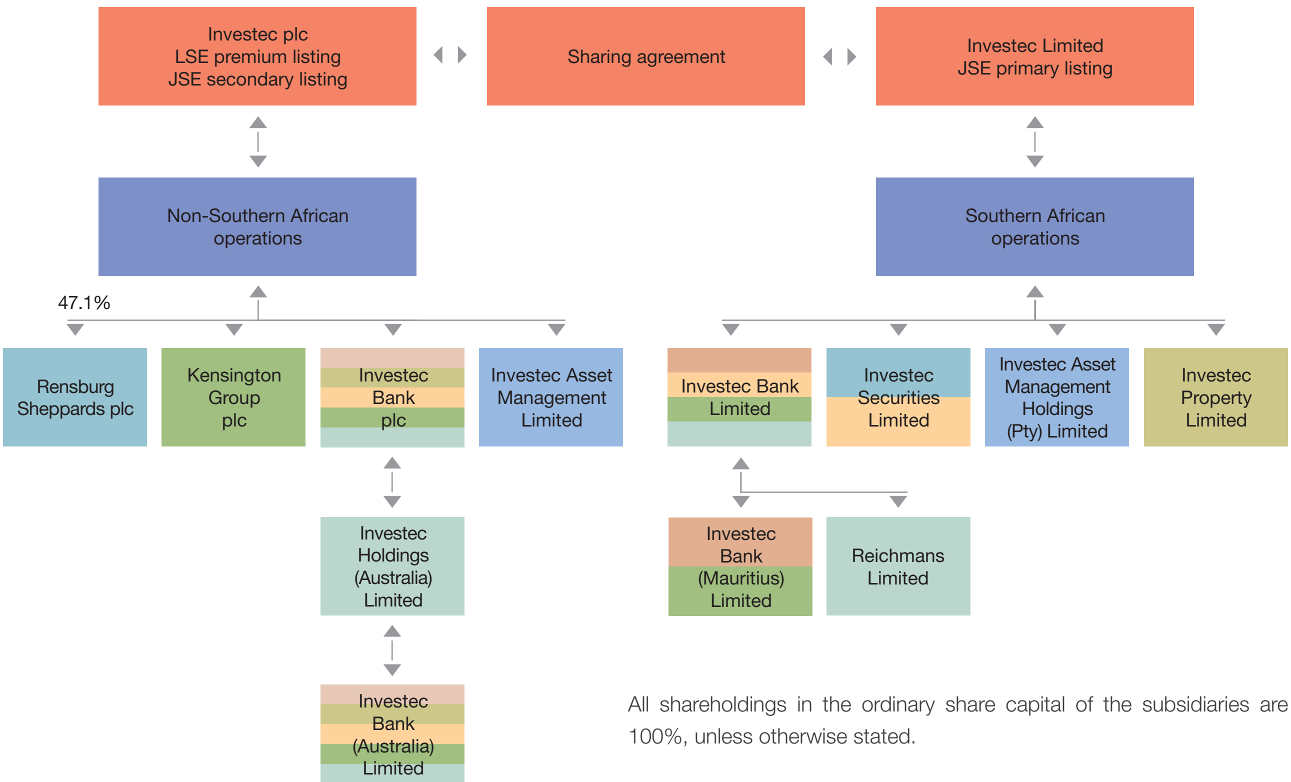
Overview of Investec's and Investec Bank plc's organisational structure

1

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 the majority of our non-Southern African businesses. Investec Limited is listed on the JSE Limited South Africa and Investec plc is listed on the London Stock Exchange. Investec Bank plc (referred to in this report as the bank) is the main banking subsidiary of Investec plc.

Our DLC structure and main operating subsidiaries as at 31 March 2010



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

Key: activities conducted

- Asset Management
- Private Wealth
- Property Activities
- Private Banking
- Investment Banking
- Capital Markets
- Other Activities

Salient features of the DLC structure

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

Overview of the activities of Investec Bank plc

Overview of the activities of Investec Bank plc | **TWO**

Introduction

Investec Bank plc's structure comprises four principal business units: Property Activities, Private Banking, Investment Banking and Capital Markets. Each division provides specialised products and services to defined target markets. Our head office in London also provides certain group-wide integrating functions, including Risk Management, Information Technology, Finance, Investor Relations, Marketing, Human Resources and Organisation Development. The head office is also responsible for our central funding.

Investec Bank (Australia) Limited is one of our main banking subsidiaries.

Property Activities

The overall strategy is to align the strategic focus of the UK business with that of our South African business, to include property fund management, investment and acquisition activities.

Private Banking

Investec Private Bank is the ideal partner for those who require more than traditional banking services. The philosophy of 'out thinking' rather than 'out muscling' underpins all that we do. This means aspiring to be not only better, but more importantly different.

We position ourselves as the 'investment bank for private clients', offering both credit and investment services to our select clientele. Through strong partnerships, we have created a community of clients who thrive on being part of an entrepreneurial and innovative environment.

Located in the UK, Channel Islands, Switzerland and Ireland, our areas of specialisation include:

- Wealth management
- Structured property finance
- Specialised lending
- Growth and acquisition finance
- Trust and fiduciary services
- Banking services

Through these specialist teams, we are well positioned to provide our international client base with services that satisfy their needs.

Core to our strategy is our commitment to thought leadership. This is targeted at both the specialists within our business and our clients.

Our activities are described in more detail below:

Wealth management

We focus exclusively on creating customised global investment strategies for select ultra high net worth entrepreneurs, offering access to sophisticated, institutional opportunities not typically available to private investors. Our model is predicated on the philosophy of 'high touch, high value'. This ensures that each client is allocated an expert investment practitioner who proactively partners with them in achieving their bespoke financial goals.

Our offering focuses on identifying institutional managers who consistently excel in their areas of expertise. We are independent and utilise outstanding traditional and alternative investment products and services from the world's leading financial institutions. Special opportunities are an increasingly important feature of our offering. These include the sub-participation of debt and equity in transactions originated by Investec and held on our own balance sheet. We also offer third party opportunities (such as Limited Partnerships) where we are invited to participate.

Structured property finance

With our specialist knowledge and experience, we work with industry leaders financing a wide variety of deals. Our strong connections within the market and deep relationships with our clients allow us to proactively bring opportunities to them.

We are flexible and not rules driven when structuring transactions. This resourceful approach focuses on senior debt, mezzanine and equity for residential and commercial transactions. We follow our clients internationally bringing our service, advice and support.

Specialised lending

Our specialised lending practice provides structured finance facilities to financially sophisticated individuals in four sectors: publicly listed equities, the private equity industry, the sports and media industry and movable assets.

Growth and acquisition finance

We work with entrepreneurs, management teams and private equity houses to implement acquisition and growth strategies for their businesses. Our practitioners work with clients on a long-term basis, creating and realising shareholder value. We use preferred equity, mezzanine debt, integrated finance and/or asset-based lending to meet the needs of growing mid-market companies. Transaction sizes typically range between £5 million and £15 million.

2

Trust and fiduciary services

Investec Trust operates uniquely within the fiduciary market, as a bank owned trust company with the independence to operate with partners best suited to our clients. Working alongside these partners, our focus is on the delivery and administration of complex and effective international financial structures tailored to each individual.

Banking services

Treasury and deposits

Our treasury and deposit services are transparent and consistently competitive. We preserve capital and enhance yields for pension funds, discretionary asset managers, professional intermediaries, owner managed businesses and private clients. Our onshore and offshore products include deposits, foreign exchange, interest rate instruments and principal protected deposits. We also offer highly competitive savings and transactional accounts for individuals and small businesses.

Mortgages

As specialists in super-prime mortgages, we aim to offer finance designed for each client's individual requirements. Secured against assets including residential property, investment portfolios and offshore deposits, our offering includes:

- UK main residence and investment property mortgages
- Overseas property mortgages
- Multi-currency loans

Investment Banking

In the UK we operate our Investment Banking division under the name Investec Banking and Securities. We focus on two distinct activities: corporate finance and institutional broking, both specialising in mid-market companies. We also provide institutional broking services to large capitalisation companies where we have strong research capabilities and additionally have a small managed private equity portfolio.

Our activities are described in more detail below:

Corporate finance

We provide financial advisory services, particularly for mergers and acquisitions. We also advise on and participate in equity market fundraisings for our clients. Our corporate client list currently comprises 95 quoted companies and a number of private company advisory roles and we also continue to expand our client base.

Institutional broking

Our institutional broking activities in the UK are carried out under the name Investec Securities. We provide research, sales, trading and market making services to a full range of UK and international institutional clients. A team of 29 equity analysts compiles research coverage on approximately 250 companies in the UK focusing on 29 sectors. We also act as market maker to approximately 125 small to mid cap stocks and offer price making in selected large cap stocks.

Private equity

We continue to seek appropriate investment opportunities to enable us to leverage off the skills and knowledge base of the group.

Capital Markets

The Capital Markets division provides a wide range of specialist products, services and solutions to select corporate clients, public sector bodies and institutions. We undertake the bulk of Investec's wholesale debt, structuring, proprietary trading, capital markets and derivatives business.

Capital Markets focuses on the following activities:

Asset and liability management

Central Treasury provides Sterling, Euro, Australian Dollar and US Dollar funding to the group and manages liquidity and interest rate risk for the group.

Treasury products and distribution

A broad range of treasury products and services is offered to the corporate and public sector markets. We offer corporate entities deposit product, spot, forward exchange, currency swaps and currency options, principally in G7 currencies.

Interest rates

This unit is involved with interest rate products, forward rate agreements, interest rate swaps, money market instruments, government and certain public sector bonds, interest rate options and repurchase agreements.

Foreign exchange

We are participants in the spot, forward exchange, currency swaps and currency derivatives markets, principally in the G7 currencies and certain emerging market currencies.

Structured equity

Structured equity capabilities are available across Australia, Ireland and the UK. The desks undertake structuring, finance, product issuance, market making, arbitrage and principal trading in equities and equity derivatives. We manufacture and deliver a comprehensive suite of solutions to the retail and wholesale markets. Business focus is to develop close relationships with clients, creating product synergies wherever possible.

Financial products

We are involved in financial engineering, preference share investments and structures, equities scrip lending, credit derivatives and the development of investment products.

Principal finance

We are involved in the origination and securitisation structuring and trading of residential mortgages, commercial mortgages, collateralised debt obligations and leveraged loans.

Structured and asset finance

This area focuses on structured and conventional lending, bond origination, securitisation and advice, asset leasing and finance, preference share finance, leveraged buy-out funding, executive share schemes and financing solutions for corporate, government and public sector clients.

Project finance

We provide advisory services, debt arranging and underwriting and equity raising in the infrastructure, power and industrial sectors with a focus on healthcare, telecoms, defence projects, transport and power.

Commodities and resource finance

We offer advisory services, debt arranging and underwriting, equity raising in the mining resources industry together with structured hedging solutions.

2

Group Services and Other Activities

Central Services

Central Services is made up of functional areas that provide services centrally across all our business operations. Consistent with our philosophy of operating as a single organisation, Central Services provides integrating mechanisms between the business operations.

While these services do not form part of the operating divisions, we have a policy in place whereby a portion of these costs are allocated to the divisions.

Central Funding

Our business model involves maintaining a central pool of capital, with the aim of obtaining economies of scale for corporate investments, funding and overall management. We use various sources of funding, depending on the specific financial and strategic requirements we face at the time. The funds raised are applied towards making acquisitions, funding central services and debt obligations, and purchasing corporate assets and investments not allocated to our principal operating divisions.

Investec Bank (Australia) Limited

We entered the Australian investment banking market in March 2001 with the acquisition of Wentworth Associates, one of the leading corporate finance boutiques in Australia at that time. This acquisition provided a platform to enable us to expand our activities into the corporate finance and private equity arenas in Australia.

In August 2002, we received an Australian banking licence which opened up many growth opportunities in private banking, and investment banking services were expanded.

Following organic growth within Capital Markets, the Australian banking operations of NM Rothschild & Sons Australia Limited was acquired in July 2006, creating an opportunity to increase our market presence in this sector. The creation of the Investec Property Opportunity Fund in 2007 enhanced the platform for property Investments in Australia.

Investec Australia's acquisition of Experien Finance in late 2007 enabled the group to build relationships with specialists in the medical and accounting fields, further establishing our banking platform and increasing our brand footprint to a wider target audience.

The Investec Global Aircraft Fund successful launched in early 2008, and during 2009 commenced a second capital raising.

In June 2009, David Clarke commenced as the new chief executive of Investec Australia, who viewed specialist funds management as a strong growth opportunity for the business. In December 2009, Investec acquired a team of institutional stockbrokers to form Investec Securities, which offers specialist resources sector services including institutional research, sales, trading, execution and equity capital markets solutions. In January 2010, Investec Australia agreed to acquire MZL Investments, a successful Australian listed equities fund manager.

Our long-term strategy remains focused on developing a foothold in select niche industries and building the Investec brand in Australia.

Financial review

Financial review | THREE

Highlights

- Investec Bank plc recorded a 58.0% increase in operating profit after minorities
- The bank has further improved the quality of its balance sheet, with an increase in both capital and liquidity:
  - Tier 1 ratio rose to 12.3%
  - Cash and near cash balances rose 98.0% to £4.6 billion
  - Customer deposits increased by 68.9% to £9.3 billion
  - The ratio of loans to deposits improved from 125.7% to 72.4%
- The credit loss ratio was in line with guidance previously provided at 1.71% and we believe that the credit loss cycle is peaking
- Business units have moved onto the front foot and are taking advantage of new opportunities
- Investment in the Investec brand continues to deliver shareholder value.

Financial features

	31 March 2010	31 March 2009	% change
Operating profit before goodwill, taxation, impairments and after minorities (£'000)	182 933	141 719	29.1
Operating profit before goodwill, taxation and after minorities (£'000)	49 747	31 483	58.0
Earnings attributable to ordinary shareholders (£'000)	52 712	11 510	>100.0
Cost to income ratio	69.7%	75.7%	
Total capital resources (including subordinated liabilities) (£'000)	1 720 020	1 674 466	2.7
Total shareholders' equity (£'000)	1 181 699	986 169	19.8
Total assets (£'000)*	16 980 726	13 828 178	22.8
Net core loans and advances (£'000)	7 224 552	7 335 482	(1.5)
Customer accounts (deposits) (£'000)	9 264 474	5 486 068	68.9
Capital adequacy ratio	16.9%	15.9%	
Tier 1 ratio	12.3%	10.3%	

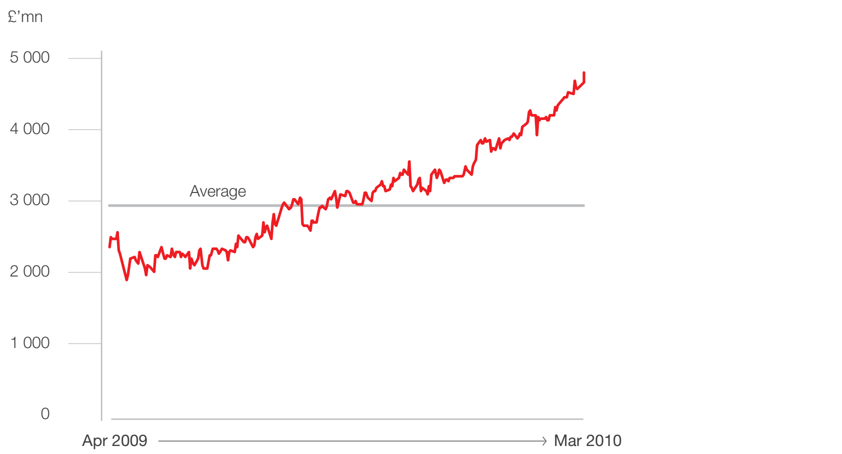
**As restated for reclassifications detailed in the accounting policies on page 205.*

Capital adequacy and Tier 1 ratios

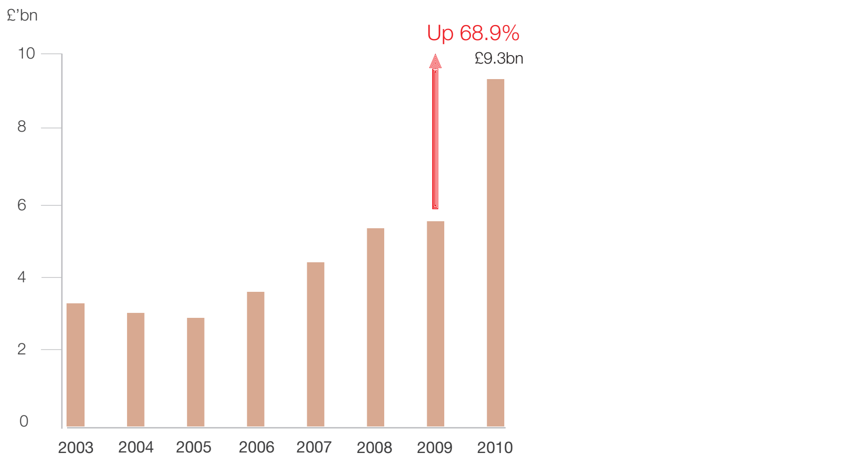
At 31 March 2010	Capital adequacy ratio	Tier 1 ratio
Investec plc	15.9%	11.3%
Investec Bank plc	16.9%	12.3%

Improved balance sheet strength… enhanced liquidity through building a diverse customer deposit base

Cash and near cash trend



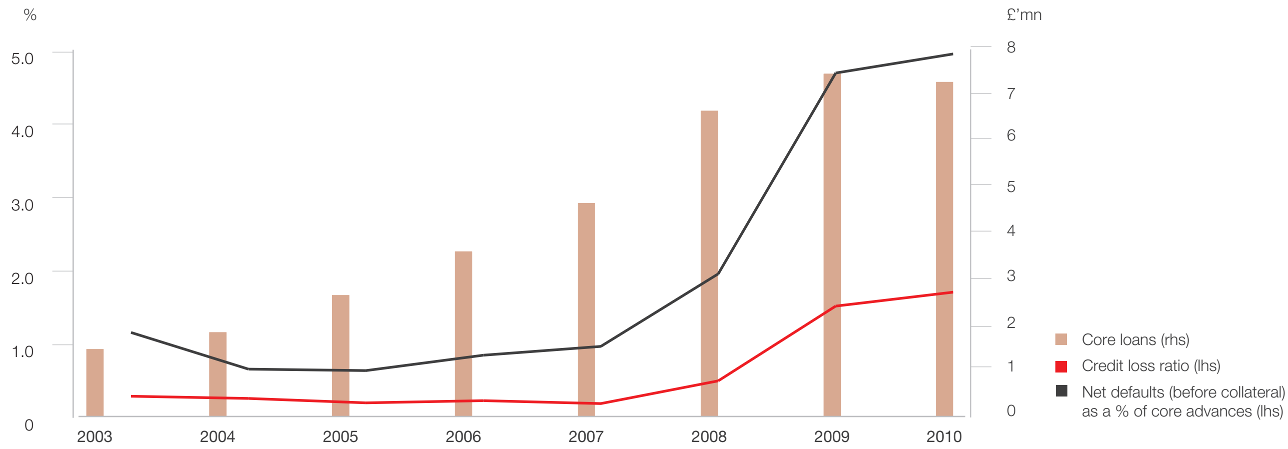
Customer accounts (deposits)



Improved balance sheet strength… achieved capital targets

- The intimate involvement of senior management ensures stringent management of risk and liquidity
- Our policy has always been to hold capital in excess of regulatory requirements and we intend to perpetuate this philosophy
- The bank has been successful in building its capital base and has met its targets in this period
- Capital strength has been maintained without government assistance
- A well established liquidity management philosophy
- Continue to focus on:
  - Maintaining a high level of readily available, high quality liquid assets – representing 20% to 30% of our liability base
  - Diversifying funding sources
  - Limiting concentration risk
  - Reduced reliance on wholesale funding
  - Private Bank and the Capital Markets divisions have implemented a number of initiatives to increase funding from private client and retail deposits
- Growth in customer deposits of £3.8 billion since 31 March 2009 – up 68.9%
- Core advances as a percentage of customer deposits is at 72.4%

Defaults and core loans



Improved balance sheet strength…impairments and defaults increased but are peaking

- Credit and counterparty exposures are to a select target market
  - Private Bank lends to high net worth and high income clients
  - Capital Markets transacts primarily with mid to large sized corporates, public sector bodies and institutions
- Continued focus on asset quality and credit risk
- The slower pace of economic recovery has caused a delay in the improvement of non-performing loans, however, we started to see signs of improvement towards the end of the period
- Credit risk however, remains appropriately managed and net defaults (after collateral and impairments) are covered 100%
- The credit loss ratio remains in line with guidance previously provided.

Continue strategy of building our franchise… focus on key revenue drivers

- Generate high quality income through **diversified** revenue streams
- Increase **loan** growth
- Increase **transactional** activity
- Grow customer **deposits.**

Continue strategy of building our franchise... focus on clients and building the brand

- Strengthen existing client relationships
- Provide distinctive products and an increased breadth of services to clients.

Continue strategy of building our franchise…balance operational risk businesses with financial risk businesses

Operational risk businesses

- Asset and wealth management
- Property funds
- Private equity funds

Core advisory and core banking

Overall objectives:
- Containing costs
- Maintaining credit quality
- Strictly managing risk and liquidity

Financial risk businesses

- Lending portfolios
- Principal transactions
- Structured transactions
- Market making

- The Investec group seeks to maintain an appropriate balance between revenue earned from operational risk businesses and revenue earned from financial risk businesses
- This ensures that the group is not over reliant on any one part of its business to sustain its activities and that it has a large recurring revenue base that enables it to navigate through varying cycles and to support its long-term growth objectives
- The group's current strategic objectives include increasing the proportion of its non-lending revenue base which it largely intends to achieve through the continued strengthening and development of its wealth and asset management businesses.

Continue strategy of building our franchise...maintain operational efficiency

- Cost to income ratio is 69.7% (down from 75.7% in the prior period)
- Total headcount continues to be tightly managed
- A non-cash deferred component has been introduced to variable remuneration payments.

Continue strategy of building our franchise...maintain quality of balance sheet

- Continue to diversify funding sources and reduce reliance on wholesale funding
- Manage risk and maintain credit quality.

Leverage ratios

	31 March 2010	31 March 2009
Core loans to equity ratio	6.1x	7.4x
Core loans (excluding own originated assets which have been securitised) to customer deposits	72.4%	125.7%
Total gearing (assets to total equity)	14.4x	14.0x
Total gearing (excluding securitised assets)	14.2x	14.0x

Outlook

- We have **built** our capital and liquidity over the period under review
- The **foundation** is now in place for further growth in our core specialist banking businesses
- Although the economic situation remains uncertain the business is oriented towards capturing available **opportunities**.

The global economy has shown some signs of recovery, however, operating fundamentals remain mixed with activity levels below historic trends

The commentary and analysis of the bank's results for the year ended 31 March 2010 provides an overview of our financial performance relative to the bank's results for the year ended 31 March 2009. Further detail on the performance of our business divisions is provided on pages 26 to 30. The financial information discussed below is based on the period under review, and may not necessarily reflect the financial condition or results of the operations of the bank going forward.

An overview of the operating environment impacting our business

United Kingdom

Official data shows the UK lagging other international economies in emerging from recession. After six consecutive falls in output, accounting for a drop of 6¼% of GDP, the economy expanded by 0.4% in Q4 2009 and 0.3% in Q1 2010. The economy contracted by 3.7% in the 2009/2010 financial year. While Q1 2010 looks adversely affected by heavy snowfall, independent surveys point to a faster pace of expansion than officially recorded, suggesting that economic recovery may have started earlier in the UK. The course of this year has seen some encouraging developments: unemployment started to fall sooner than we had hoped and deterioration in public finances was less than government had forecast; both developments point to stronger economic activity.

Yet the public deficit still hit a hefty 11.1% of GDP and it became a central election issue. The MPC extended its process of 'quantitative easing' across the financial year – creating money in exchange for (mainly) government bonds – from a proposed £75 billion in March 2009 to £200 billion, purchases that it completed in January 2010. Since then the committee has become increasingly fretful of a more persistent rate of CPI inflation, which stood at 3.4% at the end of 2009/2010.

Eurozone

The Eurozone economy emerged from recession in Q3 2009, expanding by 0.4% in Q3, but posting softer growth in subsequent quarters. The larger economies of Germany and France led this expansion, posting growth of 0.4% and 0.3% respectively in Q2, both benefiting from international car scrappage schemes and Germany particularly lifted by a revival in world trade and exports to the Far East and China specifically. Growth softened to 0.1% in Q4 and 0.2% in Q1 2010, although survey evidence has suggested a quickening of growth thereafter.

Yet the Eurozone has become embroiled in a government debt crisis that began in October when the new Greek government revealed significant discrepancies in its national accounts, making it the Eurozone's most indebted nation. Greek financing costs rose gradually from here, but the increase accelerated in 2010. A bungled bail-out proposal, impeded by a German government facing a key election, added to market uncertainty and while Greek debt costs soared towards the financial year end there were some signs of worries spilling into other Eurozone economies including Portugal, Ireland and Spain.

The European Central Bank, which had been slower to react to economic slowdown than other international central banks, started this financial year still cutting its key refinancing rate to 1.00%. It then announced a series of technical measures in April 2009 that drove overnight interest rates to hover around 0.35% from July 2009 to the end of March 2010.

Australia

The Australian economy rebounded from just one quarter's contraction in the wake of the Lehman Brothers collapse, but has expanded consistently since then, posting an average quarterly growth rate of 0.7% across 2009/2010 to see annual GDP 1.8% higher. Yet this still sub-trend pace of expansion coincided with a rise in unemployment, which reached a peak of 5.8% in Q3 2009, before easing back to 5.4% by the year's close. The economy benefited from the recovery in Asian markets and exports provided a lift to the economy in the first half of 2009. However, this year has seen momentum spread into domestic demand, with household spending posting solid increases. The Reserve Bank of Australia (RBA) was still easing monetary policy at the start of the financial year and cut its key cash rate to 3.0% in April 2009. Yet the spread of recovery into the domestic economy led the RBA to withdraw some of this stimulus and rates began to rise in August 2009, taking rates to 4.0% by year end.

United States

The US economy started expanding again this year. Q2 2009 posted the fourth consecutive quarterly contraction, reducing GDP by 3.8% from its peak. Q3 saw the economy begin to grow again, expanding by 2.2% (annualised). This was followed by increases of 5.6% and 3.0% in the subsequent quarters, although these figures were boosted by the inventory cycle and growth averaged just 1.3% per quarter excluding this effect. GDP stood 1.0% lower in 2009/2010 compared with 2008/2009. The arbiter of the US economic cycle, the National Bureau of Economic Research, is yet to declare an end to the recession, but the quarterly pattern of growth suggests that this has indeed happened.

The economic downturn also led to a disproportionately aggressive labour market response, with dramatically reduced headcount. This boosted labour productivity, which should bode well for employment trends ahead. Indeed payrolls started to rise again towards the end of the period under review. But pay growth remains subdued and is contributing to a still softening rate of 'core' inflation. The Federal Reserve remains cautious over the economic outlook, and closed all but one of its special operations to support financial markets as conditions improved during 2009/2010. It also completed its 'credit easing' purchases. The Federal Reserve maintained its commitment to leave rates "exceptionally low" for "an extended period" although, since the start of 2010, one member has moved to drop this commitment. Overall the Fed now oversees an economy with a modest growth outlook, not one facing another depression.

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

	31 March 2010 period end	31 March 2009 period end	Average over the period
Market indicators			
FTSE All share	2 910	1 984	2 513
Australia All ords	4 893	3 532	4 400
S&P	1 169	798	1 024
Nikkei	11 090	8 110	9 969
Dow Jones	10 857	7 609	9 534
Exchange rates			
US Dollar/Euro	1.35	1.33	1.34
Euro/Pounds Sterling	1.12	1.08	1.13
Australian Dollar/Pounds Sterling	1.66	2.07	1.88
US Dollar/Pounds Sterling	1.52	1.43	1.59
Rates			
UK overnight	0.40%	0.63%	0.46%
UK 10 year	3.94%	3.17%	3.75%
UK Clearing Banks Base Rate	0.50%	0.57%	0.51%
LIBOR – 3 month	0.65%	1.65%	0.85%
Reserve Bank of Australia cash target rate	4.00%	3.25%	3.33%
US 10 year	3.83%	2.67%	3.48%
Commodities			
Gold	USD1 113/oz	USD919/oz	USD1 023/oz
Gas Oil Futures	USD684/mt	USD420/mt	USD573/mt
Platinum	USD1 644/oz	USD1 129/oz	USD1 341/oz
Macro-economic			
UK GDP (% change over the period)	(3.70%)	(1.00%)	n/c
UK per capita GDP (£)	22 578	23 496	–
Australia GDP (% change over the period)	1.80%	1.60%	n/c
Per capita GDP (A$)	57 609	55 260	–

Source: Datastream, Bloomberg's, Australian Bureau of Statistics.

An overview of our key income drivers

We provide a wide range of financial products and services to a niche client base in the UK and Australia. We are organised as a network comprising four principal business divisions: Property Activities, Private Banking, Investment Banking and Capital Markets.

In addition, our head office provides certain group-wide integrating functions such as Risk Management, Information Technology, Finance, Investor Relations, Marketing, Human Resources and Organisational Development. It is also responsible for our central funding and other activities, such as our Trade Finance operations.

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

Business activity	Key income drivers	Income impacted primarily by	Income statement – reflected as
Property Activities			
	• Fees levied as a percentage of assets under management • Performance fees • Capital and debt raising fees • Asset acquisition fees • Trading and development activities	• Movements in the value of assets underlying client portfolios	• Fees and commissions
		• Macro- and micro- economic market conditions • Availability of profitable exit routes Whether appropriate market conditions exist to maximise gains on sale	• Principal transactions
Private Banking			
	• Interest earned in connection with the bank's lending activities • Fees earned for advisory, banking and lending services	• Size of loan portfolio • Interest rate environment • Levels of activity	• Net interest income • Net interest income and fees and commissions
	• Income earned in respect of growth and acquisition finance activities	• Quality of transactions and deal flow	• Fees and commissions and principal transactions
Investment Banking			
Corporate Finance	• Fees resulting from the provision of capital raising and financial advisory work	• Macro- and micro- economic fundamentals • Industry-specific trends • Underlying stock market activity particularly in our primary markets • Idea generation	• Fees and commissions
Institutional Research, Sales and Trading	• Brokerage commissions • Trading and market making activities	• Stock market trading volume and volatility • Client allocation of broking transactions • Our ability to source securities and execute trades on behalf of our clients	• Fees and commissions and principal transactions
Principal Investments	• Sale of investments and revaluation of trading investments • Dividends	• Macro- and micro- economic market conditions • Availability of profitable exit routes • Whether appropriate market conditions exist to maximise gains on sale • Attractive investment opportunities	• Principal transactions

Business activity	Key income drivers	Income impacted primarily by	Income statement – reflected as
Capital Markets			
	• Trading and hedging	• Client activity • Market opportunities • Market risk factors primarily volatility and liquidity	• Principal transactions
	• Product structuring and distribution	• The level of clients' investment activity, which, in turn, is affected by among other things, the performance of the global markets and the investment risk appetite of our clients • Distribution channels • Ability to create innovative products	• Fees and commissions and principal transactions
	• Asset creation	• Rate environment • Size of loan portfolio • Credit spreads • Clients capital and infrastructural investments	• Fees and commissions • Net interest income • Principal transactions (in certain cases)
	• Advisory	• The demand for our specialised advisory services, which, in turn is affected by applicable tax, regulatory and other economic factors, e.g. project activity in the relevant markets	• Fees and commissions
Group Services and Other Activities			
Central Funding	• As this division is responsible for the group's central funding requirements, this income is offset by the cost of group funding (net of return on the group's central capital)	• Interest rate environment	• All categories of income other than net operating income from associates

Risks relating to our operations

An overview of key risks

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

These risks are summarised briefly in the table below with further detail provided in the Risk Management section of this report. For additional information pertaining to the management and monitoring of these risks, see the references provided.

Key risks	Reference
Credit and counterparty risk exposes us to losses caused by financial or other problems experienced by our clients	See pages 38 to 69
Liquidity risk may impair our ability to fund our operations	See pages 84 to 91
Our net interest earnings and net asset value may be adversely affected by interest rate risk	See pages 81 to 83
Market, business and general economic conditions and fluctuations could adversely affect our businesses in a number of ways	See pages 71 to 79
We may be unable to recruit, retain and motivate key personnel	See Our Business Responsibility website
Employee misconduct could cause harm that is difficult to detect	See pages 92 to 96
Operational risk may disrupt our business or result in regulatory action	See pages 92 to 96
We may be vulnerable to the failure of our systems and breaches of our security systems	See pages 92 to 96
We may have insufficient capital in the future and may be unable to secure additional financing when it is required	See pages 98 to 106
The financial services industry in which we operate is intensely competitive	See pages 17 to 19
Legal and regulatory risks are substantial in our businesses	See pages 97 and 98
Reputational, strategic and business risk	See page 96
We may be exposed to pension risk in our UK operations	See page 97

Additional risks and uncertainties not presently known to us or that we currently deem immaterial may in the future also impair our business operations. Our business, financial condition or results of operations could be adversely affected by any of these risk factors.

Unless the context indicates otherwise, all income statement comparatives in the review below, relate to the results for the year ended 31 March 2009.

Overview

The bank posted an increase in operating profit, after minorities, of 58.0% to £49.7 million (2009: £31.5 million).

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

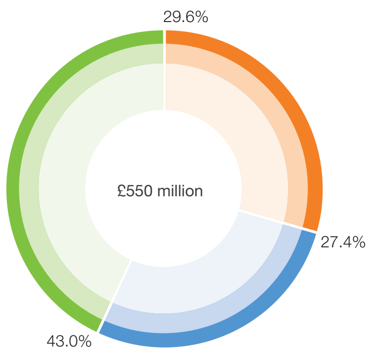
Total operating income before impairment losses on loans and advances of £550.3 million is 22.0% higher than the prior year. The various components of total operating income are analysed below.

£'000	31 March 2010	% of total income	31 March 2009	% of total income	% change
Net interest income	163 060	29.6	234 970	52.1	(30.6)
Other income	387 284	70.4	216 233	47.9	79.1
Net fee and commission income	150 870	27.4	192 734	42.7	(21.7)
Principal transactions	218 724	39.8	46 308	10.3	>100.0
Operating loss from associates	88	0.0	190	0.0	(53.7)
Other operating income/(loss)	17 602	3.2	(22 999)	(5.1)	>100.0
Total operating income before impairment losses on loans and advances	550 344	100.0	451 203	100.0	22.0

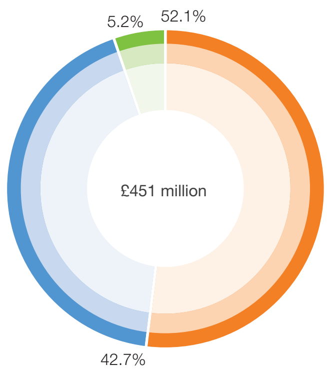
The following table sets out information on total operating income by division for the year under review.

£'000	31 March 2010	% of total income	31 March 2009	% of total income	% change
Property Activities	5 709	1.0	5 467	1.2	4.4
Private Banking	204 993	37.3	223 667	49.6	(8.3)
Investment Banking	74 945	13.6	28 475	6.3	>100.0
Capital Markets	234 674	42.6	179 610	39.8	30.7
Group Services and Other Activities	30 023	5.5	13 984	3.1	>100.0
Total operating income before impairment losses on loans and advances	550 344	100.0	451 203	100.0	22.0

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



31 March 2010



31 March 2009

Net interest income
Net fee and commission income
Principal transactions and other income

Net interest income

Net interest income decreased by 30.6% to £163.1 million (2009: £235.0 million) largely as a result of a lower return generated on excess capital held given the declining rate environment and a decline in core loans due to reduced activity levels.

Net fee and commission income

Net fee and commission income decreased by 21.7% to £150.9 million (2009: £192.7 million). Transactional activity remains mixed and below historic trends.

Principal transactions

Income from principal transactions increased significantly to £218.7 million. The bank has benefited from the repurchase of its debt, opportunities taken in the dislocated credit markets and good trading conditions.

Other operating income/(loss)

The consolidation of the operating results of certain investments held within the group's Private Equity portfolio is partly reflected in other operating income/(loss), which improved from a loss of £23.0 million to a gain of £17.6 million.

3

Impairment losses on loans and advances

The weaker credit cycle has caused a decline in the performance of the bank's loan portfolio resulting in an increase in impairment losses on loans and advances from £110.2 million to £133.2 million. The credit loss charge as a percentage of average gross loans and advances increased from 1.52% to 1.71% since 31 March 2009. The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances has increased from 4.70% to 4.96% since 31 March 2009. The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.13 times (2009: 1.11 times). Further information on our asset quality is provided on pages 53 to 68.

Total expenses

The ratio of total operating expenses to total operating income improved from 75.7% to 69.7%.

Total expenses grew by 12.4% to £383.7 million (2009: £341.5 million) largely as a result of an increase in variable remuneration in certain divisions given improved profitability and the consolidation of certain investments held within the Private Equity portfolio. Total staff compensation costs increased by 8.1% to £240.8 million (2009: £222.6 million), resulting in a compensation ratio of 43.7% (2009: 49.3%). Other operating expenses increased by 20.3% to £143.0 million.

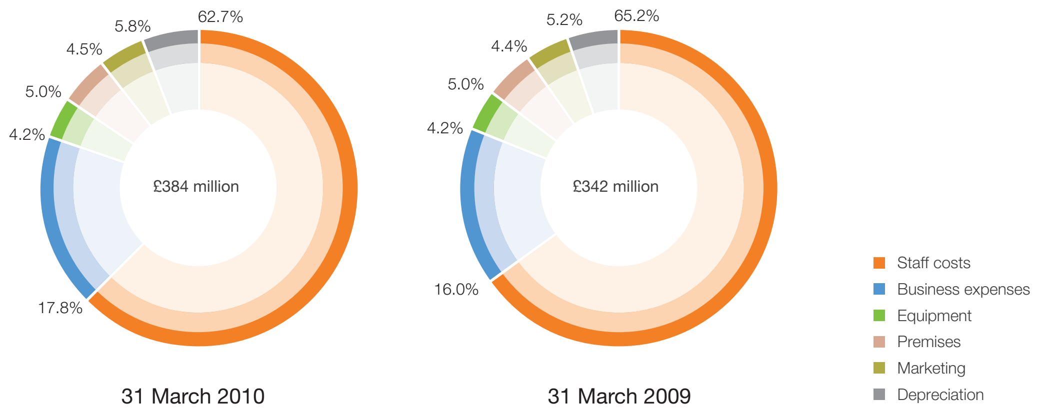
The various components of total expenses are analysed below.

£'000	31 March 2010	% of total expenses	31 March 2009	% of total expenses	% change
Staff costs (including directors' remuneration)	240 755	62.7	222 638	65.2	8.1
Business expenses	68 421	17.8	54 755	16.0	25.0
Equipment (excluding depreciation)	15 954	4.2	14 256	4.2	11.9
Premises (excluding depreciation)	19 012	5.0	17 106	5.0	11.1
Marketing expenses	17 189	4.5	14 885	4.4	15.5
Depreciation	22 377	5.8	17 877	5.2	25.2
Total expenses	383 708	100.0	341 517	100.0	12.4

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

£'000	31 March 2010	% of total expenses	31 March 2009	% of total expenses	% change
Property Activities	3 812	1.0	2 554	0.7	49.3
Private Banking	121 397	31.6	108 166	31.7	12.2
Investment Banking	96 001	25.0	88 600	25.9	8.4
Capital Markets	128 815	33.6	112 039	32.8	15.0
Group Services and Other Activities	33 683	8.8	30 158	8.8	11.7
Total expenses	383 708	100.0	341 517	100.0	12.4

% of total expenses



Balance sheet analysis

Since 31 March 2009:

- Total shareholders' equity (including minority interests) increased by 19.8% largely as a result of retained earnings and the issue of shares
- Total assets increased by 22.8% to £17.0 billion largely as a result of increased cash holdings.

Business unit review

An analysis of the performance of each business unit is provided below.

Segmental information

For the year to 31 March £'000	Property Activities	Private Banking	Investment Banking	Capital Markets	Group Services and Other Activities	Total group
2010						
Total operating income	5 709	204 993	74 945	234 674	30 023	550 344
Impairment losses on loans and advances	–	(73 201)	–	(47 485)	(12 500)	(133 186)
Net operating income	5 709	131 792	74 945	187 189	17 523	417 158
Operating expenses	(3 812)	(121 397)	(96 001)	(128 815)	(33 683)	(383 708)
Operating profit/(loss)	1 897	10 395	(21 056)	58 374	(16 160)	33 450
Operating profit/(loss) attributable to minorities	–	–	16 863	(59)	(507)	16 297
Operating profit/(loss) after minorities	1 897	10 395	(4 193)	58 315	(16 667)	49 747
Cost to income ratio	66.8%	59.2%	>100.0%	54.9%	>100.0%	69.7%
2009						
Total operating income	5 467	223 667	28 475	179 610	13 984	451 203
Impairment losses on loans and advances	–	(71 156)	–	(39 080)	–	(110 236)
Net operating income	5 647	152 511	28 475	140 530	13 984	340 967
Operating expenses	(2 554)	(108 166)	(88 600)	(112 039)	(30 158)	(341 517)
Operating profit/(loss) before goodwill	2 913	44 345	(60 125)	28 491	(16 174)	(550)
Operating profit/(loss) attributable to minorities	–	–	22 212	(23)	9 844	32 033
Operating profit/(loss) before goodwill and after minorities	2 913	44 345	(37 913)	28 468	(6 330)	31 483
Cost to income ratio	46.7%	48.4%	>100.0%	62.4%	>100.0%	75.7%

Property Activities

Overview of performance

The Property division posted a decrease in operating profit of 34.9% to £1.9 million.

Developments

UK and Europe

- The Property Investments business is fully operational and the UK REITs full discretionary product has a total of £13.4 million assets under management, in addition to a £5 million proprietary investment, since its launch in July 2009
- The Investec GLL GSO Real Estate Fund has invested in eight properties in Chile (2), Argentina, USA (2), United Kingdom, Hungary and Poland. The fund will continue to invest with caution in international direct commercial real estate, and endeavour to unlock value in the investment period of the fund. A total of €375 million equity and debt was raised and of this €223 million has been invested
- The Investec Big Ben Property Fund Limited was launched on 1 December 2009 for select private, corporate and institutional clients investing alongside Investec. The company seeks to invest in the commercial property markets of Great Britain and Ireland by unearthing opportunities that generate solid income streams and unlock value for shareholders. The company is projected to raise £80 million and gear £120 million.

Australia

- As at 31 March 2010, the Investec Property Opportunity Fund (IPOF) had invested A$100 million, with A$16 million available for future investment and/or development opportunities
- The Property Investments division sub-underwrote the Abacus Property Group rights issue in March 2009. These rights were converted into units in April 2009, a portion of which were sold during the year
- The business is seeking to raise a second IPOF in the third quarter of 2010
- Total funds under management are A$252 million
- Investec Property Investments are in the process of developing an investment business in Australia, to complement the existing property business. Staff re-allocated from London to Sydney have been tasked with establishing a research function and developing business associations in this jurisdiction with the intention of commencing trading during the year.

Outlook

Although the global market remains volatile, the business believes that there are opportunities to acquire direct and listed property at attractive prices.

The business outlook for property for the next year remains cautiously optimistic with the annuity business supported by the diverse property product development initiatives that are underway.

UK and Europe

- The business has been able to source attractive real estate for the Investec GLL GSO Real Estate Fund in the UK and to date the fund is 62% invested and should be fully invested by the second half of 2010
- Investment in UK REITs, and now more recently Australian REITs, provides access for our clients to a diverse portfolio of prime properties across different sectors in the UK, Australia and in some cases Europe. Repricing in the sector and recapitalisation has reduced downside risks. We now have an established track record in this space and intend to leverage off this in order to increase assets under management
- Investment opportunities into Australian REITs, IPOF II, Global REITs; SA Property Fund and Investec GLL GSO Real Estate Fund II will be offered to clients as further investment options and in a concerted drive to expand product within the business.

Australia

- While debt refinancing and recapitalisation continue to be topical, access to capital is beginning to open up
- Property fundamentals are starting to stabilise and the general consensus is that the market is at or near the end of the downward cycle
- We are well positioned in current market conditions to take advantage of opportunities for property and development acquisitions together with the launch of additional funds
- The business expects to develop Australian full discretionary geared segregated portfolios by the end of 2010 and grow the investment portfolio to the value of approximately A$164 million.

3

Private Banking

Overview of performance

The Private Banking division posted a decrease in operating profit of 76.6% to £10.4 million (2009: £44.3 million). The division focused resources during the period on substantially increasing its deposit book by 51.2% to £7.2 billion (2009: £4.7 billion). However, while the private client core lending book increased marginally to £5.2 billion, activity levels remained muted and impairment losses on loans and advances increased. Funds under advice increased 32.1% to £2.2 billion (2009: £1.7 billion).

Developments

UK and Europe

- Exceptional growth in customer deposits throughout the period resulted in a significant strengthening of the Investec brand within the retail deposit and money managers' market
- Lending activity levels remained low, with cautious signs of increased activity during the second half of the period. The management of underperforming loans remained a focus
- The Wealth Management business continued to benefit from investment in this specialisation, resulting in increased distribution capability, a broader product platform and improved investment performance
- The Trust and Fiduciary business was subject to a rigorous strategic review. This resulted in the announcement, in April 2010, of the phased closing of the Guernsey based business.

Australia

- The Professional Finance business unit experienced record lending volumes and strong lending book growth off greater penetration of core target markets of medical and accounting professionals
- The Growth and Acquisition Finance business unit saw muted activity levels during the year. A strategic re-alignment of the business to a provider of integrated funding solutions to high net worth individuals and their businesses resulted in a significant improvement in pipelines towards the end of the year
- The withdrawal of a number of competitors from the market, the general re-pricing of risk and focused client orientation provided a unique opportunity for the Structured Property Finance business. As a result we considered record volumes of high quality transactions to strong counterparties and have funded select transactions
- Limited client loss within the Wealth Management business unit through the bottom of the cycle affirmed the quality of our offering in a competitive environment.

Outlook

- The business has come through the banking crisis intact. The objectives set last year and delivered on in the current period provided a solid foundation for the Private Bank on which to build. This will enable us to be front footed and client focused, taking advantage of identified opportunities in a much changed competitive environment
- We expect impairments to decrease from the high experienced during this period
- Critical objectives for the coming period are to:
  - Grow and consolidate our position as a dominant player in the retail saving and deposit markets with continued investment in our product and distribution platform
  - Grow our loan portfolio in a recovering market
  - Manage non-performing loans and impairments as we come through the cycle
  - Continually align our cost base and level of investment to expected future revenue
  - Above all, to build our brand and market positioning around the 'entrepreneurial class' delivering a specialised offering to this client base
- The risk of a worsening of the current economic environment remains. This will impact activity levels, impairments and the cost of money.

Investment Banking

Overview of performance

The Investment Banking division recorded an operating loss of £4.2 million (2009: loss of £37.9 million). Certain of the investments within the Private Equity and Direct Investments division recorded an improved performance when compared to the prior year. The agency business was negatively impacted by challenging market conditions.

Developments

Corporate Finance

UK and Europe

- The difficult market conditions severely restricted corporate activity within our client base. There was one IPO and reduced fundraising activity
- We completed 15 M&A transactions with a value of £0.6 billion (2009: 20 transactions with a value of £3.5 billion)
- We completed 11 fundraisings during the period raising in aggregate £297 million (2009: 13 fundraisings raising in aggregate £599 million)
- We strengthened our operation by employing eight experienced corporate financiers
- We continue to build the quality and size of the corporate client list, gaining 18 new brokerships during the period. We now have 95 quoted clients with an average market cap of £320 million, of which 29 are FTSE 250 companies.

Australia

- Earnings improved during the year due to the successful closing of a number of transactions
- The Sydney team was strengthened and reorganised and is well positioned to drive the business going forward.

Institutional Research, Sales and Trading

UK and Europe

- While volatile markets and difficult market conditions have constrained secondary commission growth, there has been a steady improvement over the last few months
- We have strengthened our broking business with a number of senior hires in research and sales trading
- We continue to expand our international distribution capability.

Australia

- This is a new business and the team members who have been hired to grow the business have a considerable amount of high quality experience and an extensive client network.

Principal Investments

Australia

- The total size of the Private Equity funds is A$460 million
- Private Equity completed the successful divestment of one of its portfolio companies generating a substantial profit
- The investment portfolio continues to perform satisfactorily and is well placed to capitalise on the recovery in both global and local economies
- In the second half of the financial year the Private Equity business took a more proactive approach in identifying and evaluating new investment opportunities as the economic outlook and confidence generally continued to improve.

Outlook

Corporate Finance

- The increase in the number and size of our corporate clients in the UK has been encouraging. While market conditions remain uncertain, the pipeline is looking more positive.

Institutional Research, Sales and Trading

- Considering the improvements to our UK business through selective investment in skills, diversified revenue streams and capital provision we believe we are well positioned to gain further market share

Principal Investments

- The Australian business continues to add value to existing investments and is well placed to take advantage of new investment opportunities. The business is very active in originating new investment opportunities as the economic outlook and confidence generally improves. Two new investments were added in the first quarter of the 2011 financial year and a number of further potential opportunities have been identified and are at various stages of development.

3

Capital Markets

Overview of performance

The Capital Markets division posted an increase in operating profit of 51.2% to £58.3 million (2009: £28.5 million). The division benefited from growth in the Structured Equities business as well as increased activity in the Principal Finance business. Given the declining rate environment, the division's results have, however, been impacted by a reduced return on excess cash held.

Developments

UK and Europe

- The Project Finance team continues to be a leader in the UK PFI advisory business, and the new office in Canada, set up to service the North American PFI market, is performing well
- The Acquisition Finance book has performed above expectations through the economic crisis and defaults were lower than expected
- The Asset Finance business is now ranked in the top three in the small ticket leasing market
- We are considered one of the top 10 European banks in aircraft finance
- The trading desks showed varied but overall improved performance benefiting from market volatility, the introduction of new products and increased staff. The Fixed Income desk was closed during the period
- The Structured Equity retail distribution platforms have been established and have recently marketed launch 17 in the UK market. Recent awards won include: Best Structured Product Provider (Professional Adviser Awards 2010), Best Structured Product Provider (Financial Times and Investors Chronicle Investment Awards 2009), Best Service to IFAs and Best Income Product for FTSE 100 Bonus Income Plan (PPR Professional Adviser Structured Products Awards 2009). We are currently one of the top two retail structured product issuers in the UK market
- The Principal Finance business has continued to take advantage of the condition of the credit markets through its credit investments and trading operations
- The Treasury Products and Distribution desk has been established to actively market structured solutions, foreign exchange and interest rates to the corporate market and is gaining traction in client acquisition and volumes traded
- The focus on raising customer deposits has significantly reduced our reliance on the wholesale markets.

Australia

- While activity in the resources sector was initially quiet, the rapid recovery of the equity and commodity markets, as well as our refocused marketing to mid-tier and larger mining companies, resulted in increased deal flow during the year for our Commodities and Resource Finance business
- A strong performance in our project advisory, debt arranging and principal lending activities was driven by improved market conditions, cross-border deals and some significant advisory and arranging mandates, notably the debt financing of the Collgar Wind Farm. In parallel, our wind farm development business finalised the sale of Collgar to institutional investors
- This was a year of consolidation for the Structured Finance business with emphasis on improved operational capability for the Investec Global Aircraft Fund (IGAF) coupled with the additional capital raising of A$45 million
- Ongoing management of the legacy book was a key priority for the Principal Finance business, but this was coupled with strong deal flow and revenue generation from new lending (in the media and entertainment sectors) as well as credit trading (in both structured credit and corporate debt)
- Wholesale capital raising under the Australian Government Guarantee Scheme continued successfully, albeit at the higher margins prevailing in the post global financial crisis market. The resultant liquidity was actively invested in high quality liquid assets and other appropriate securities and this generated strong returns
- The trading desk performed well despite operating within very narrow risk limits and it benefited from favourable positioning in the interest rate and foreign exchange markets.

Outlook

- We are a focused business targeting markets where we can be distinctive and competitive
- We remain committed to building a sustainable business franchise with diversified revenue streams in our core geographies
- In the UK we will continue to strive for depth and greater penetration. In Australia we continue to look for opportunities to broaden our franchise
- The current negative cycle is the time to shape the business for the future and to position ourselves for growth in a changed competitive landscape

- This stage of the cycle is likely to see continuing defaults but impairments and losses will be lower
- Looking at the environment in our core geographies:
  - In the UK the environment remains weak but is starting to recover. The changed competitive landscape is allowing us to win clients. Overall we continue to be reasonably well positioned and activity is starting to increase
  - In Australia the environment is improving and we are seeing an increase in business flows. Whilst the corporate credit environment remains a concern, overall we are positioning ourselves for growth
- The environment has changed but so too has the competitive landscape. A large amount of capacity has been removed from the market and the number of players in our core geographies has reduced substantially. This plays to our strengths of being a specialist and bespoke service provider. In the short term we expect conditions to remain challenging; however, we believe that in the medium term this is an excellent opportunity to grow market share and deepen our franchise.

UK and Europe

- We look forward to executing our first securitisations during the year as the asset backed securitisation market reopens.
- Liquidity is no longer a constraint although the cost of raising and carrying surplus liquidity is causing a negative impact on net interest income. We have very little reliance on the wholesale markets
- The UK market is showing signs of growth once more and we are well positioned to take advantage of this upturn in the market
- The outlook on bad debts is substantially lower than at the same time last year
- The corporate market has opened itself to new relationships and we are taking advantage of the opportunity.

Australia

- In resources, we continue to build a pipeline of deals focused on mid-tier and larger mining companies with one or more assets in production, where the risk and return profile remains attractive
- In aviation, we intend to work closely with Investec's aviation finance teams in London and Johannesburg to pursue aircraft leasing transactions and, in parallel, create investment opportunities for the additional capital that has been raised for the IGAF
- In renewable energy, we continue to work on a fleet of development assets in a range of technologies and will seek to exit some of these during the course of the year. In parallel our project advisory, debt arranging and principal lending business is expected to remain active based on current deal pipeline and market conditions
- Our newly established Corporate Debt business, which targets event driven borrowing by mid-tier and larger corporates, has already achieved some success in the domestic market and we expect to see strong deal flow in this business
- In our Principal Finance team, we continue to seek opportunities in the structured credit market, whether as short-term credit trading strategies or as longer term holds of quality assets at margins which remain attractive notwithstanding the compression that has already occurred
- Treasury will focus on ongoing balance sheet management priorities particularly optimising our strong liquidity position and, more urgently, will be growing our sales and structuring activities
- Our trading business remains one with modest market risk and, as our sales activities generate additional customer flow, we will look to broaden this business in order to meet the requirements of these clients.

Group Services and Other Activities

The Group Services and Other Activities division posted an operating loss of £16.7 million compared to a loss of £6.3 million in the previous year as a result of a lower return generated on excess capital held.

Risk and governance

Risk and governance | FOUR

Group Risk Management objectives are to:

- Be the custodian of our risk management culture
- To ensure the business operates within the board stated appetite
- 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
- Co-ordinate 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, to the best extent possible, managed and controlled
- Run appropriate risk committees, as mandated by the board

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 (pages 33 to 107) with further disclosures provided within the financial statements section (pages 134 to 231). All sections, paragraphs, tables and graphs on which an audit opinion is expressed are marked as audited.

Philosophy and approach

The group recognises that an effective risk management function is fundamental to its business. Taking international best practice into account, 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.

The bank's board is supported by various key Investec plc committees as listed on page 113.

Group Risk Management (part of Group Services) is independent from the business units and monitors, manages and reports on our risk to ensure it is within the stated appetite as mandated by the Investec plc board of directors through the Board Risk and Capital Committee. Business units are ultimately responsible for managing risks that arise.

We monitor and control risk exposure through credit, market, liquidity, operational and legal risk reporting 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. Group Risk Management has specialist divisions in the UK, South Africa, Australia and smaller risk divisions in other regions to promote sound risk management practices.

Group Risk Management divisions with international responsibility are locally responsive yet globally aware. This helps to ensure that all initiatives and businesses operate within our defined risk parameters and objectives. Group Risk Management continually seeks new ways to enhance its techniques.

Overall group summary of the year in review from a risk perspective

This section should be read in conjunction with, and against the background provided in, the overview of the operating environment section on pages 17 to 19.

Investec has continued to maintain a sound balance sheet with low leverage, and a diversified business model. This has been supported by the following key operating fundamentals:

- Intimate involvement of senior management ensuring stringent management of risk, liquidity and capital
- Strong risk and capital management culture embedded into our day-to-day activities and values. We seek to achieve an appropriate balance between risk and reward in our business, taking cognisance of all stakeholders' interests
- Reward programmes that align directors' and employees' interests with those of stakeholders, ensuring that these programmes promote effective risk management. Annual bonuses are closely linked to business performance, determined in the main by realised Economic Value Added profit performance against pre-determined targets above a risk and capital weighted return. This model has been consistently applied for in excess of ten years

- Credit and counterparty exposures to a select target market; our risk appetite continues to favour lower risk, income-based lending, with credit risk taken over a short to medium term. Exposure is taken against defined target clients displaying a profile of good character, sound financial strength and integrity, a core competency and a sound track record in the activity funded. We have, however, continued to experience an increase in impairments and defaults as a result of weak economic conditions. The credit loss ratio increased marginally to 1.71% of core loans and advances
- Limited exposure to structured credit investments; representing less than 4.5% of total assets
- A low leverage (gearing) ratio of approximately 14 times
- A low level of net assets and liabilities exposed to the volatility of IFRS fair value accounting; with "level 3" assets amounting to 2% of total assets
- Low equity (investment) risk exposure; within total investments comprising 1.3% of total assets
- Modest proprietary market risk within our trading portfolio; value at risk and stress testing scenarios remain at prudent levels
- Potential losses that could arise in our trading book portfolio stress tested under extreme market conditions (15 standard deviations) amount to less than 3.5% of total operating income
- A high level of readily available, high quality liquid assets; average cash and near cash of approximately £2.9 billion, representing 20% to 30% of our liability base. We continue to maintain a low reliance on interbank wholesale funding to fund core lending asset growth
- A significant increase in retail customer deposits
- Healthy capital ratios; we have always held capital in excess of regulatory requirements and we intend to perpetuate this philosophy. We have continued to strengthen our capital base during the period
- Geographical and operational diversity with a high level of recurring income which continues to support sustainability of operating profit.

Maintaining credit quality, strictly managing risk and liquidity and continuing to grow our capital base remain core strategic imperatives

4

The global financial market crisis and weakened global economies have resulted in increasing risk levels and have impacted the markets in which we operate on a number of fronts over the past two years. Our overall risk management philosophies, practices and frameworks have remained largely unchanged, and have held us in good stead. Maintaining credit quality, strictly managing risk and liquidity and continuing to grow our capital base remain core strategic imperatives.

Geographic summary of the year in review from a risk perspective

Detailed information on key developments during the financial year in review is provided in the sections that follow (refer to pages 45 and 46, page 79 and page 91), with a high level geographic summary of the most salient aspects provided below.

UK and Europe

Credit risk: The year in review remained challenging as weak economic conditions continued to impact on clients' activities and underlying asset values. An increase in defaults largely reflects the continued poor performances of our Irish portfolios. Key focus areas have been on proactive loan book management, repositioning some of our portfolio asset mixes as well as taking advantage of opportunities that have arisen as a result of dislocated markets.

Traded market risk: The trading desks performed well, benefiting from increased customer flow and new product launches.

Cash and near cash balances

up 98% to

£4.6 billion

Customer deposits

up 68.9% to

£9.3 billion

Advances as a % of customer deposits:

72.4%

Balance sheet risk: The economy benefitted from the return of liquidity and the resultant fall in liquidity and credit spreads which were only marginally above pre-2007 crisis levels. Cash markets have seen a similar return of risk appetite, with banks and corporates being able to access capital markets at increasingly attractive levels. Retail customer deposit demand for Investec products has been strong and we continued to significantly enhance our cash and near cash balances.

Australia

Credit risk: The credit environment remains challenging and the credit quality of our loan portfolio continued to deteriorate. We have continued to reposition our asset mix and have been successful in selectively growing our loan book within the professional finance business, which targets members of the medical and accounting professions.

Traded market risk: Trading activity remains modest, with the focus being mainly commodity hedging.

Balance sheet risk: The combination of a rapid easing of monetary policy, stimulatory fiscal policy along with only muted impacts of the global financial crisis on China and some of Australia's other Asian trading partners has seen a resilience in the Australian economy. The availability of liquidity has thus remained relatively strong. Against this backdrop, we continued to diversify the mix of our funds across distribution channels and increase client numbers. We maintained a strong liquidity position well in excess of regulatory and internal policy requirements throughout the year.

Salient features

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

	31 March 2010	31 March 2009
Net core loans and advances (£'million)	7 225	7 335
Gross defaults as a % of gross core loans and advances	6.68%	5.85%
Defaults (net of impairments) as a % of net core loans and advances	4.96%	4.70%
Credit loss ratio^	1.71%	1.52%
Structured credit investments as a % of total assets	4.49%	2.39%
Banking book investment and equity risk exposures as a % of total assets	1.27%	1.82%
Traded market risk: one-day value at risk (£'million)	1.8	1.0
Cash and near cash (£'million)	4 605	2 325
Customer accounts (deposits) (£'million)	9 264	5 486
Core loans to equity ratio	6.1x	7.4x
Total gearing/leverage ratio**	14.4x	14.0x
Core loans (excluding own originated assets which have been securitised) to customer deposits	72.4%	125.7%
Capital adequacy ratio	16.9%	15.9%
Tier 1 ratio	12.3%	10.3%

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

***Total assets to total equity.*

An overview of key risks

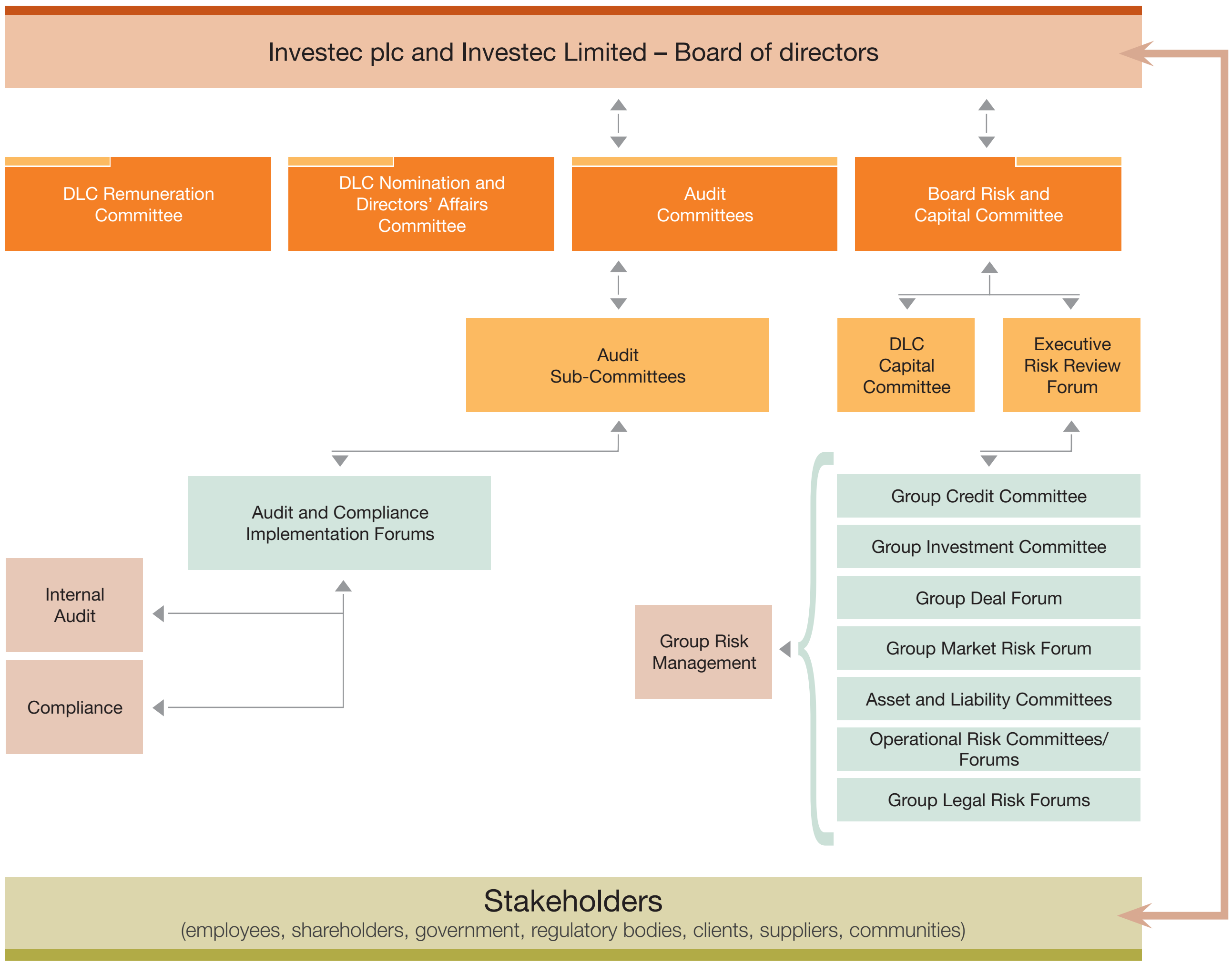
In our ordinary course of business we face a number of risks that could affect our business operations. These risks have been highlighted on page 22. The sections that follow provide information on a number of these risk areas.

Additional risks and uncertainties not presently known to us or that we currently deem immaterial may in the future also impair our business operations. Our business, financial condition or results of operations could be adversely affected by any of these risk factors.

Risk management framework, committees and forums

A number of committees and forums identify and manage risk at both a business unit level in various locations and at a group level. These committees and forums operate together with group Risk Management and are mandated by the Investec plc board. A diagram of our governance and risk framework is provided on page 37.

Our governance framework



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

BRCC	Board Risk and Capital Committee
ERRF	Executive Risk Review Forum
FSA	Financial Services Authority
APRA	Australian Prudential Regulatory Authority

Credit and counterparty risk management

Credit and counterparty risk description Audited

Credit and counterparty risk is defined as the current and prospective risk to earnings or capital arising from an obligor's (typically a client's or counterparty's) failure to meet the terms of any obligation to us or otherwise to perform as agreed. Credit and counterparty risk arises when funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off balance sheet.

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

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

Credit and counterparty risk can manifest as country risk as a result of the geopolitical and transfer risk associated with exposures arising from transactions with borrowers who are resident in a particular foreign country, or dependent on that country's economy.

Credit and counterparty risk may also arise in other ways and it is the role of the various independent credit committees, assisted by Credit Risk Management, to identify situations falling outside these definitions where credit risk may also be present.

Credit and counterparty risk governance structure Audited

To manage measure 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 policy that all centralised credit committees have a majority 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 ensures that individual positions and any potential trends are dealt with in a timely manner
- Watchlist Committee, which reviews the management of distressed loans, potential problem loans and exposures in arrears that require additional attention and supervision
- Corporate Watch Forum, which reviews and manages exposures that may potentially become distressed as a result of changes in the economic environment or adverse share price movements, or that are vulnerable to volatile exchange rate or interest rate movements
- Arrears, Default and Recoveries Forum which specifically reviews and manages distressed loans and potentially distressed loans within the Private Bank division.

Whilst we do not have a separate country risk committee, the global Credit Committees will consider, analyse, and assess the appropriate limits to be recorded when required, to extend loans to foreign jurisdictions. When applications are submitted to the local group credit committee, consideration of the country risk element forms part of the sanctioning process. The local group credit committee has the power to recommend to the global Credit Committee an appropriate country credit limit where undertaking a particular transaction could exceed the approved country limit. The global Credit Committee is responsible for approving country limits.

Credit and counterparty risk appetite

We have a preference for exposure to EU countries, other G10 countries, Australasia and specific countries where we have subsidiaries or branches.

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

Our assessment of our clients includes consideration of their character and integrity, core competencies, track record and financial strength. A strong emphasis is placed on income and cash flow streams generated by the clients, third party income or cash flow streams derived from lease or rental agreements in support of property related transactions. In this manner, we seek comfort in mitigating our risk by thoroughly assessing the ability of our borrowers to meet their payment obligations. Furthermore we have very little appetite for unsecured debt and ensure that good quality collateral is provided in support of obligations (refer to page 69 for further information).

Target clients include high net worth individuals, certain professionally qualified individuals, high income earning individuals, corporates, parastatals, government, institutions and banks. Corporates must have scale, relevance, experienced management, able board members and strong earnings/cash flow. Interbank lending is 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 tend to be avoided.

We typically originate loans with the intent of holding these assets to maturity, and thereby developing a "hands on" and longstanding relationship with our clients. In certain instances we have elected to sell certain assets down and/or securitised them (refer to page 70 for further information).

Pricing is motivated by the relevant business unit on a transaction by transaction basis, with consideration given to the manner of origination of the asset and the forward strategy for the asset, capital usage and liquidity. Pricing recommendations are discussed and agreed at the appropriate credit committee to ensure that reward is appropriate to the risk and that pricing is not compromised in the pursuit of volume or relationship. As a consequence of market behaviour, pricing for similar risk may differ from time to time.

Management and measurement of credit and counterparty risk Audited

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 all related risks, including concentration risk (concentration risk considerations include asset class, industry, counterparty, and geographical concentration)
- 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 BRCC. The board regularly reviews and approves the appetite for credit and counterparty risk, which is documented in risk appetite statements and policy documents and implemented by our group Credit division.

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

Investec completes scenario tests on its loan portfolio with regards to the capital held. These tests stress the existing portfolio to allow the bank to identify underlying risks and manage them accordingly. These stresses include (but are not limited to) residential and commercial property prices, foreign exchange rates, default rates, impairments and capital usage. The credit risk stress tests also play an integral part in the bank's capital planning process.

A large proportion of the portfolio is not rated by external rating agencies. As a result we mainly place reliance upon internal considerations of counterparties and borrowers, and use ratings prepared externally where available for support. Within the credit approval process all available internal and external ratings are included in the assessment of the client quality.

The internal rating models used are specific to each portfolio. The internal ratings are used as an input into the credit decision and as a means of assessing the risk of rated portfolios. Ongoing development of internal rating models has yielded good results in Project Finance, Private Bank Property, Corporate, Bank and Financial Institutions areas of operation. We remain focused on developing our models in the light of our idiosyncratic risk profile and against extreme downturn events.

Fitch, Standard and Poor's and Moody's have been approved as eligible external credit assessment institutions (ECAIs) for the purposes of determining external credit ratings with the following elections:

- In relation to sovereigns, Fitch has been selected by Investec as the primary ECAI, with Standard & Poors or Moodys being used as support where a Fitch rating is not available
- In relation to banks and securities firms, Fitch has been selected by Investec as the primary ECAI, with Standard & Poors being used as support where a Fitch rating is not available
- In relation to corporates, and small to medium enterprises, both Standard & Poors and Moody's are considered to be eligible ECAIs. Where the assessments of these two ECAIs differ, the more conservative rating will be applied
- 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.

Credit and counterparty risk in the UK and Europe

The UK and European group comprises businesses in the UK, including a branch in Ireland and banking businesses in the Channel Islands and Switzerland. Credit risk arises mainly through our Private Banking and Capital Markets activities, although some credit and counterparty risk does arise in other businesses.

Private Banking

The Private Bank has businesses in the UK (London and Manchester), including branches in Ireland, the Channel Islands and Switzerland. Credit risk arises from the following activities which we undertake in the division: structured property finance, private client lending, specialised lending, growth and acquisition finance, and asset based lending on receivables and stock.

The Structured Property Finance area provides senior debt and secondary funding for property transactions covering the residential and commercial markets. Our exposure to the property market is well diversified. Our properties are well located residential or good quality commercial assets with recognised tenant covenant. Where we have had exposures to properties linked to asset performance we have experienced extremely illiquid market conditions and have had to employ appropriate strategies to exit distressed positions. Most assets are located in the UK, with limited exposure to retail property assets in Germany and Switzerland, which are anchored by major European retail covenants. Client quality and expertise are at the core of our credit philosophy. Debt service cover ratios are a core consideration in the lending process supported by reasonable loan to security values. These average at approximately 77% taking into account recent market falls. All facilities are reviewed at least annually and property values are monitored by reference to reports from our appointed panel valuation firms.

Growth and Acquisition Finance provides composite debt funding to proven management teams, running UK based mid-market companies. Transaction sizes typically range between £5 million and £15 million. Credit risk is assessed against debt service coverage from the robustness of the cash generation for the business both historically and against forecasts.

Asset Based Lending provides working capital and business loans secured on collateral or assets used in the conduct of the business, for example, account receivables, inventory, plant and machinery, and property. We also provide advances against cash flow or other assets such as committed income or rights.

Specialised Lending provides bespoke credit facilities to high net worth individuals and financially sophisticated clients. We also provide funding secured on contracted cash flows, including media rights and sponsorship transactions where certainty of serviceability, client quality and expertise are key.

Credit risk arises mainly through our Private Banking and Capital Markets activities, although some credit and counterparty risk does arise in other businesses

4

Private Client Lending provides bespoke mortgages and secured lending to high net worth and high income individuals. Credit risk is assessed against prudent debt servicing cover ratios. Lending is underpinned by good quality assets, including residential and commercial property, bank guarantees, discretionary investment portfolios and cash deposits. In determining serviceability, we also consider the liquidity of the client, including cash reserves and liquid asset holdings. Funding is characterised by long-term annuity income and a historically low probability of default. The total bespoke mortgage portfolio at 31 March 2010 was £178 million. The high sustainable income streams and liquid asset holdings exhibited by our private clients is reflected in the quality of this portfolio which has withstood the adverse market conditions and shown little increased stress during the financial year in review.

An analysis of the Private Banking loan portfolio and asset quality information is provided on pages 67 and 68.

Capital Markets

The bulk of Capital Markets activities are conducted from London and Ireland.

As part of the daily management of liquidity, the treasury function places funds with central banks (the Bank of England, the European Central Bank and, the Central Bank of Ireland) and other commercial banks and financial institutions. These market counterparties are highly rated, investment grade entities with credit risk of a systemic nature in the UK, Europe and US. A rigorous internal assessment process, supported by rating agency information, is undertaken to analyse each counterparty to which we may be potentially exposed to ascertain their credit worthiness.

Our trading portfolio consists of positions in interest rates, foreign exchange, equities, with some precious and non precious metal positions. Credit risk arises from normal trading risks. We maintain a thorough risk process that reviews and monitors all potential credit risks inherent in customer trading facilities. These positions are marked to market daily with margin calls where necessary to mitigate credit exposure in the event of counterparty default.

Within the banking business, credit risk can arise from structured finance, project and resource financing, asset finance, acquisition finance, principal finance and corporate lending activities. There are approved limits specifying the maximum exposure to each individual counterparty, to minimise concentration risk. Facilities are secured on the assets of the underlying corporate. The credit appetite for each counterparty is based on the financial strength of the principal borrower, underlying cash flow and security. While most of the activities of our Capital Markets division are concentrated in Europe, any exposure to counterparties outside this jurisdiction is mitigated through a stringent country risk approval and monitoring process, and covered by political risk insurance where deemed appropriate.

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

- Structured and Asset Finance: loans/leases against fixed assets linked to the success of the business they are employed in. These transactions amortise from anticipated cash flows
- Project Finance: provides advisory, debt and equity arranging services to renewable energy projects and public/private projects, e.g. roads, hospitals, prisons. Loans are secured on the project itself with a high degree of due diligence around both the delivery risks and the cash flow to repay any facilities
- Acquisition Finance: participation in senior debt facilities in the leveraged buy-out market relating to medium to large corporates. Average exposure is approximately £8 million per entity, giving portfolio diversity
- Commodities and Resource Finance: provides project finance and working capital lending and hedging to existing, producing, base and precious metal entities. Provable reserves and strong cash flow are paramount considerations in the credit decision process
- Principal Finance: market dislocation over the period has presented opportunities to purchase well rated debt from forced or distressed sellers at substantial discounts. The underlying assets are in areas of our core competence. The portfolio also includes residential and mortgage assets arising out of our securitisation activities (refer to page 70 for further information).

An analysis of the Capital Markets loan portfolio and asset quality information is provided on pages 67 and 68.

Investment Banking

Counterparty risk in this area is modest. All share underwriting is fully sub-underwritten with well known market counterparties. 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 all 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 mark to market losses on the underlying security.

Credit and counterparty risk in Australia

Investec Bank (Australia) Limited operates within a clearly defined framework for managing credit risk. The policies and procedures for credit risk management are consistent with those of the group and comply with the prudential standards issued by the APRA.

Credit and counterparty risk is assumed through transacting with target private and corporate clients, project and resource finance, and the placement of surplus liquidity with highly rated domestic banks and financial institutions. Details with respect to the nature of the credit and counterparty risk assumed is similar to that of the activity conducted within our UK operations.

An analysis of the Private Banking and Capital Markets loan portfolios and asset quality information is provided on page 67 and 68.

Asset quality analysis – credit risk classification and provisioning policy Audited

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

The information provided below reflects the guidelines and definitions that have been applied in assessing the asset quality of credit exposures (see pages 43 and 44). The impairment definitions and guidelines are consistent with IFRS. IFRS differs from the requirements laid out in the "International Convergence of Capital Measurement and Capital Standards" Basel II framework which has been adopted by the banking regulators in all of the locales in which we have operations. IFRS focuses on the concept of incurred loss, whereas Basel II centres on the concept of expected loss. The reconciling differences are primarily due to the fact that IFRS impairments only reflect a decrease in the value of assets with credit risk where a "loss trigger event" has occurred, and only that portion of the expected loss which has actually been incurred at the reporting date. A loss trigger event is an event which exhibits a high correlation to the crystallisation of loss.

4

Regulatory and economic capital classification	IFRS impairment treatment	Arrears, default and recoveries classification category	Description
Performing assets	For assets which form part of a homogenous portfolio, a portfolio impairment is required which recognises asset impairments that have not been individually identified. The portfolio impairment takes into account past events and does not cover impairments to exposures arising out of uncertain future events. By definition, this impairment is only calculated for credit exposures which are managed on a portfolio basis and only for assets where a loss trigger event has occurred.	Past due	An account is considered to be past due when it is greater than zero and less than or equal to 60 days past due the contractual/credit agreed payment due date, although management is not concerned and there is confidence in the counterparty's ability to repay the past due obligations.
		Special mention	The counterparty is placed in special mention when that counterparty is considered to be experiencing difficulties that may threaten the counterparty's ability to fulfill their 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; or • Any restructured credit exposures until appropriate Watchlist Committee decides otherwise. Ultimate loss is not expected, but may occur if adverse conditions persist. Supplementary reporting categories: • Credit exposures overdue 1 – 60 days • Credit exposures overdue 61 – 90 days.

<table>
<tr><th>Regulatory and economic capital classification</th><th>IFRS impairment treatment</th><th>Arrears, default and recoveries classification category</th><th>Description</th></tr>
<tr><td rowspan="3">Assets in default</td><td rowspan="3">Specific impairments are evaluated on a case-by-case basis where objective evidence of impairment has arisen. In determining specific impairments, the following factors are considered:
• Capability of the client to generate sufficient cash flow to service debt obligations and the ongoing viability of the client's business
• Likely dividend or amount recoverable on liquidation or bankruptcy
• Nature and extent of claims by other creditors
• Amount and timing of expected cash flows
• Realisable value of security held (or other credit mitigants)
• Ability of the client to make payments in the foreign currency, for foreign currency denominated accounts.</td><td>Sub-standard</td><td>The counterparty is placed in sub-standard when the credit exposure reflects an underlying, well defined weakness that may lead to probable loss if not corrected.
• The risk that such credit exposure may become an impaired asset is probable;
• The bank is relying, to a large extent, on available collateral; or
• The primary sources of repayment are insufficient to service the remaining contractual principal and interest amounts, and the bank has to rely on secondary sources for repayment. These secondary sources may include collateral, the sale of a fixed asset, refinancing and further capital.

Credit exposures overdue for more than 90 days will at a minimum be included in "Sub-standard" (or a lower quality category).</td></tr>
<tr><td>Doubtful</td><td>• The counterparty is placed in doubtful when the credit exposure is considered to be impaired but not yet considered a final loss due to some pending factors such as a merger, new financing or capital injection which may strengthen the quality of the relevant exposure.</td></tr>
<tr><td>Loss</td><td>• A counterparty is placed in the loss category when the credit exposure is considered to be uncollectible once all efforts, such as realisation of collateral and institution of legal proceedings, have been exhausted; or
• Assets in this category are expected to be written off in the short-term since the likelihood of future economic benefits resulting from such assets is remote.</td></tr>
</table>

4

Credit risk mitigation Audited

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 held physically and appropriately valued.

The bulk of collateral taken by the Private Bank, which makes up a substantial portion of on balance sheet assets, is commercial and residential real estate. 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. In the year under review, as a result of the global economic slowdown, downward pressure on the value of commercial and residential real estate continued in the first half of the financial year with low/static growth in the latter part of the financial year, in all our key operating jurisdictions (UK, Ireland and Australia). Residential and commercial property valuations will continue to form part of our increased focus on collateral assessment.

It is our policy to obtain a formal valuation, performed by an approved valuer of every commercial property offered as collateral for a lending facility before advancing funds under the credit facility and to revalue all commercial properties held as collateral on a regular basis, at the discretion of the Credit Committee. Residential properties are valued by a combination of Computer Aided Valuation (CAV) and approved valuers, if applicable. Other common forms of collateral in the retail asset class are motor vehicles, cash and share portfolios.

Property is split between residential and commercial classes with commercial consisting of investment and development sub-classes. Development property is further analysed into Residential Land, Residential Buildings, Commercial Industrial, Commercial Retail and Commercial Office.

The majority of credit mitigation within our treasury activities is in the form of netting (primarily International Swap Dealers Association, Global Master Securities Lending Agreement and International Securities Master Agreement) and margining agreements (primarily through Credit Support Agreements). Where netting agreements have been signed and the enforceability is supported by external legal opinion within the legal jurisdiction of the agreement, the exposures for all product categories covered by such agreements should be stated net of any liabilities owing by Investec to the agreement counterparty for those product categories.

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

- A legally enforceable right to set-off exists; and
- There is an 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 be denominated in the same currency and have identical maturities;
- Exposures subject to set-off are risk managed on a net basis; and
- Market practice considerations.

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

An analysis of collateral is provided on page 69.

Credit and counterparty risk year in review

UK and Europe

The year in review remained challenging as the severe deterioration in economic conditions globally continued to impact on clients' activities and underlying asset values. Increased vigilance on monitoring the existing loan portfolios coupled with early identification of clients experiencing difficulty resulted in fewer counterparties being forced to exit positions into illiquid markets with falling asset values. Risk officers working closely with clients and business units moderated large increases in impairments and defaults. Whilst impairments and defaults have risen during the financial year under review the various portfolios across the business units have proven to be resilient. The Irish market was particularly affected by economic difficulties and the local banking crisis. The fall in property asset values is as reflected in our gross default figures and increased impairments in that geography.

Given that market conditions have affected property market asset values we have curtailed our appetite for lending secured by property assets and have taken the opportunity to rebalance our portfolios with other asset classes. Where we are presented with the opportunity to consider new transactions secured by property we will continue to assess the merits of the transactions and balance the risk against the reward of assuming additional exposure in this regard. Lending supported by proven cash flow rather than asset value propositions continues to be favoured.

Core loans and advances contracted by 8.8% to £5.4 billion, primarily as a result of a cautious approach in accepting new loan exposures and a conscious effort to rebalance our existing portfolio mix.

Defaulted loans (net of impairments) have decreased from 3.53% to 3.17% of core loans and advances. The first quarter of 2010 appeared to reflect an improving economic environment as arrears, default and impairment figures tapered off and deteriorating asset quality slowed down in the final quarter.

The credit loss ratio has increased from 1.54% to 1.84%, in line with guidance previously provided. All accounts continue to be proactively managed and customers have demonstrated their ability to service loans where assets originally intended for sale have been held for longer than originally expected as a result of illiquid market conditions and cautious buyers of assets. The relatively low interest rate environment continues to favour leveraged clients with access to cash flow to meet debt servicing needs. The performance of all accounts is regularly reviewed by the independent credit function and impairments taken as necessary.

Within our Capital Markets division we have experienced increased defaults and associated write offs in our Acquisition Finance. Counterparties in the automotive, construction and leisure sectors in particular continued to experience cash flow pressures. Our exposures within this business unit are all senior secured facilities. We expect further difficulty to be experienced in this book over the next financial year, however, at a subdued level of stress. The level of impairments slowed in the third and fourth quarters of 2009 and no impairments were raised against these assets in the first quarter of 2010.

In keeping with our desire to continue sourcing better quality assets and to reposition some of our portfolios we have realigned our focus in the resource finance sector. Our intent is to attract existing, producing assets with proven reserves, good production track record and technically competent management teams in jurisdictions that we are comfortable to operate in. The resource finance exposure increased year-on-year reflecting our desire to accumulate good quality assets in this area. Exposure to resource finance transactions accounts for 1.3% of core loans and advances as at 31 March 2010.

We remained cautious with respect to lending in the Private Banking division with activity levels remaining low in the first half of the financial year and only increasing in the first quarter of 2010. We continue to work with customers who have experienced financial difficulty to arrive at an optimal solution for the client and the bank, which for example has included applying for change of use for certain property related transactions and extensions of time for properties that have continued to service their debt obligations. Where private clients have supported a transaction by way of personal guarantees, and the original exit was through the sale of assets and such sale would severely diminish the profitability of a project, in the ordinary course of business we have considered extensions to the term of the original transaction to assess market conditions and achieve an orderly exit.

The group Risk division has continued to work closely with the business units to manage the increased market risks and resultant pressure on our lending portfolios. The key focus of the group Risk division has been on proactive book management (together with the business units), repositioning some of our portfolios asset mixes as well as taking advantage of opportunities that have arisen as a result of dislocated markets.

Australia

During the year core loans and advances to customers increased by 3.4% to A$3.0 billion, predominantly through selective growth within the professional finance business unit; which provides finance to targeted members of the medical and accounting professions. This has resulted in a continued shift in portfolio mix away from lending secured by property towards other asset classes.

There has been deterioration in credit quality throughout the year under review. Defaults (net of impairments) have risen to 10.26% of core loans and advances and the credit loss ratio has decreased from 1.74% to 1.67%. A continued focus on asset quality remains fundamental to our approach to the credit environment, which is likely to remain challenging for some time.

Credit and counterparty risk information

Pages 38 to 46 describe where and how credit risk is assumed in our operations. The tables that follow provide an analysis of the our credit and counterparty exposures.

An analysis of gross credit and counterparty exposures

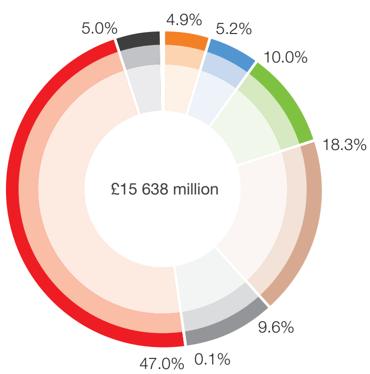
Credit and counterparty exposures increased by 24.9% to £15.6 billion largely as a result of the appreciation of the Australian Dollar against Pounds Sterling, as well as the significant increase in cash and near cash balances over the period. Cash and near cash balances increased by 98.0% to £4.6 billion and are largely reflected in the following line items in the table below: debt instruments; bank placements; sovereign, government placements.

Audited £'000	31 March 2010	31 March 2009	% change	Average*
On-balance sheet exposures	14 864 363	11 886 540	25.1	13 375 453
Securitisation exposures arising from securitisation/principal finance activities	762 867	329 810	>100	546 339
Rated instruments	364 417	214 929	69.6	289 673
Unrated instruments	50 424	58 040	(13.1)	54 232
Other	348 026	56 841	>100	202 434
Debt instruments (NCDs, bonds held, debentures)	807 625	922 975	(12.5)	865 300
Bank placements	1 557 413	1 025 252	51.9	1 291 333
Sovereign, government placements	2 854 100	916 748	>100	1 885 424
Trading exposures (positive fair value excluding potential future exposures)	1 507 367	1 254 697	20.1	1 381 032
Other credit exposures	17 311	11 315	53.0	14 313
Gross core loans and advances to customers**	7 357 680	7 425 743	(0.9)	7 391 712
Off-balance sheet exposures	774 109	632 709	22.3	703 410
Guarantees	216 827	62 250	>100	139 539
Contingent liabilities, committed facilities, other	557 282	570 459	(2.3)	563 871
Total gross credit and counterparty exposures pre collateral or other credit enhancements	15 638 472	12 519 249	24.9	14 078 863

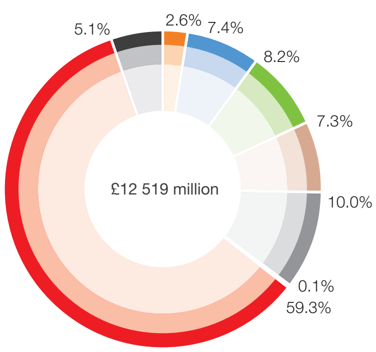
*Where the average is based on a straight line average.

**As calculated on page 53.

An analysis of gross credit and counterparty exposures



31 March 2010



31 March 2009

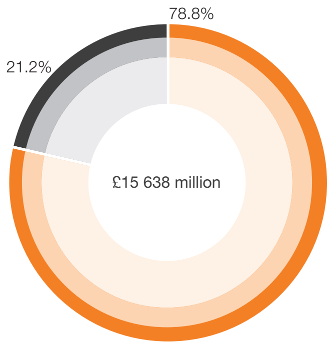
- Securitisation exposures
- Debt instruments
- Bank placements
- Sovereign, government placements
- Trading exposures
- Other credit exposures
- Gross core loans and advances to customers
- Off-balance sheet exposures

An analysis of gross credit and counterparty exposures by geography

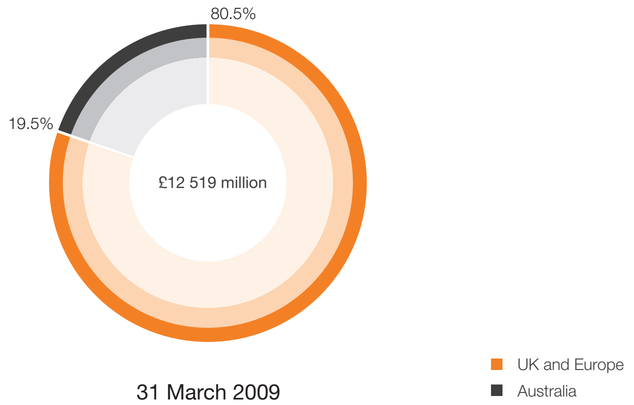
Audited £'000	UK and Europe 31 March 2010	UK and Europe 31 March 2009	Australia 31 March 2010	Australia 31 March 2009	Total 31 March 2010	Total 31 March 2009
On-balance sheet exposures	11 725 238	9 597 266	3 139 125	2 289 274	14 864 363	11 886 540
Securitisation exposures arising from securitisation/principal finance activities	693 958	329 810	68 909	–	762 867	329 810
Rated instruments	295 508	214 929	68 909	–	364 417	214 929
Unrated instruments	50 424	58 040	–	–	50 424	58 040
Other	348 026	56 841	–	–	348 026	56 841
Debt instruments (NCDs, bonds held, debentures)	205 834	289 839	601 791	633 136	807 625	922 975
Bank placements	1 487 480	892 318	69 933	132 934	1 557 413	1 025 252
Sovereign, government placements	2 348 319	916 748	505 781	–	2 854 100	916 748
Trading exposures (positive fair value excluding potential future exposures)	1 467 111	1 155 298	40 256	99 399	1 507 367	1 254 697
Other credit exposures	17 311	11 315	–	–	17 311	11 315
Gross core loans and advances to customers	5 505 225	6 001 938	1 852 455	1 423 805	7 357 680	7 425 743
Off-balance sheet exposures	605 200	483 868	168 909	148 841	774 109	632 709
Guarantees	176 381	32 909	40 446	29 341	216 827	62 250
Contingent liabilities, committed facilities,other	428 819	450 959	128 463	119 500	557 282	570 459
Total gross credit and counterparty exposures pre collateral or other credit enhancements	12 330 438	10 081 134	3 308 034	2 438 115	15 638 472	12 519 249

4

An analysis of gross credit and counterparty exposures by geography



31 March 2010



31 March 2009

4

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.

Audited £'000	Securitisation exposures arising from securitisation/principal finance activities Total	Rated instruments	Unrated instruments	Other	Debt instruments (NCDs, bonds held, debentures)
As at 31 March 2010					
Cash and balances at central banks	–	–	–	–	–
Loans and advances to banks	–	–	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	–
Trading securities	29 063	23 305	5 758	–	–
Derivative financial instruments	22 769	–	–	22 769	–
Investment securities	69 396	69 396	–	–	807 625
Loans and advances to customers	554 736	228 969	8 035	317 732	–
Securitised assets	79 378	42 747	36 631	–	–
Deferred taxation assets	–	–	–	–	–
Other assets	7 525	–	–	7 525	–
Interests in associated undertakings	–	–	–	–	–
Property and equipment	–	–	–	–	–
Goodwill	–	–	–	–	–
Intangible assets	–	–	–	–	–
Total	762 867	364 417	50 424	348 026	807 625
As at 31 March 2009					
Cash and balances at central banks	–	–	–	–	–
Loans and advances to banks	–	–	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	–
Trading securities	5 106	336	209	4 561	4 869
Derivative financial instruments*	31 733	–	–	31 733	–
Investment securities	538	–	538	–	918 106
Loans and advances to customers	214 974	155 937	43 248	15 789	–
Securitised assets	72 701	58 656	14 045	–	–
Deferred taxation assets	–	–	–	–	–
Other assets	4 758	–	–	4 758	–
Interests in associated undertakings	–	–	–	–	–
Property and equipment	–	–	–	–	–
Goodwill	–	–	–	–	–
Intangible assets	–	–	–	–	–
Total	329 810	214 929	58 040	56 841	922 975

1. *Largely relates to exposures that are classified as equity risk in the banking book. Further information is provided on pages 71 to 73.*
2. *Relates to impairments offset by intercompany exposures which we deem to have no credit exposure. Further information is provided on page 178.*
3. *Whilst the group manages all risks (including credit risk) from a day to day operational perspective these assets are within special purpose vehicles that ring fence the assets to specific credit providers and limits 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 do not hold legal credit risk or have no credit risk".*

* *As restated for reclassifications detailed in the accounting policies on page 139.*

Bank placements	Sovereign, government placements	Trading exposures (positive fair value excluding potential future exposures)	Other credit exposures	Gross core loans and advances to customers	Total credit and counter-party exposure	Assets that we deem to have no legal credit exposure	Note refer-ence	Total balance sheet
52	2 008 668	–	–	–	2 008 720	23		2 008 743
1 278 215	–	–	–	–	1 278 215	29 039		1 307 254
121 533	–	368 961	–	–	490 494	–		490 494
–	–	234 989	–	–	264 052	83 711	1	347 763
–	–	655 579	–	–	678 348	78 788	1	757 136
100 581	845 432	–	–	–	1 823 034	57 621	1	1 880 655
–	–	–	–	6 838 169	7 392 905	833 310	2	8 226 215
–	–	–	–	519 511	598 889	522 978	3	1 121 867
–	–	–	–	–	–	84 730		84 730
57 032	–	247 838	17 311	–	329 706	158 718		488 424
–	–	–	–	–	–	14 345		14 345
–	–	–	–	–	–	140 321		140 321
–	–	–	–	–	–	86 561		86 561
–	–	–	–	–	–	26 218		26 218
1 557 413	2 854 100	1 507 367	17 311	7 357 680	14 864 363	2 116 363		16 980 726
830	870 653	934	–	–	872 417	5		872 422
968 534	–	–	101	–	968 635	47 317		1 015 952
–	–	253 247	–	–	253 247	–		253 247
–	–	243 204	–	–	253 179	106 846	1	360 025
–	–	549 555	–	–	581 288	340 820	1	922 108
–	46 095	–	–	–	964 739	51 134	1	1 015 873
–	–	–	–	6 983 146	7 198 120	583 374	2	7 781 494
–	–	–	–	442 597	515 298	334 299	3	849 597
–	–	–	–	–	–	88 873		88 873
55 888	–	207 757	11 214	–	279 617	123 093		402 710
–	–	–	–	–	–	15 197		15 197
–	–	–	–	–	–	155 572		155 572
–	–	–	–	–	–	69 591		69 591
–	–	–	–	–	–	25 517		25 517
1 025 252	916 748	1 254 697	11 315	7 425 743	11 886 540	1 941 638		13 828 178

4

Detailed analysis of gross credit and counterparty exposures by industry

£'000	HNW and professional individuals	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services
As at 31 March 2010					
On-balance sheet exposures	5 319 405	18 247	184 846	2 940 033	158 283
Securitisation exposures arising from securitisation/ principal finance activities	–	–	–	–	–
Rated instruments	–	–	–	–	–
Unrated instruments	–	–	–	–	–
Other	–	–	–	–	–
Debt instruments (NCDs, bonds held, debentures)	–	–	–	–	–
Bank placements	–	–	–	–	–
Sovereign, government placements	–	–	–	2 854 100	–
Trading exposures (positive fair value excluding potential future exposures)	536	–	329	–	13 486
Other credit exposures	3 037	–	–	–	–
Gross core loans and advances to customers	5 315 832	18 247	184 517	85 933	144 797
Off-balance sheet exposures	405 820	8 977	8 155	4 961	––
Guarantees	28 120	–	2 287	–	–
Contingent liabilities, committed facilities, other	377 700	8 977	5 868	4 961	–
Total gross credit and counterparty exposures pre collateral or other credit enhancements	5 725 225	27 224	193 001	2 944 994	158 283
As at 31 March 2009					
On-balance sheet exposures	4 939 935	47 909	108 599	1 028 603	60 664
Securitisation exposures arising from securitisation/ principal finance activities	–	–	–	–	–
Rated instruments	–	–	–	–	–
Unrated instruments	–	–	–	–	–
Other	–	–	–	–	–
Debt instruments (NCDs, bonds held, debentures)	–	–	–	–	–
Bank placements	–	–	–	–	–
Sovereign, government placements	–	–	–	916 748	–
Trading exposures (positive fair value excluding potential future exposures)	6 866	–	–	186	498
Other credit exposures	8 112	8	9	82	15
Gross core loans and advances to customers	4 924 957	47 901	108 590	111 587	60 151
Off-balance sheet exposures	457 542	–	21 623	6 978	416
Guarantees	44 135	–	–	–	–
Contingent liabilities, committed facilities, other	413 407	–	21 623	6 978	416
Total gross credit and counterparty exposures pre collateral or other credit enhancements	5 397 477	47 909	130 222	1 035 581	61 080

**Only includes securitised exposures where the industry is not clearly defined.*

	Finance and insurance	Retailers and wholesalers	Manu-facturing and commerce	Real estate	Mining and resources	Leisure, entertain-ment and tourism	Transport and communi-cation	Other*	Total
	4 229 948	124 000	383 112	947 314	121 963	123 319	313 893	–	14 864 363
	282 524	–	–	480 343	–	–	–	–	762 867
	252 760	–	–	111 657	–	–	–	–	364 417
	13 793	–	–	36 631	–	–	–	–	50 424
	15 791	–	–	332 055	–	–	–	–	348 026
	807 625	–	–	–	–	–	–	–	807 625
	1 557 413	–	–	–	–	–	–	–	1 557 413
	–	–	–	–	–	–	–	–	2 854 100
	1 412 076	2 537	5 078	35 609	35 240	1 156	1 320	–	1 507 367
	13 797	–	–	477	–	–	–	–	17 311
	156 513	121 463	378 034	430 885	86 723	122 163	312 573	–	7 357 680
	239 366	2 859	54 626	–	39 680	7 494	2 171	–	774 109
	166 433	–	110	–	19 877	–	–	–	216 827
	72 933	2 859	54 516	–	19 803	7 494	2 171	–	557 282
	4 469 314	126 859	437 738	947 314	161 643	130 813	316 064	–	15 638 472
	3 601 526	107 299	413 566	836 367	191 134	224 142	244 841	81 955	11 886 540
	193 247	–	–	54 608	–	–	–	81 955	329 810
	137 551	–	–	14 438	–	–	–	62 940	214 929
	43 248	–	–	14 045	–	–	–	747	58 040
	12 448	–	–	26 125	–	–	–	18 268	56 841
	922 975	–	–	–	–	–	–	–	922 975
	1 025 252	–	–	–	–	–	–	–	1 025 252
	–	–	–	–	–	–	–	–	916 748
	1 137 460	895	826	–	106 209	71	1 686	–	1 254 697
	897	22	291	632	1 090	147	10	–	11 315
	321 695	106 382	412 449	781 127	83 835	223 924	243 145	–	7 425 743
	1 966	1 324	72 346	21 734	32 970	11 202	4 608	–	632 709
	–	–	–	–	18 115	–	–	–	62 250
	1 966	1 324	72 346	21 734	14 855	11 202	4 608	–	570 459
	3 603 492	108 623	485 912	858 101	224 104	235 344	249 449	81 955	12 519 249

Summary analysis of gross credit and counterparty exposures by industry

Private Banking loans account for 72.2% of total core loans and advances, as represented by the industry classification 'HNW and professional individuals'. A description of the type of lending we undertake within the Private Bank is provided on pages 40 and 41, and a more detailed analysis of the Private Banking loan portfolio is provided on pages 67 and 68. The remainder of core loans and advances largely reside within our Capital Markets division and are evenly spread across industry sectors. A description of the type of lending we undertake within the Capital Markets division is provided on page 41, and a more detailed analysis of the Capital Markets loan portfolio is provided on pages 67 and 68.

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, largely to our HNW and professional individual Private Banking clients.

£'000	Gross core loans and advances		Other credit and counterparty exposures		Total	
	31 March 2010	31 March 2009	31 March 2010	31 March 2009	31 March 2010	31 March 2009
HNW and professional individuals	5 315 832	4 924 957	409 393	472 520	5 725 225	5 397 477
Agriculture	18 247	47 901	8 977	8	27 224	47 909
Electricity, gas and water (utility services)	184 517	108 590	8 484	21 632	193 001	130 222
Public and non-business services	85 933	111 587	2 859 061	923 994	2 944 994	1 035 581
Business services	144 797	60 151	13 486	929	158 283	61 080
Finance and insurance	156 513	321 695	4 312 801	3 281 797	4 469 314	3 603 492
Retailers and wholesalers	121 463	106 382	5 396	2 241	126 859	108 623
Manufacturing and commerce	378 034	412 449	59 704	73 463	437 738	485 912
Real estate	430 885	781 127	516 429	76 974	947 314	858 101
Mining and resources	86 723	83 835	74 920	140 269	161 643	224 104
Leisure, entertainment and tourism	122 163	223 924	8 650	11 420	130 813	235 344
Transport and communication	312 573	243 145	3 491	6 304	316 064	249 449
Other*	–	–	–	81 955	–	81 955
Total	7 357 680	7 425 743	8 280 792	5 093 506	15 638 472	12 519 249

**Other: Only includes securitised exposures where the industry is not clearly defined.*

The following methodology has been applied:

- Warehouse facilities and warehouse assets arising out of our securitisation and principal finance activities have been deducted
- Loans and advances which have been originated by the group and securitised primarily to provide an alternative source of funding are added to loans and advances

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

In order to assess and analyse the credit risk associated with loans and advances we believe that certain adjustments should be made to "loans and advances to customers" as reflected on the IFRS consolidated balance sheet. We believe that these adjustments are necessary in order to derive a number that reflects actual core lending activities.

Calculation of core loans and advances to customers

Audited £'000	31 March 2010	31 March 2009
Loans (pre-impairments and intercompany loans) as per balance sheet	7 392 905	7 215 721
Less: warehouse facilities and warehouse assets arising out of our securitisation and principal finance activities (pre-impairments)	(554 736)	(232 575)
Add: own-originated securitised assets	519 511	442 597
Gross core loans and advances to customers (pre-impairments)	7 357 680	7 425 743

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 pages 45 and 46.

Audited £'000	31 March 2010	31 March 2009
Gross core loans and advances to customers	7 357 680	7 425 743
Total impairments	(133 128)	(90 261)
Portfolio impairments	(19 910)	(3 032)
Specific impairments	(113 218)	(87 229)
Net core loans and advances to customers	7 224 552	7 335 482
Average gross core loans and advances to customers	7 391 712	7 000 098
Current loans and advances to customers	6 561 010	6 499 079
Total gross non-current loans and advances to customers	796 670	926 664
Past due loans and advances to customers (1 – 60 days)	200 040	459 609
Special mention loans and advances to customers	105 396	32 284
Default loans and advances to customers	491 234	434 771
Gross core loans and advances to customers	7 357 680	7 425 743
Total gross non-current core loans and advances to customers	796 670	926 664
Default loans that are current and not impaired	4 986	11 057
Gross core loans and advances to customers that are past due but not impaired	485 452	708 653
Gross core loans and advances to customers that are impaired	306 232	206 954
Total income statement charge for impairments on core loans and advances	(133 186)	(110 236)
Gross default loans and advances to customers	491 234	434 771
Specific impairments	(113 218)	(87 229)
Portfolio impairments	(19 910)	(3 032)
Defaults net of impairments	358 106	344 510
Collateral and other credit enhancements	405 645	381 122
Net default loans and advances to customers (limited to zero)	–	–
Ratios:		
Specific impairments as a % of gross core loans and advances to customers	1.54%	1.17%
Portfolio impairments as a % of gross core loans and advances to customers	0.27%	0.04%
Total impairments as a % of gross core loans and advances to customers	1.81%	1.22%
Specific impairments as a % of gross default loans	23.05%	20.06%
Gross defaults as a % of gross core loans and advances to customers	6.68%	5.85%
Defaults (net of impairments) as a % of net core loans and advances to customers	4.96%	4.70%
Net defaults as a % of gross core loans and advances to customers	–	–
Credit loss ratio (i.e income statement impairment charge on loans as a % of average loans and advances)	1.71%	1.52%

4

An analysis of core loans and advances to customers and asset quality by geography

Audited £'000	UK and Europe 31 March 2010	UK and Europe 31 March 2009	Australia 31 March 2010	Australia 31 March 2009	Total 31 March 2010	Total 31 March 2009
Gross core loans and advances to customers	5 505 225	6 001 938	1 852 455	1 423 805	7 357 680	7 425 743
Total impairments	(97 213)	(74 627)	(35 915)	(15 634)	(133 128)	(90 261)
Portfolio impairments	(18 673)	(3 032)	(1 237)	–	(19 910)	(3 032)
Specific impairments	(78 540)	(71 595)	(34 678)	(15 634)	(113 218)	(87 229)
Net core loans and advances to customers	5 408 012	5 927 311	1 816 540	1 408 171	7 224 552	7 335 482
% of total	74.9%	80.8%	25.1%	19.2%	100.0%	100.0%
% change since 31 March 2009	(8.8)%	–	29.0%	–	(1.5%)	–
Average gross core loans and advances to customers	5 753 582	5 697 378	1 638 130	1 302 721	7 391 712	7 000 099
Current loans and advances to customers	4 973 482	5 252 891	1 587 528	1 246 188	6 561 010	6 499 079
Total gross non current loans and advances to customers	531 743	749 047	264 927	177 617	796 670	926 664
Past due loans and advances to customers (1 – 60 days)	165 540	442 966	34 500	16 643	200 040	459 609
Special mention loans and advances to customers	97 344	22 445	8 052	9 839	105 396	32 284
Default loans and advances to customers	268 859	283 636	222 375	151 135	491 234	434 771
Gross core loans and advances to customers	5 505 225	6 001 938	1 852 455	1 423 805	7 357 680	7 425 743
Total gross non-current loans and advances to customers	531 743	749 047	264 927	177 617	796 670	926 664
Default loans that are current and not impaired	4 986	11 057	–	–	4 986	11 057
Gross core loans and advances to customers that are past due but not impaired	327 924	590 725	157 528	117 928	485 452	708 653
Gross core loans and advances to customers that are impaired	198 833	149 265	107 399	59 689	306 232	206 954
Total income statement charge for impairments on core loans	(105 776)	(87 551)	(27 410)	(22 685)	(133 186)	(110 236)
Gross default loans and advances to customers	268 859	283 636	222 375	151 135	491 234	434 771
Specific impairments	(78 540)	(71 595)	(34 678)	(15 634)	(113 218)	(87 229)
Portfolio impairments	(18 673)	(3 032)	(1 237)	–	(19 910)	(3 032)
Defaults net of impairments	171 646	209 009	186 460	135 501	358 106	344 510
Collateral and other credit enhancements	192 491	217 670	213 154	163 452	405 645	381 122
Net defaults loans and advances to customers (limited to zero)	–	–	–	–	–	–

Audited	UK and Europe		Australia		Total	
	31 March 2010	31 March 2009	31 March 2010	31 March 2009	31 March 2010	31 March 2009
Specific impairments as a % of gross core loans and advances to customers	1.43%	1.19%	1.87%	1.10%	1.54%	1.17%
Portfolio impairments as a % of gross core loans and advances to customers	0.34%	0.05%	0.07%	0.00%	0.27%	0.04%
Total impairments as a % of gross core loans and advances to customers	1.77%	1.24%	1.94%	1.10%	1.81%	1.22%
Specific impairments as a % of gross default loans	29.21%	25.24%	15.59%	10.34%	23.05%	20.06%
Gross defaults as a % of gross core loans and advances to customers	4.88%	4.73%	12.00%	10.61%	6.68%	5.85%
Gross defaults (net of impairments) as a % of net core loans and advances to customers	3.17%	3.53%	10.26%	9.62%	4.96%	4.70%
Net defaults as a % of gross core loans and advances to customers	–	–	–	–	–	–
Credit loss ratio (i.e income statement impairment charge on loans as a % of average loans and advances)	1.72%	1.48%	1.67%	1.74%	1.71%	1.52%

An analysis of core loans and advances to customers and asset quality by geography and division – As at 31 March 2010

Audited £'000	Private Bank UK and Europe	 Australia	 Total
Gross core loans and advances to customers	3 635 817	1 680 015	5 315 832
Total impairments	(59 860)	(31 048)	(90 908)
Portfolio impairments	(4 458)	(1 237)	(5 695)
Specific impairments	(55 402)	(29 811)	(85 213)
Net core loans and advances to customers	3 575 957	1 648 967	5 224 924
Average gross core loans and advances	3 653 085	1 466 415	5 119 500
Current loans and advances to customers	3 196 223	1 426 910	4 623 133
Total gross non current loans and advances to customers	439 594	253 105	692 699
Past due loans and advances to customers (1 – 60 days)	146 705	34 500	181 205
Special mention loans and advances to customers	90 294	8 052	98 346
Default loans and advances to customers	202 595	210 553	413 148
Gross core loans and advances to customers	3 635 817	1 680 015	5 315 832
Total gross non-current loans and advances to customers	439 594	253 105	692 699
Default loans that are current and not impaired	4 986	–	4 986
Gross core loans and advances to customers that are past due but not impaired	277 179	155 275	432 454
Gross core loans and advances to customers that are impaired	157 429	97 830	255 259
Total income statement charge for impairments on core loans	(54 065)	(19 136)	(73 201)
Gross default loans and advances to customers	202 595	210 553	413 148
Specific impairments	(55 402)	(29 811)	(85 213)
Portfolio impairments	(4 458)	(1 237)	(5 695)
Defaults net of impairments	142 735	179 505	322 240
Collateral and other credit enhancements	148 861	206 198	355 059
Net default loans and advances to customers (limited to zero)	–	–	–
Specific impairments as a % of gross core loans and advances to customers	1.52%	1.77%	1.60%
Portfolio impairments as a % of gross core loans and advances to customers	0.12%	0.07%	0.11%
Total impairments as a % of gross core loans and advances to customers	1.65%	1.85%	1.71%
Specific impairments as a % of gross default loans	27.35%	14.16%	20.63%
Gross defaults as a % of gross core loans and advances to customers	5.57%	12.53%	7.77%
Gross defaults (net of impairments) as a % of net core loans and advances to customers	3.99%	10.89%	6.17%
Net defaults as a % of gross core loans and advances to customers	–	–	–
Credit loss ratio (i.e income statement impairment charge on loans as a % of average loans and advances)	1.48%	1.30%	1.43%

* *Largely includes lending within our Central Funding division.*

	Capital Markets			Other*			
	UK and Europe	Australia	Total	UK and Europe	Australia	Total	Total
	1 777 498	170 692	1 948 190	91 909	1 749	93 658	7 357 680
	(24 853)	(4 867)	(29 720)	(12 500)	–	(12 500)	(133 128)
	(1 715)	–	(1 715)	(12 500)	–	(12 500)	(19 910)
	(23 138)	(4 867)	(28 005)	–	–	–	(113 218)
	1 752 645	165 825	1 918 470	79 409	1 749	81 158	7 224 552
	2 028 407	170 220	2 198 627	72 089	1 496	73 585	7 391 712
	1 685 350	158 869	1 844 219	91 909	1 749	93 658	6 561 010
	92 148	11 823	103 971	–	–	–	796 670
	18 835	–	18 835	–	–	–	200 040
	7 050	–	7 050	–	–	–	105 396
	66 263	11 823	78 086	–	–	–	491 234
	1 777 498	170 692	1 948 190	91 909	1 749	93 658	7 357 680
	92 148	11 823	103 971	–	–	–	796 670
	–	–	–	–	–	–	4 986
	50 744	2 254	52 998	–	–	–	485 452
	41 404	9 569	50 973	–	–	–	306 232
	(39 211)	(8 274)	(47 485)	(12 500)	–	(12 500)	(133 186)
	66 263	11 823	78 086	–	–	–	491 234
	(23 138)	(4 867)	(28 005)	–	–	–	(113 218)
	(1 715)	–	(1 715)	(12 500)	–	(12 500)	(19 910)
	41 410	6 956	48 366	(12 500)	–	(12 500)	358 106
	43 630	6 956	50 586	–	–	–	405 645
	–	–	–	–	–	–	–
	1.30%	2.85%	1.44%	–	–	–	1.54%
	0.10%	–	0.09%	13.60%	–	13.35%	0.27%
	1.40%	2.85%	1.53%	13.60%	–	13.35%	1.81%
	34.92%	41.17%	35.86%	–	–	–	23.05%
	3.73%	6.93%	4.01%	–	–	–	6.88%
	2.36%	4.19%	2.52%	–	–	–	4.96%
	–	–	–	–	–	–	–
	1.62%	4.86%	1.84%	17.34%	–	16.99%	1.71%

4

An analysis of core loans and advances to customers and asset quality by geography and division – As at 31 March 2009

Audited £'000	Private Bank UK and Europe	Private Bank Australia	Private Bank Total
Gross core loans and advances to customers	3 670 353	1 252 814	4 923 167
Total impairments	(36 297)	(13 050)	(49 347)
Portfolio impairments	(2 133)	–	(2 133)
Specific impairments	(34 164)	(13 050)	(47 214)
Net core loans and advances to customers	3 634 056	1 239 764	4 873 820
Average gross core loans and advances	3 507 694	1 145 563	4 653 257
Current loans and advances to customers	3 113 185	1 088 511	4 201 696
Total gross non current loans and advances to customers	557 168	164 303	721 471
Past due loans and advances to customers (1 – 60 days)	386 846	15 975	402 821
Special mention loans and advances to customers	3 087	9 611	12 698
Default loans and advances to customers	167 235	138 717	305 952
Gross core loans and advances to customers	3 670 353	1 252 814	4 923 167
Total gross non-current loans and advances to customers	557 168	164 303	721 471
Default loans that are current and not impaired	6 399	–	6 399
Gross core loans and advances to customers that are past due but not impaired	463 214	116 612	579 826
Gross core loans and advances to customers that are impaired	87 555	47 691	135 246
Total income statement charge for impairments on core loans	(50 955)	(20 201)	(71 156)
Gross default loans and advances to customers	167 235	138 717	305 952
Specific impairments	(34 164)	(13 050)	(47 214)
Portfolio impairments	(2 132)	–	(2 133)
Defaults net of impairments	130 939	125 667	256 605
Collateral and other credit enhancements	136 986	153 617	290 603
Net default loans and advances to customers (limited to zero)	–	–	–
Specific impairments as a % of gross core loans and advances to customers	0.93%	1.04%	0.96%
Portfolio impairments as a % of gross core loans and advances to customers	0.06%	–	0.04%
Total impairments as a % of gross core loans and advances to customers	0.99%	1.04%	1.00%
Specific impairments as a % of gross default loans	20.43%	9.41%	15.43%
Gross defaults as a % of gross core loans and advances to customers	4.56%	11.07%	6.21%
Gross defaults (net of impairments) as a % of net core loans and advances to customers	3.60%	10.14%	5.27%
Net defaults as a % of gross core loans and advances to customers	–	–	–
Credit loss ratio (i.e income statement impairment charge on loans as a % of average loans and advances)	1.45%	1.76%	1.53%

** Largely includes lending within our Central Funding division.*

4

Capital Markets			Other*			
UK and Europe	Australia	Total	UK and Europe	Australia	Total	Total
2 279 316	169 748	2 449 064	52 269	1 243	53 512	7 425 743
(38 331)	(2 583)	(40 914)	–	–	–	(90 261)
(899)	–	(899)	–	–	–	(3 032)
(37 432)	(2 583)	(40 015)	–	–	–	(87 229)
2 240 985	167 165	2 408 150	52 269	1 243	53 512	7 335 482
2 139 842	155 930	2 295 772	49 842	1 227	51 069	7 000 098
2 087 437	156 434	2 243 871	52 269	1 243	53 512	6 499 079
191 879	13 314	205 193	–	–	–	926 664
56 120	668	56 788	–	–	–	459 609
19 358	228	19 586	–	–	–	32 284
116 401	12 418	128 819	–	–	–	434 771
2 279 316	169 748	2 449 064	52 269	1 243	53 512	7 425 743
191 879	13 314	205 193	–	–	–	926 664
4 658	–	4 658	–	–	–	11 057
127 511	1 316	128 827	–	–	–	708 653
59 710	11 998	71 708	–	–	–	206 954
(36 596)	(2 484)	(39 080)	–	–	–	(110 236)
116 401	12 418	128 819	–	–	–	434 771
(37 431)	(2 583)	(40 015)	–	–	–	(87 229)
(899)	–	(899)	–	–	–	(3 032)
78 070	9 835	87 905	–	–	–	344 510
80 684	9 835	90 519	–	–	–	381 122
–	–	–	–	–	–	–
1.64%	1.52%	1.63%	–	–	–	1.17%
0.04%	–	0.04%	–	–	–	0.04%
1.68%	1.52%	1.67%	–	–	–	1.22%
32.16%	20.80%	31.06%	–	–	–	20.06%
5.11%	7.32%	5.26%	–	–	–	5.85%
3.48%	5.88%	3.65%	–	–	–	4.70%
–	–	–	–	–	–	–
1.54%	1.59%	1.55%	–	–	–	1.52%

An age analysis of gross non-current core loans and advances to customers

Audited £'000	31 March 2010	31 March 2009
Default loans that are current	13 435	26 047
1 – 60 days	203 844	484 702
61 – 90 days	106 743	38 024
91 – 180 days	160 704	191 266
181 – 365 days	91 870	110 086
>365 days	220 074	76 539
Total gross non-current loans and advances to customers (actual capital exposure)	796 670	926 664
1 – 60 days	7 925	15 796
61 – 90 days	4 510	6 999
91 – 180 days	6 365	17 658
181 – 365 days	84 473	50 043
>365 days	146 074	43 363
Total gross non-current loans and advances to customers (actual amount in arrears)	249 347	133 859

A further age analysis of gross non-current core loans and advances to customers

Audited £'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
As at 31 March 2010							
Default loans that are current and not impaired							
Total capital exposure	4 986	–	–	–	–	–	4 986
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	200 122	105 314	52 336	51 517	76 163	485 452
Amount in arrears	–	4 321	4 094	2 489	45 220	59 558	115 682
Gross core loans and advances to customers that are impaired							
Total capital exposure	8 449	3 722	1 429	108 368	40 353	143 911	306 232
Amount in arrears	–	3 604	416	3 876	39 253	86 516	133 665
As at 31 March 2009							
Default loans that are current and not impaired							
Total capital exposure	11 057	–	–	–	–	–	11 057
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	461 278	33 209	78 184	86 988	48 994	708 653
Amount in arrears	–	5 663	5 025	13 784	37 369	23 711	85 552
Gross core loans and advances to customers that are impaired							
Total capital exposure	14 990	23 424	4 815	113 082	23 098	27 545	206 954
Amount in arrears	–	10 133	1974	3 874	12 674	19 652	48 307

An age analysis of gross non-current core loans and advances to customers as at 31 March 2010 (based on total capital exposure)

Audited £'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	200 040	–	–	–	–	200 040
Special mention	–	82	105 314	–	–	–	105 396
Special mention (1 – 90 days)	–	82	2 510	–	–	–	2 592
Special mention (61 – 90 days and item well secured)	–	–	102 804	–	–	–	102 804
Default	13 435	3 722	1 429	160 704	91 870	220 074	491 234
Sub-standard	11 218	–	1 013	88 223	51 517	117 404	269 375
Doubtful	1 674	3 722	416	18 784	39 457	102 314	166 367
Loss	543	–	–	53 697	896	356	55 492
Total	13 435	203 844	106 743	160 704	91 870	220 074	796 670

An age analysis of gross non-current core loans and advances to customers as at 31 March 2010 (based on actual amount in arrears)

Audited £'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	4 319	–	–	–	–	4 319
Special mention	–	2	4 094	–	–	–	4 096
Special mention (1 – 90 days)	–	2	2 191	–	–	–	2 193
Special mention (61 – 90 days and item well secured)	–	–	1 903	–	–	–	1 903
Default	–	3 604	416	6 365	84 473	146 074	240 932
Sub-standard	–	–	–	2 986	45 220	59 558	107 764
Doubtful	–	3 604	416	3 335	39 253	86 516	133 124
Loss	–	–	–	44	–	–	44
Total	–	7 925	4 510	6 365	84 473	146 074	249 347

An age analysis of gross non-current core loans and advances to customers as at 31 March 2009 (based on total capital exposure)

Audited £'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	459 609	–	–	–	–	459 609
Special mention	–	88	32 196	–	–	–	32 284
Special mention (1 – 90 days)	–	88	–	–	–	–	88
Special mention (61 – 90 days and item well secured)	–	–	32 196	–	–	–	32 196
Default	26 047	25 005	5 828	191 266	110 086	76 539	434 771
Sub-standard	13 711	1 581	5 170	126 641	95 087	50 520	292 710
Doubtful	12 336	23 424	658	47 010	14 999	24 943	123 370
Loss	–	–	–	17 615	–	1 076	18 691
Total	26 047	484 702	38 024	191 266	110 086	76 539	926 664

An age analysis of gross non-current core loans and advances to customers as at 31 March 2009 (based on actual amount in arrears)

Audited £'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	5 650	–	–	–	–	5 650
Special mention	–	2	5 010	–	–	–	5 012
Special mention (1 – 90 days)	–	2	–	–	–	–	2
Special mention (61 – 90 days and item well secured)	–	–	5 010	–	–	–	5 010
Default	–	10 144	1 989	17 658	50 043	43 363	123 197
Sub-standard	–	11	1 380	14 068	37 369	23 712	76 540
Doubtful	–	10 133	609	3 560	12 674	18 591	45 567
Loss	–	–		30	–	1 060	1 090
Total	–	15 796	6 999	17 658	50 043	43 363	133 859

An analysis of core loans and advances to customers

Audited £'000	Gross core loans and advances that are neither past due nor impaired	Gross core loans and advances that are past due but not impaired	Gross core loans and advances that are impaired	Total gross core loans and advances (actual capital exposure)	Specific impairments	Portfolio impairments	Total net core loans and advances (actual capital exposure)	Actual amount in arrears
As at 31 March 2010								
Current core loans and advances	6 561 010	–	–	6 561 010	–	(16 689)	6 544 321	–
Past due (1 – 60 days)	–	200 040	–	200 040	–	–	200 040	4 319
Special mention	–	105 396	–	105 396	–	–	105 396	4 096
Special mention (1 – 90 days)	–	2 592	–	2 592	–	–	2 592	2 193
Special mention (61 – 90 days and item well secured)	–	102 804	–	102 804	–	–	102 804	1 903
Default	4 986	180 016	306 232	491 234	(113 218)	(3 221)	374 795	240 932
Sub-standard	4 986	177 934	86 455	269 375	(23 532)	(1 984)	243 859	107 764
Doubtful	–	–	166 367	166 367	(66 694)	(1 237)	98 436	133 124
Loss	–	2 082	53 410	55 492	(22 992)	–	32 500	44
Total	6 565 996	485 452	306 232	7 357 680	(113 218)	(19 910)	7 224 552	249 347
As at 31 March 2009								
Current core loans and advances	6 499 079	–	–	6 499 079	–	(3 032)	6 496 047	–
Past due (1 – 60 days)		459 609	–	459 609	–	–	459 609	5 650
Special mention	–	32 284	–	32 284	–	–	32 284	5 012
Special mention (1 – 90 days)	–	88	–	88	–	–	88	2
Special mention (61 – 90 days and item well secured)	–	32 196	–	32 196	–	–	32 196	5 010
Default	11 057	216 760	206 954	434 771	(87 229)	–	347 542	123 197
Sub-standard	11 057	216 760	64 893	292 710	(46 061)	–	246 649	76 540
Doubtful	–	–	123 370	123 370	(32 773)	–	90 597	45 567
Loss	–	–	18 691	18 691	(8 395)	–	10 296	1 090
Total	6 510 136	708 653	206 954	7 425 743	(87 229)	(3 032)	7 335 482	133 859

4

4

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

Audited £'000	Current core loans and advances	Past due (1 – 60 days)	Special mention (1 – 90 days)
As at 31 March 2010			
Private Banking professional and HNW individuals	4 623 132	181 205	2 592
Corporate sector	1 631 111	18 835	–
Banking, insurance, financial services (excluding sovereign)	155 893	–	–
Public and government sector (including central banks)	85 140	–	–
Trade finance	65 734	–	–
Total gross core loans and advances to customers	6 561 010	200 040	2 592
As at 31 March 2009			
Private Banking professional and HNW individuals	4 199 804	402 821	88
Corporate sector	1 866 578	56 788	–
Banking, insurance, financial services (excluding sovereign)	321 474	–	–
Public and government sector (including central banks)	111 223	–	–
Trade finance	–	–	–
Total gross core loans and advances to customers	6 499 079	459 609	88

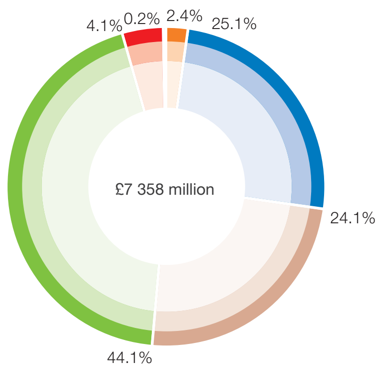
Summary analysis of gross core loans and advances to customers by counterparty type

Audited £'000	31 March 2010	31 March 2009
Private Banking professional and HNW individuals	5 315 832	4 924 957
Corporate sector	1 733 668	2 067 504
Banking, insurance, financial services (excluding sovereign)	156 513	321 695
Public and government sector (including central banks)	85 933	111 587
Trade finance	65 734	–
Total gross core loans and advances to customers	7 357 680	7 425 743

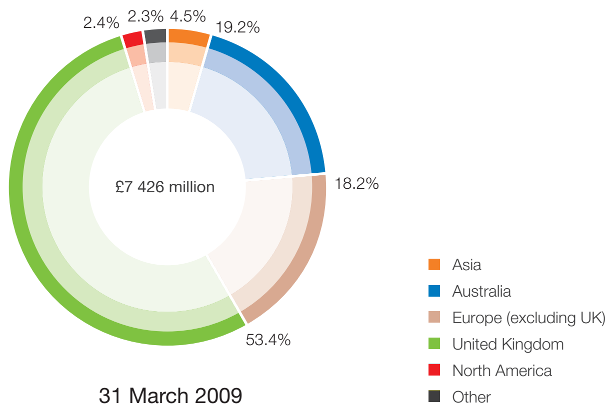
	Special mention (61 – 90 days and well secured)	Sub-standard	Doubtful	Loss	Total gross core loans and advances to customers	Portfolio impairments	Specific impairments	Total impairments
	95 754	232 627	125 030	55 492	5 315 832	(5 695)	(85 213)	(90 908)
	7 050	36 748	39 924	–	1 733 668	(1 715)	(26 945)	(28 660)
	–	–	620	–	156 513	(12 500)	(507)	(13 007)
	–	–	793	–	85 933	–	(553)	(553)
	–	–	–	–	65 734	–	–	–
	102 804	269 375	166 367	55 492	7 357 680	(19 910)	(113 218)	(133 128)
	16 291	194 540	93 417	17 996	4 924 957	(2 133)	(47 215)	(49 348)
	15 905	98 170	29 368	695	2 067 504	(899)	(39 626)	(40 525)
	–	–	221	–	321 695	–	(161)	(161)
	–	–	364	–	111 587	–	(227)	(227)
	–	–	–	–	–	–	–	–
	32 196	292 710	123 370	18 691	7 425 743	(3 032)	(87 229)	(90 261)

Additional information

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



31 March 2010



31 March 2009

4

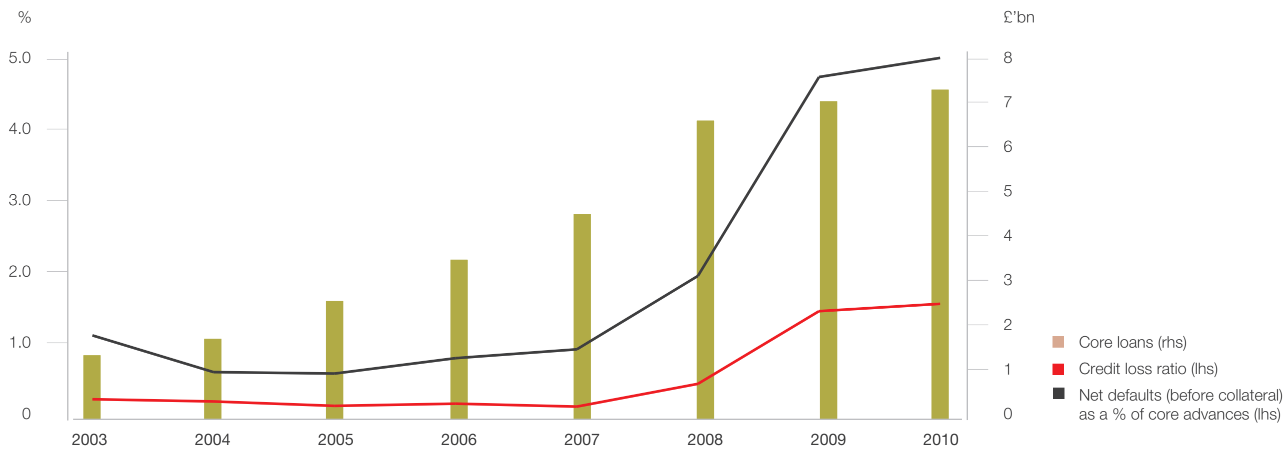
An analysis of default core loans and advances as at 31 March 2010

£' million	UK and Europe				Australia			
	Gross core loans	Gross defaults	Collateral	Impairments	Gross core loans	Gross defaults	Collateral	Impairments
Private Bank								
Residential property investment	532	–	–	–	146	71	58	(13)
Residential mortgages (owner occupied and second homes)	178	–	–	–	41	–	–	–
Residential property development	792	133	99	(36)	196	8	4	(4)
Commercial property investment	1 160	13	10	(3)	568	109	118	(13)
Commercial property development	421	49	34	(16)	34	9	12	–
Cash and securities backed lending	190	1	1	–	19	–	–	–
Asset backed lending	226	1	–	–	529	14	14	(1)
Unlisted securities and general corporate lending	75	–	–	–	99	–	–	–
Unsecured lending	62	5	5	(3)	48	–	–	–
Other*	–	–	–	(2)	–	–	–	–
Total Private Bank	3 636	202	149	(60)	1 680	211	206	(31)
Capital Markets								
Acquisition finance	638	–	–	–	–	–	–	–
Small ticket asset finance	351	28	7	(21)	–	–	–	–
Principal finance	432	26	23	(3)	61	3	3	–
Project finance	134	–	3	–	69	–	–	–
Structured finance	157	12	11	(1)	10	–	–	–
Resource finance and commodities	65	–	–	–	31	9	4	(5)
Total Capital Markets	1 777	66	44	(25)	171	12	7	(5)
Other**	92	–	–	(12)	2	–	–	–
Total group	5 505	268	193	(97)	1 853	223	213	(36)

**Relates to portfolio impairments.*

***Largely includes lending activities within our Central Funding division.*

UK, Europe and Australia



Total group			
Gross core loans	Gross defaults	Collateral	Impairments
678	71	58	(13)
219	–	–	–
988	141	103	(40)
1 728	122	128	(16)
455	58	46	(16)
209	1	1	–
755	15	14	(1)
174	–	–	–
122	8	5	(3)
–	–	–	(5)
5 316	413	355	(91)
638	–	–	–
351	28	7	(21)
493	29	26	(3)
203	–	3	–
167	12	11	(1)
96	9	4	(5)
1 948	78	51	(30)
94	–	–	(12)
7 358	491	406	(133)

4

4

Collateral

The following disclosure is made with respect to Basel II requirements and definitions.

£'000	Collateral held against Gross core loans and advances	Other credit and counterparty exposures*	Total
As at 31 March 2010			
Eligible financial collateral	315 508	51 704	367 212
Listed shares	119 853	24 808	144 661
Cash	195 655	26 896	222 551
Debt securities issued by sovereigns	–	–	–
Mortgage bonds	6 447 603	24 273	6 471 876
Residential mortgages	1 472 205	789	1 472 994
Residential development	1 592 869	15 580	1 608 449
Commercial property development	846 895	7 839	854 734
Commercial property investments	2 535 634	65	2 535 699
Other collateral	3 589 501	9 884	3 599 385
Unlisted shares	364 706	4 111	368 817
Bonds other than mortgage bonds	55 516	–	55 516
Debtors, stock and other corporate assets	2 054 324	5 773	2 060 097
Guarantees	390 812	–	390 812
Credit derivatives	–	–	–
Other	724 143	–	724 143
Total collateral	10 352 612	85 861	10 438 473
As at 31 March 2009			
Eligible financial collateral	400 128	277 976	678 104
Listed shares	26 540	4 408	30 948
Cash	373 588	44 021	417 609
Debt securities issued by sovereigns	–	229 547	229 547
Mortgage bonds	7 148 931	18 391	7 167 322
Residential mortgages	1 628 857	4 259	1 633 116
Residential development	1 979 632	12 167	1 991 799
Commercial property development	1 009 930	1 954	1 011 884
Commercial property investments	2 530 512	11	2 530 523
Other collateral	3 005 417	10 715	3 016 132
Unlisted shares	125 844	4 788	130 632
Bonds other than mortgage bonds	12 689	–	12 689
Debtors, stock and other corporate assets	2 465 205	5 924	2 471 129
Guarantees	52 056	3	52 059
Credit derivatives	–	–	–
Other	349 623	–	349 623
Total collateral	10 554 476	307 082	10 861 558

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

Securitisation/principal finance activities and exposures

The information below sets out the initiatives we have focused on over the past few years, albeit that some of these business lines have been significantly curtailed given the current economic climate.

UK and Europe

The Principal Finance business focuses on securitisation of our assets, predominantly residential and commercial mortgages. We also undertake trading and investment in structured credit investments where we have invested in rated and unrated debt instruments largely within the UK and Europe and to a lesser extent in the US.

Australia

Investec Bank (Australia) Limited acquired Experien in October 2007. Assets originated by the business have been securitised. These amount to A$860 million (2009: A$914 million) and include leases and instalment debtors (A$500 million), residential mortgages (A$41 million), commercial mortgages (A$187 million) and other loans, for example overdrafts (A$132 million).These securitisation structures have all been rated by Standard and Poor's.

Developments within the international economy have impacted on securitisation/ principal finance activities and have limited our strategic initiatives in this space

4

*An analysis of structured credit investments

£'million	Rated**	Unrated	Other	Total
US sub-prime	1	–	–	1
US corporate loans	34	6	–	40
European ABS	5	8	–	13
European RMBS	208	36	315	559
European CMBS	62	–	–	62
European credit cards	5	–	–	5
South African RMBS	12	–	–	12
Australian RMBS	37	–	–	37
Other (credit default swaps)	–	–	33	33
Total	364	50	348	762

**A further analysis of rated structured credit investments

£'million	AAA	AA	A	BBB	BB	B	C and below	Total
US sub-prime	–	–	–	–	–	–	1	1
US corporate loans	–	–	–	–	6	7	21	34
European ABS	–	–	5	–	–	–	–	5
European RMBS	101	47	11	19	18	1	11	208
European CMBS	11	12	13	18	8	–	–	62
European credit cards	–	–	5	–	–	–	–	5
South African RMBS	–	12	–	–	–	–	–	12
Australian RMBS	22	7	5	3	–	–	–	37
Total	134	78	39	40	32	8	33	364

Equity and investment risk in the banking book

Equity and investment risk description

Equity and investment risk in the banking book arises primarily from the following activities conducted within the group:

- Investment Banking Principal Investments (Private Equity and Direct 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.
- Lending transactions (within the Private Banking and Capital Markets divisions): 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 equity and investment risk

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

Nature of equity and investment risk	Management of risk
Listed equities	Investment Committee, market risk management and ERRF
Investment Banking Principal Finance investments	Investment Committee and ERRF
Embedded derivatives, profit shares and investments arising from lending transactions	Credit Risk Management Committees and ERRF
Investment and trading properties	Investment Committee and ERRF
Central Funding investments	Investment Committee and ERRF

Stress testing scenario analyses are performed regularly and reported to ERRF, BRCC and the board. 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 141 and 142 and pages 169 to 173 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 2% of total assets (refer to page 170 for further information).

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

Audited £’000 Country/category	Income (pre funding costs)				Fair value through equity
	Unrealised	Realised	Dividends, net interest and other	Total	
For the year ended 31 March 2010					
Unlisted investments	(1 177)	12 052	(518)	10 357	(929)
UK and Europe	(1 177)	9 911	(1 278)	7 456	(1 689)
Australia	–	2 141	760	2 901	760
Listed equities	(2 943)	12 244	(15 453)	(266)	3 606
UK and Europe	(2 943)	9 919	(15 487)	(2 625)	89
Australia	–	2 325	34	(2 359)	3 695
Investment and trading properties	–	65	171	236	4
UK and Europe	–	65	171	236	4
Warrants, profit shares and other embedded derivatives	633	14 409	(1 745)	13 297	–
UK and Europe	980	14 409	(1 744)	13 645	–
Australia	(347)	–	(1)	(348)	–
Total	2 399	38 770	(17 545)	23 624	2 681
For the year ended 31 March 2009					
Unlisted investments	(14 719)	(2 807)	(16 472)	(33 998)	2 714
UK and Europe	(13 373)	832	(16 829)	(29 370)	1 687
Australia	(1 346)	(3 639)	357	(4 628)	1 027
Listed equities	(12 321)	(1 538)	1 252	12 607	(5 709)
UK and Europe	(12 005)	(1 529)	1 588	(11 946)	(4 590)
Australia	(316)	(9)	(336)	(661)	(1 119)
Investment and trading properties	–	42	–	42	–
UK and Europe	–	42	–	42	–
Warrants, profit shares and other embedded derivatives	(1 083)	20 277	273	19 467	–
UK and Europe	1 868	20 277	273	22 418	–
Australia	(2 951)	–	–	(2 951)	–
Total	(28 123)	15 974	(14 947)	(27 096)	(2 995)

Unrealised revaluation gains are included in Tier 1 capital. Revaluations that are posted directly to equity are included in Tier 2 capital.

Summary of investments held and stress testing analyses

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

Audited £'000 Country/category	On-balance sheet value of investments 31 March 2010	Valuation change stress test** 31 March 2010	On-balance sheet value of investments 31 March 2009	Valuation change stress test** 31 March 2009
Unlisted investments	147 600	22 140	140 502	21 075
UK and Europe*	135 343	20 301	120 573	18 086
Australia	12 257	1 839	19 929	2 989
Listed equities	23 827	5 957	37 677	8 100
UK and Europe*	15 743	3 936	36 502	7 806
Australia	8 084	2 021	1 175	294
Investment and trading properties	10 810	2 162	8 480	1 696
UK and Europe	10 810	2 162	8 480	1 696
Warrants, profit shares and other embedded derivatives	34 150	11 952	64 333	22 517
UK and Europe	34 150	11 952	63 463	22 212
Australia	–	–	870	305
Total	216 387	42 211	250 992	53 388

**Includes investments held within the Private Equity division which are required to be consolidated for accounting purposes.*

**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 above we could have a £42 million reversal in revenue (which assumes a year in which there is a "worst case scenario"). This would not cause the group to report a loss but could have a significantly negative impact on earnings for that period.

The probability of all these asset classes in all geographies in which we operate being negatively impacted at the same time is very low, although the probability of listed equities being negatively impacted at the same time is very high.

Capital requirements

In terms of Basel II capital requirements, unlisted and listed equities within the banking book are represented under the category of "Equity risk", profit shares and embedded derivatives are considered in the calculation of capital required for credit risk. Refer to page 104 for further detail.

Traded market risk management

Traded market risk description Audited

Traded market risk is a measure of potential change in the value of a portfolio of instruments as a result of changes in the financial environment (resulting in changes in underlying market risk factors such as interest rates, equity markets, bond markets, commodity markets, exchange rates and volatilities) between now and a future point in time. The market risk management team identifies, quantifies and manages the effects of these potential changes in accordance with Basel II and policies determined by the board.

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 proprietary trading, market making, arbitrage, underwriting and investments in the commodity, foreign exchange, equity, capital and money markets. The focus of these businesses 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.

Traded market risk governance structure Audited

To manage, measure and mitigate market risk, we have independent market risk management teams in each geography where we assume market risk. Local limits have been set to keep potential losses within acceptable risk tolerance levels. A global Market Risk Forum (mandated by the various boards of directors) manages the market risks in accordance with pre-approved principles and policies. Risk limits are reviewed and set at the global Market Risk Forum and ratified at the ERRF in accordance with the risk appetite defined by the board. Limits are reviewed either annually, in the event of a significant market event (e.g. 11 September 2001), or at the discretion of senior management.

4

Management and measurement of traded market risk

Market risk management teams review the market risks on our books. Detailed risk reports are produced daily for each trading desk.

These reports are distributed to management and the traders on the desk. Any unauthorised excesses are recorded and require a satisfactory explanation from the desk for the excess. The production of risk reports allows for the monitoring of every instrument traded against prescribed limits. New instruments or products are independently validated before trading can commence. Each traded instrument undergoes various stresses to assess potential losses. Each trading desk is monitored on an overall basis as an additional control. Trading limits are generally tiered with the most liquid and least “risky” instruments being assigned the largest limits.

The market risk teams perform a profit attribution, where our daily traded income is attributed to the various underlying risk factors on a day-to-day basis. An understanding of the sources of profit and loss is essential to understanding the risks of the business.

Measurement techniques used to quantify market risk arising from our trading activities include sensitivity analysis, Value at Risk (VaR), stressed VaR, Expected Tail Loss (ETL) and Extreme Value Theory (EVT). Stress testing and scenario analysis are also used to simulate extreme conditions to supplement these core measures.

VaR numbers are monitored daily at the 95%, 99% and 100% (maximum loss) confidence intervals, with limits set at the 95% confidence interval. ETLs are also monitored daily at the 95% and 99% levels. Scenario analysis considers the impact of a significant market event on our current trading portfolios. We consider the impact for the 10 days after the event, not merely the instantaneous shock to the markets. Included in our scenario analysis are for example the following; October 1987 (Black Monday), 11 September 2001 and the December Rand crisis in 2001. We also consider the impact of extreme yet plausible future economic events on the trading portfolio as well as possible worst case (not necessarily plausible) scenarios. Scenario analysis is done once a week and is included in the data presented to ERRF.

All VaR models, while forward-looking, are based on past events and depend on the quality of available market data. The accuracy of the VaR model as a predictor of potential loss is continuously monitored through back testing. This involves comparing the actual 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 “back testing breach” is considered to have occurred.

In the UK, all desks are currently on Capital Adequacy (CAD) 1 level.

VaR

Audited	UK and Europe 95% (one-day) Year end £'000	Average £'000	High £'000	Low £'000
31 March 2010				
Commodities	27	28	91	19
Equity derivatives	1 798	1 450	2 333	683
Foreign exchange	16	29	162	4
Interest rates	501	593	1 474	101
Consolidated*	1 791	1 607	2 598	995
31 March 2009				
Commodities	42	45	93	23
Equity derivatives	629	431	958	192
Foreign exchange	25	21	65	4
Interest rates	759	576	2 397	185
Consolidated*	996	738	2 497	341

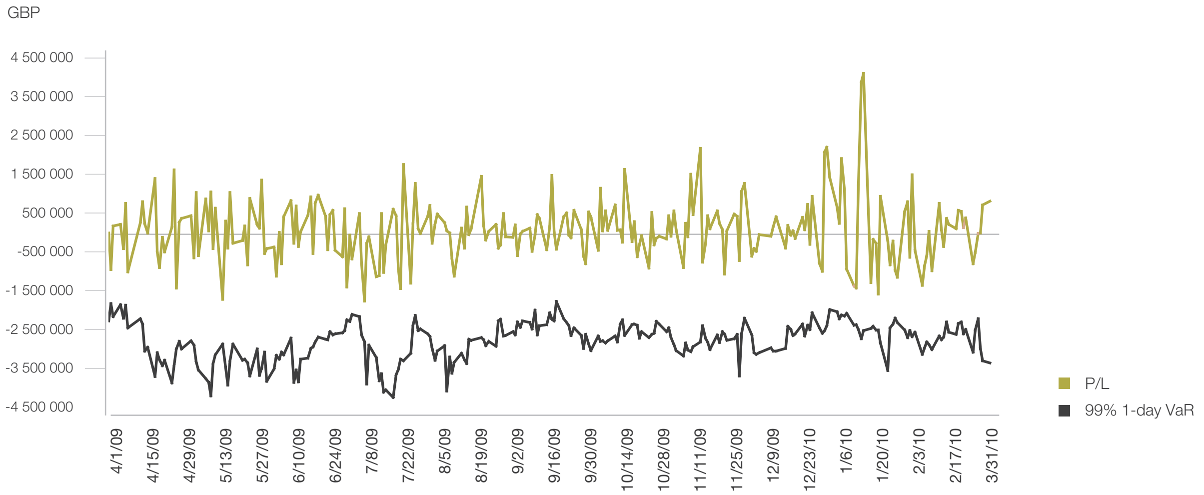
**The consolidated VaR for each desk and each entity at year end is lower than the sum of the individual VaRs. This arises from the consolidation offset between various asset classes.*

The graphs below show total daily VaR and profit and loss figures for our trading activities over the reporting period. The values shown are for the 99% one-day VaR, i.e. 99% of the time, the total trading activities will not lose more than the values depicted below. Based on these graphs, we can gauge the accuracy of the VaR figures.

UK and Europe

There have been no exceptions i.e. where the loss is greater than the VaR. This is less than the expected two exceptions per year at the 99% level. The reason for this is that our data series contains data spanning the credit crunch whereas markets have calmed to a large extent since then.

99% 1-day VaR backtesting



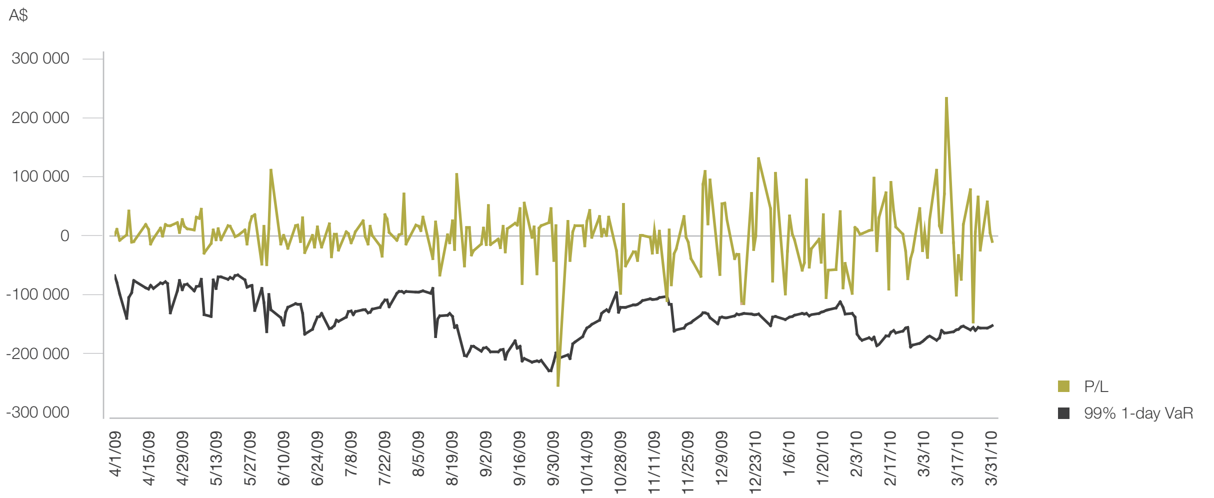
	Australia 99% (one-day)			
	Year end A$'000	Average A$'000	High A$'000	Low A$'000
	–	–	–	–
	–	–	–	–
	9	11	69	1
	146	130	205	53
	154	**141**	**230**	**69**
	–	–	–	–
	–	–	–	–
	14	32	144	5
	52	106	204	42
	66	**139**	**307**	**60**

Australia

There have been two exceptions i.e. where the loss is greater than the VaR. This is in line with expectations at the 99% level.

The breach on 2 October 2009 was caused by a combination of a large increase in the A$ 3-month interest rate and a large decrease in USD 1 and 2-year interest rates. The breach on 16 November 2009 was caused by a large decrease in A$ and USD 3-year interest rates.

99% 1-day VaR backtesting



4

ETL

Audited	95% (one-day) £'000
31 March 2010	
Commodities	43
Equity derivatives	2 648
Foreign exchange	24
Interest rates	783
Consolidated*	**2 663**
31 March 2009	
Commodities	78
Equity derivatives	929
Foreign exchange	39
Interest rates	1 359
Consolidated*	**1 653**

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

Stress testing

The table below indicates the potential losses that could arise if the portfolio is stress tested under extreme market conditions (15 standard deviations).

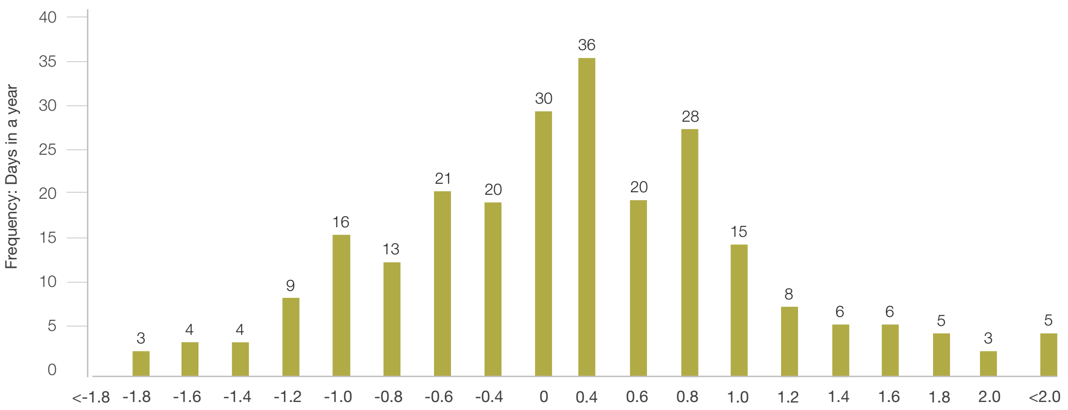
Audited	UK and Europe Using VaR £'000	Australia Using VaR A$'000
31 March 2010		
Commodities	207	–
Equity derivatives	13 760	–
Foreign exchange	122	50
Interest rates	3 834	846
Consolidated	**17 923**	**896**
31 March 2009		
Commodities	324	–
Equity derivatives	4 812	–
Foreign exchange	193	81
Interest rates	5 812	302
Consolidated	**11 141**	**383**

Profit and loss histograms

UK and Europe

The histogram below illustrates the distribution of daily revenue during the financial year for our trading businesses. The distribution is skewed to the profit side and the graph shows that positive trading revenue was realised on 162 days out of a total of 252 days in the trading business. The average daily trading revenue generated for the year ended 31 March 2010 was £60 261 (2009:£244 000).

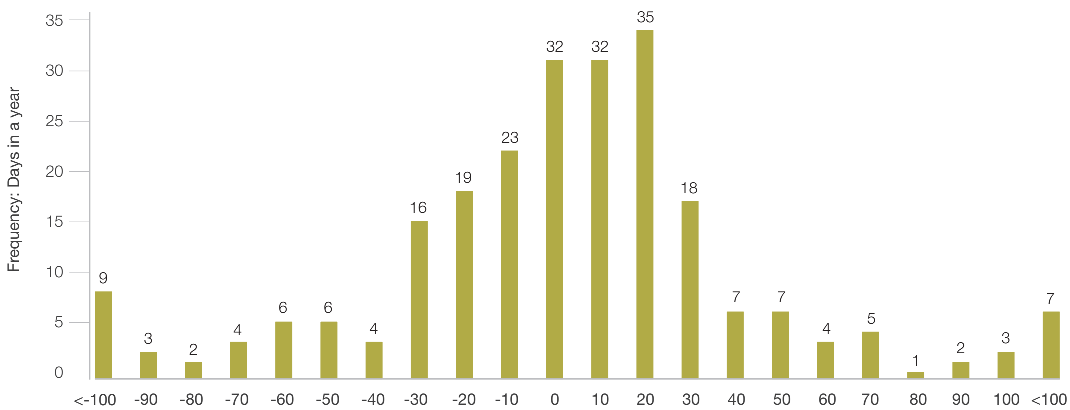
Profit and loss (£'mn)



Australia

The histogram below illustrates the distribution of daily revenue during the financial year for our trading businesses. The graph shows that negative trading revenue was realised on 153 days out of a total of 252 days in the trading business. The average daily trading loss generated for the year ended 31 March 2010 was A$4 000 (2009: revenue of A$5 000).

Profit and loss (A$'000)



Traded market risk mitigation

The market risk management team has a reporting line that is separate from the trading function, thereby ensuring independence. The risk management software runs independently from source trading systems and values all trades separately. The values from the two systems are compared daily. The values from the risk system are also used for profit attribution, another risk management tool.

Risk limits are set according to guidelines set out in our risk appetite policy and are calculated on a statistical and non-statistical basis. Statistical limits include VaR and ETL analyses at various confidence intervals. Historical VaR is used (over 500 days of unweighted data), where every "risk factor" is exposed to daily moves over the past two years. With the equity markets for example, every share and index is considered independently as opposed to techniques where proxies are used.

Non-statistical limits include product limits, tenor, notional, liquidity, buckets and option sensitivities (greeks). When setting and reviewing these limits, current market conditions are taken into account. Bucket limits are set on time buckets, generally at three month intervals out to two years and then, on a less granular basis, out to 30 years.

Traded market risk year in review

In the UK the Structured Equity desk has continued to experience strong growth in their retail product sales and they continue to expand their product range. The Interest Rate and Forex desks have also performed well benefiting from both increased volatility and flows. The Fixed Income desk was closed during the course of the year.

Australian trading activity remains modest, with the focus being mainly commodity hedging.

As mentioned above the majority of revenue earned from our trading activities within the Capital Markets division is related to client flow activity.

Market risk – derivatives Audited

We enter into various derivatives contracts, both as principal for trading purposes and as customer for hedging foreign exchange, commodity, equity 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 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 176.

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 management encompasses the independent monitoring and prudential management of the financial risks relating to our asset and liability portfolios, comprising market liquidity, funding, concentration and non-trading interest rate risks on balance sheet.

Balance sheet risk governance structure and risk mitigation

Under delegated authority of the board, the group has established Asset and Liability Management Committees (ALCO's) within each core geography in which it operates, using regional expertise and local market access as appropriate. The ALCO's are mandated to ensure independent supervision of liquidity risk and non-trading interest rate risk.

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

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

The group's liquidity policy requires each geography to be self-funding so that there is no reliance on inter-group lines either from or to other group entities. Branches and subsidiaries have no responsibility for contributing to group liquidity.

The ALCO's are typically made up of the Managing Director, the Head of Risk, the head of the Funding desk, economists, divisional heads, the balance sheet risk management team, the Treasurer, Private Bank representatives and any appropriate co-opted personnel. The ALCO's meet on a monthly basis to discuss and decide on strategies to mitigate any undesirable liquidity and interest rate risk.

The group's Central Treasury function is mandated to actively manage the liquidity mismatch and non-trading interest rate risk arising from our asset and liability portfolios. The Treasurer is 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. Most non-trading interest rate risk and asset funding requirements are transferred from the originating business to the treasury function.

The group's Central Treasury function directs pricing for all deposit products (including deposit products offered to the Private Clients), establishes and maintains access to stable wholesale funds with the appropriate tenor and pricing characteristics, administers funds transfer pricing, and manages liquid securities and collateral, thus providing for a controlled and flexible response to volatile market conditions. The Central Treasury function is the sole interface to the wholesale market for both cash and derivative transactions.

Balance sheet risk management encompasses the independent monitoring and prudential management of the financial risks relating to our asset and liability portfolios, comprising market liquidity, funding, concentration and non-trading interest rate risks on balance sheet. The balance sheet risk management team, based within group Risk Management, independently identifies, quantifies and monitors risks, providing independent governance and oversight of the central treasury activities and the execution of the bank's policy, continuously assessing

The group complies with the Basel Committee on Banking Supervision's Principles for Sound Liquidity Risk Management and Supervision the risks whilst 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 liquidity issues through daily liquidity reporting and scenario analysis which quantify our positions, thus providing a comprehensive and consistent governance framework.

The Balance Sheet Risk function further performs scenario modelling and liquidity stress tests designed to measure and manage the liquidity position such that payment obligations can be met under a wide range of normal, company-specific and market-driven stress scenarios, in which the rate and timing of deposit withdrawals and draw-downs on lending facilities are varied, and the ability to access funding and to generate funds from asset portfolios is restricted.

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

The group operates an industry recognised third party system to identify, measure, manage and monitor liquidity risk on both a current and forward-looking basis. The system is reconciled to the bank's general ledger and audited by Internal Audit thereby ensuring integrity of the process.

Daily, weekly and monthly reports are independently produced showing bank activity, exposures and key measures against thresholds and limits and are distributed to management, ALCO, the Central Treasury function, ERRF, BRCC and the board.

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

The group complies with the Basel Committee on Banking Supervision's Principles for Sound Liquidity Risk Management and Supervision.

Non-trading interest rate risk description

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

Sources of banking-related risk exposures include potential adverse effect of volatility and changes in interest rate levels, the shape of the yield curves, basis risk spreads, and optionality inherent in certain products. These 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. The mix of interest rate repricing characteristics is influenced by the underlying financial needs of customers.

Management and measurement of non-trading interest rate risk

Non-trading interest rate risk in the banking book is a normal part of banking and arises from the provision of retail and wholesale (non-trading) banking products and services. We are exposed to repricing risk due to timing differences in the fixed rate maturity and floating rate repricing of bank assets, liabilities and derivative positions. Additionally we are exposed to yield curve and basis risk, due to the difference in repricing characteristics of two floating-rate indices. We are not materially exposed to optionality risk, as contract breakage penalties on fixed-rate advances specifically cover this risk.

Non-trading interest rate risk is measured and managed both from a net interest margin perspective over a specified time horizon, and the sensitivity of economic value of equity to hypothetical changes to market factors 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. The aim is to protect and enhance net interest income and economic value in accordance with the board approved risk appetite. The standard tools that are used to measure the sensitivity of earnings to changes in interest rates are the repricing gap which provides a basic representation of the balance sheet structure, this allows for the detection of interest rate risk by concentration of repricing, net interest income sensitivity which measures the change in accruals expected over the specified horizon in response to a shift in the yield curve, and economic value sensitivity and stress testing to macroeconomic movement or changes which 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.

Technical interest rate analysis and economic review of fundamental developments are used to estimate a set of forward-looking interest rate scenarios incorporating movements in the yield curve level and shape by geography taking global trends into account. This combination of measures provides senior management (and the ALCOs) with an assessment of the financial impact of identified rate changes on potential future net interest income and sensitivity to changes in economic value. This is consistent with the standardised interest rate measurement recommended by the Basel II framework for assessing banking book (non-trading) interest rate risk.

Operationally, non-trading interest rate risk is transferred from the originating business to the Central Treasury function and aggregated or netted. The 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 composition of the banking group's discretionary liquid asset portfolio or through derivative transactions which transfer the risk into the trading books within Capital Markets division to be traded with the external market. Any resultant interest rate position is managed under the market risk limits. The Central Treasury mandate allows for tactically responding to market opportunities which may arise during changing interest rate cycles.

Our risk appetite policy requires that interest rate risk arising from fixed interest loans risk is transferred from the originating business to the Central Treasury function by match-funding. In turn, Central Treasury hedges all fixed rate assets with a term of more than one year on a deal-by-deal basis to within 3-months repricing with the use of variable vs. fixed interest rate swaps. The market for these vanilla swaps is deep, with the result that such hedging is efficient. Likewise, the Central Treasury function hedges all fixed rate deposits with a term of more than one year to within 3-months repricing. Limits exist to ensure there is no undesired risk retained within any business or product area.

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.

UK and Europe – interest rate sensitivity as at 31 March 2010

£'million	Not > 3 months	> 3 months but < 6 months	> 6 months but < 1 year	> 1 year but < 5 years	> 5 years	Non-rate	Total non trading
Cash and short-term funds – banks	2 452	–	–	–	–	19	2 471
Investment/trading assets	1 286	13	96	30	205	170	1 800
Securitised assets	590	9	–	4	–	1	604
Advances	4 766	571	157	383	89	53	6 019
Other assets	–	–	–	–	–	714	714
Assets	9 094	593	253	417	294	957	11 608
Deposits – banks	(961)	(92)	(31)	(107)	–	–	(1 191)
Deposits – non-banks	(6 455)	(294)	(348)	(846)	(80)	(3)	(8 026)
Negotiable paper	(437)	(11)	(6)	(159)	(6)	–	(619)
Securitised liabilities	(406)	–	–	–	–	(23)	(429)
Investment/trading liabilities	(533)	–	–	–	–	–	(533)
Subordinated liabilities	–	–	(223)	–	(256)	(45)	(524)
Other liabilities	–	–	–	–	–	(423)	(423)
Liabilities	(8 792)	(397)	(608)	(1 112)	(342)	(494)	(11 745)
Intercompany loans	707	–	–	1	(46)	(10)	652
Shareholders' funds	–	–	–	–	–	(769)	(769)
Balance sheet	1 009	196	(355)	(694)	(94)	(316)	(254)
Off-balance sheet	(220)	(22)	101	692	(211)	–	340
Repricing gap	789	174	(254)	(2)	(305)	(316)	86
Cumulative repricing gap	789	963	709	707	402	86	

Australia – interest rate sensitivity as at 31 March 2010

A$'million	Not > 3 months	> 3 months but < 6 months	> 6 months but < 1 year	> 1 year but < 5 years	> 5 years	Non-rate	Total non trading
Cash and short-term funds – banks	953	–	–	–	–	–	953
Investment/trading assets	933	5	1	170	15	92	1 216
Securitised assets	230	60	110	450	7	–	857
Advances	1 822	60	40	195	8	25	2 150
Other assets	–	–	–	–	–	161	161
Assets	**3 938**	**125**	**151**	**815**	**30**	**278**	**5 337**
Deposits – banks	–	–	–	–	–	–	–
Deposits – non-banks	(1 309)	(153)	(70)	(144)	(8)	(11)	(1 695)
Negotiable paper	(1 050)	(13)	(2)	(845)	–	–	(1 910)
Securitised liabilities	(853)	–	–	–	–	–	(853)
Investment/trading liabilities	(25)	–	–	–	–	–	(25)
Subordinated liabilities	(46)	–	–	–	–	–	(46)
Other liabilities	–	–	–	–	–	(127)	(127)
Liabilities	**(3 283)**	**(166)**	**(72)**	**(989)**	**(8)**	**(138)**	**(4 656)**
Intercompany loans	**(20)**	**–**	**–**	**(3)**	**–**	**24**	**1**
Shareholders' funds	**–**	**–**	**–**	**–**	**–**	**(684)**	**(684)**
Balance sheet	**635**	**(41)**	**79**	**(177)**	**22**	**(520)**	**(2)**
Off-balance sheet	31	(46)	(84)	125	(24)	–	2
Repricing gap	**666**	**(87)**	**(5)**	**(52)**	**(2)**	**(520)**	**–**
Cumulative repricing gap	666	579	574	522	520	–	

Economic value sensitivity

As discussed previously our preference for monitoring and measuring non-trading interest rate risk is economic value sensitivity. The tables below reflect our economic value sensitivity to a 2% parallel shift in interest rates assuming no management intervention. The numbers represent the change to mainly net interest income should such a hypothetical scenario arise. This sensitivity effect does not have a significant direct impact to equity.

UK and Europe

'million	Sensitivity to the following interest rates (expressed in original currencies)				
	GBP	USD	EUR	Other (GBP)	All (GBP)
200bp Down	(38.0)	(0.6)	0.6	0.1	(38.0)
200bp Up	38.0	0.6	(0.6)	(0.1)	38.0

Australia

'million	AUD
200bp Down	(1.39)
200bp Up	1.39

Liquidity risk

Liquidity risk is the risk that 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

4

Liquidity risk description

Liquidity risk is further broken down into:

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

Sources of liquidity risk include unforeseen withdrawals of deposits, restricted access to new funding with appropriate maturity and interest rate characteristics, inability to liquidate a marketable asset in a timely manner with minimal risk of capital loss, unpredicted customer non-payment of loan obligations and a sudden increased demand for loans in the absence of corresponding funding inflows of appropriate maturity.

Management and measurement of liquidity risk

Cohesive liquidity management is vital for protecting our depositors, preserving market confidence, safeguarding our reputation and ensuring sustainable growth with established funding sources. Through active liquidity management, we seek to preserve stable, reliable and cost-effective sources of funding. Inadequate liquidity can bring about the untimely demise of any financial institution. 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:

- Our liquidity management processes encompass principles set out by the regulatory authorities in each jurisdiction, namely the FSA and APRA
- The group complies with the Basel Committee on Banking Supervision's Principles for Sound Liquidity Risk Management and Supervision.
- The risk appetite is clearly defined
- Each geographic entity must have its own board approved policies with respect to liquidity risk management
- Each geographic entity must be self sufficient from a funding and liquidity stand point so that there is no reliance on intergroup lines either from or to other group entities
- Branches and subsidiaries have no responsibility for contributing to group liquidity
- 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
- Liquidity stress tests are carried out to measure and manage the liquidity position such that payment obligations can be met under a wide range of normal and unlikely but plausible stressed scenarios, in which the rate and timing of deposit withdrawals and drawdowns on lending facilities are varied, and the ability to access funding and to generate funds from asset portfolios is restricted
- Our liquidity risk parameters reflect a range of liquidity stress assumptions which are reviewed regularly and updated as needed
- The balance sheet risk management team independently monitors key funding metrics and liquidity ratios to assess potential risks to the liquidity position, which further act as early warning indicators

Investec Bank plc
cash and near cash
up 98% to
£4 605 million

Average cash and near cash
up to
£2 921 million

- The group centrally manages access to funds in the market through the Central Treasury divisions
- Maintenance of sustainable, prudent liquidity resources takes precedence over profitability
- Each major banking entity maintains an internal funds transfer pricing system based on prevailing market rates. The Central Treasury function charges out the price of long and short term funding to internal consumers of liquidity, which ensures that the costs, benefits, and risks of liquidity are clearly and transparently attributed to business lines and are understood by business line management. The funds transfer pricing methodology is designed to signal the right incentive to our lending business
- The group maintains adequate contingency funding plans.

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, whilst 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 term funding and strong balance sheet liquidity ratios within approved risk limits. This ensures the smooth management of the day-to-day liquidity position within conservative parameters and further validates that, in the event of either a firm-specific or general market event, we are able to generate sufficient liquidity to withstand short term liquidity stress.

We target a diversified funding base, avoiding undue concentrations by investor type, maturity, market source, instrument and currency. This demonstrates our ability to generate funding from a broad range of sources in a variety of geographic locations, which enhances financial flexibility and limits dependence on any one source so as to ensure a satisfactory overall funding mix.

We acknowledge the importance of our private client base as the principal source of stable and well diversified funding for our Private Bank risk assets. We continue to develop products to attract and service the investment needs of our Private Bank client base. Although the contractual repayments of many customer accounts are on demand or at short notice, in practice such accounts remain a stable source of funds. Our Private Bank continued to successfully raise private client deposits despite competitive pressures with total deposits increasing by 51.2% from 1 April 2009 to £7.2 billion at 31 March 2010. We have also introduced a number of innovative retail deposit initiatives within our Capital Markets division and these continued to experience strong inflows during the financial year. Our total retail customer deposit base increased by 68.9% from 1 April 2009 to £9.3 billion at 31 March 2010. On average our fixed and notice customer deposits have amounted to approximately 85% of total deposits since April 2006, thereby displaying a strong "stickiness" and willingness to reinvest by our retail customers.

Entities within the group actively participate in global financial markets and our relationship is continuously enhanced through regular investor presentations internationally. 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. 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.

We engage in transactions that involve the use of both special purpose entities and asset securitisation structures. Securitisation represents a relatively modest proportion of our current funding profile, but provides additional flexibility and source of liquidity. These entities form part of the consolidated group balance sheet as reported. Our funding and liquidity capacity is not reliant on these entities to any material extent and we do not rely on these vehicles for funding in the normal course of business.

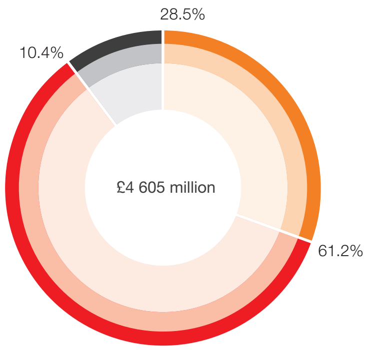
As mentioned above, we hold a liquidity buffer in the form of unencumbered readily available, high quality liquid assets, typically in the form of government or rated securities eligible for repurchase with the central bank, and near cash well in excess of the statutory requirements as protection against unexpected disruptions in cash flows. Investec remains a net liquidity provider to the interbank market, placing significantly more funds with other banks than our short–term interbank borrowings. These portfolios are managed within limits and, apart from acting as a buffer under going concern conditions, also form an integral part of the broader liquidity generation strategy in the unlikely event of a liquidity crunch. We do not rely on interbank deposits to fund term lending. From 1 April 2009 to 31 March 2010 average cash and near cash balances over the period amounted to £2.9 billion (£2.2 billion in UK and Europe; and A$1.4 billion in Australia).

The group does not rely on committed funding lines for protection against unforeseen interruptions to cash flow. We are currently unaware of any circumstances that could significantly detract from our ability to raise funding appropriate to our needs.

Each banking entity within the group maintains a contingency funding plan to, as far as possible, protect stakeholder interests and maintain market confidence in order to ensure a positive outcome in the event of a liquidity crisis. The liquidity contingency plans outline extensive early warning indicators and clear and decisive crisis response strategies. Early warning indicators span bank specific and systemic crises. Crisis response strategies address roles and responsibilities, composition of decision making bodies involved in liquidity crisis management, internal and external communications including public relations, sources of liquidity, avenues available to access additional liquidity, as well as supplementary information requirements. 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.

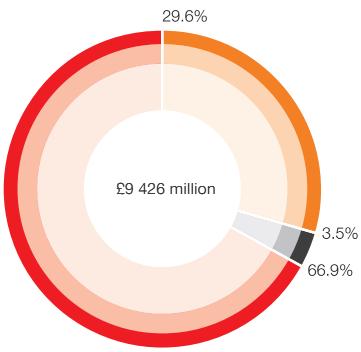
Cash and near cash trend

An analysis of cash and near cash

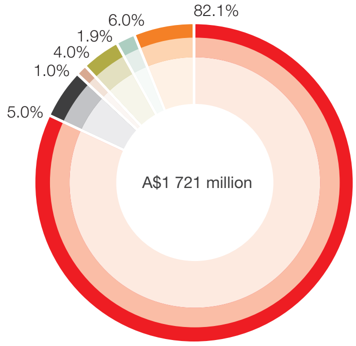


- Cash
- Near cash (Central Bank guaranteed liquidity)
- Near cash (other 'monetisable' assets)

Bank and non-bank depositor concentration by type



UK and Europe



Australia

- Financial institutions/banks
- Corporate
- Private Banking clients
- Fund managers
- Public sector
- Other

Liquidity mismatch

The tables that follow show our liquidity mismatch across our core geographies.

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.

We maintained a strong liquidity profile throughout the year. Our limited reliance on securitisations as a source of funding has meant that the uncertainty in securitisation markets has not impacted our liquidity risk profile. Despite competitive pressures we were able to increase deposits taken from the retail market and raise additional liquidity. The tables reflect that loans and advances to customers are largely financed by stable funding sources.

With respect to the contractual liquidity mismatch:

- No assumptions are made, and we record all asset 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 bank paper (typically eligible for repurchase with the central bank), and near cash as a buffer against both expected and unexpected cash flows
- The actual contractual profile of this asset class is of little consequence, as practically Investec would meet any unexpected net cash outflows by selling these securities, we have:
  - 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
  - Set the time horizon to "on demand" to monetise our statutory liquid assets for which liquidity is guaranteed by the central bank
  - Reported the "contractual" profile by way of a note to the tables.

With respect to the behavioural liquidity mismatch:

- The new funding we would require under normal business circumstances is shown in the "behavioural mismatch". To this end, behavioural profiling is applied to liabilities with an indeterminable maturity, as the contractual repayments of many customer accounts are on demand or at short notice but expected cash flows vary significantly from contractual maturity. An internal analysis model is used, based on statistical research of the historical series of products, which models the point of probable maturity. In addition, re-investment behaviour, with profile and attrition based on history, is applied to term deposits in the normal course of business.

We maintained a strong liquidity profile throughout the year

4

4

UK and Europe

Contractual liquidity as at 31 March 2010

£'million	Demand	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	> 5 years	Total
Cash and short-term funds – banks	1 903	376	414	–	18	–	–	2 711
Investment/trading assets	833	751	166	144	144	382	335	2 755
Securitised assets	10	–	1	1	2	17	573	604
Advances	23	663	449	330	894	2 172	1 521	6 052
Other assets	195	240	18	3	4	94	175	729
Assets	2 964	2 030	1 048	478	1 062	2 665	2 604	12 851
Deposits – banks	(173)^	(379)	(94)	(123)	(357)	(211)	(64)	(1 401)
Deposits – non-banks	(534)	(1 783)	(1 792)	(2 592)	(356)	(909)	(59)	(8 025)
Negotiable paper	–	(7)	(13)	(10)	(4)	(455)	(128)	(617)
Securitised liabilities	–	–	–	–	–	–	(533)	(533)
Investment/trading liabilities	(501)	(96)	(66)	(230)	(106)	(209)	–	(1 208)
Subordinated liabilities	–	–	–	–	(223)	–	(301)	(524)
Other liabilities	(122)	(190)	(31)	(34)	(40)	(8)	(1)	(426)
Liabilities	(1 330)	(2 455)	(1 996)	(2 989)	(1 086)	(1 792)	(1 086)	(12 734)
Intercompany loans	43	(2)	(94)	–	2	806	(103)	652
Shareholders' funds	–	–	–	–	–	–	(769)	(769)
Liquidity gap	1 677	(427)	(1 042)	(2 511)	(22)	1 679	646	–
Cumulative liquidity gap	1 677	1 250	208	(2 303)	(2 325)	(646)	–	

Behavioural liquidity (as discussed on page 88)

£'million	Demand	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	> 5 years	Total
Behavioural liquidity gap	1 930	(427)	(629)	(1 894)	(22)	679	363	–
Cumulative	1 930	1503	874	(1 020)	(1 042)	(363)	–	

^The deposits shown in the demand column at 31 March 2010 reflect cash margin deposits held.

Australia

Contractual liquidity as at 31 March 2010

A$'million	Demand	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	> 5 years	Total
Cash and short term funds – banks	948	5	–	–	–	–	–	953
Investment/trading assets*	974	2	8	3	7	86	134	1 214
Securitised assets	5	24	55	87	173	504	11	859
Advances**	6	210	204	280	569	788	93	2 150
Other assets	–	–	–	–	–	–	161	161
Assets	1 933	241	267	370	749	1 378	399	5 337
Deposits – banks	–	–	(25)	–	–	–	–	(25)
Deposits – non banks	(458)^	(298)	(525)	(170)	(83)	(154)	(8)	(1 696)
Negotiable paper	–	(152)	(170)	(29)	(36)	(1 521)	–	(1 908)
Securitised liabilities	(5)	(24)	(54)	(87)	(557)	(126)	–	(853)
Investment/trading liabilities	–	(13)	(8)	(3)	(3)	(32)	(18)	(77)
Subordinated liabilities	–	–	–	(25)	–	(20)	–	(45)
Other liabilities	–	–	–	–	–	–	(49)	(49)
Liabilities	(463)	(487)	(782)	(314)	(679)	(1 853)	(75)	(4 653)
Intercompany loans	21	–	–	–	(1)	(23)	3	–
Shareholders' funds	–	–	–	–	–	–	(684)	(684)
Liquidity gap	1 491	(246)	(515)	56	69	(498)	(357)	–
Cumulative liquidity gap	1 491	1 245	730	786	855	357	–	

Note: contractual liquidity adjustments (as discussed on page 88)

A$'million	Demand	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	> 5 years	Total
*Investment/trading assets	2	65	58	20	39	878	154	1 216
**Advances	384	191	167	179	367	769	93	2 150

Behavioural liquidity (as discussed on page 88)

A$'million	Demand	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	> 5 years	Total
Behavioural liquidity gap	1 881	(312)	(689)	(27)	(1)	(497)	(355)	–
Cumulative	1 881	1 569	880	853	852	355	–	

^Includes call deposits of A$433 million and the balance reflects term deposits which have finally reached/are reaching contractual maturity.

Balance sheet risk year in review

UK and Europe

A consistent theme is the return of liquidity and the resultant fall in liquidity and credit spreads. The spread between 3-month SONIA and 3- month Libor, a straightforward measure of the liquidity premium, fell from 162.5bp to its current level of 17bp, only a few basis points above where this same measure was prior to the 2007 crisis. Cash markets have seen a similar return of risk appetite, with banks and corporates being able to access capital markets at increasingly attractive levels. Retail demand for Investec products has been strong with net retail deposit growth for the year of £3.6 billion. Of this total, the Private Bank raised a total of £2.2 billion and term retail funding, via structured equity deposits (within the Capital Markets division), raised £800 million with a weighted average expected term of 3.4 years. In addition, strong inroads into the SME corporate market has resulted in corporate deposits increasing by £600 million over the year. Total customer deposits increased by 83.4% from 1 April 2009 to £8.0 billion at 31 March 2010 (comprising Private Bank deposits of £6.3 billion, structured equity deposits of £836 million and corporate deposits of £763 million). Cash and near cash balances more than doubled from 1 April 2009 to £3.7 billion at 31 March 2010. The challenge for the year ahead will be to curtail the strong inflow of deposits and manage the resultant surplus liquidity without damaging the franchises that have been built up so successfully.

Australia

In Australia the economy has seen a resilience related to, stimulatory fiscal policy along with only muted impacts of the global financial crisis on China and some of Australia's other Asian trading partners, and consequently, the Reserve Bank of Australia raised interest rates in the second half of the year. Consistent with the stabilisation of the international environment and the actions of other governments internationally the Australian Federal Government announced the closing of its Government Guarantee Scheme for wholesale funding effective 31 March 2010. During this period, Investec Australia utilised the stronger availability of funding to lengthen the term profile of its wholesale funding and to reshape the mix of its Private Bank funding base by significantly increasing the diversified mix of funds across distribution channels and increasing client numbers while reducing the average size of deposits taken.

Investec Australia maintained a strong liquidity position well in excess of regulatory and internal policy requirements throughout the year, with cash and near cash balances increasing to A$1.8 billion at 31 March 2010.

Total customer deposits increased through the year with Private Bank deposits increasing to A$1.4 billion by 31 March 2010.

UK, Europe and Australia

We successfully embarked on several term debt funding initiatives. This allowed us to maintain liquidity above internal and external liquidity targets. Decisions concerning timing of issuance and the tenor of liabilities are based upon relative costs, general market conditions, prospective views of organic balance sheet growth and a targeted liquidity profile.

- Investec Bank plc (IBP):
  - A £170 million one year Schuldschein facility was arranged in April 2009
  - As retail funding initiatives provided excellent levels of liquidity, IBP scaled back it's activity in the wholesale market accordingly
- Investec Bank (Australia) Limited:
  - During December 2009 IBAL undertook a domestic term debt issue in government guaranteed format, raising A$450 million of fixed rate funds with a term of 5 years, and paying a coupon equal to BBSW + 0.58% (before issuance and government guarantee fees)
  - During March 2010 IBAL undertook a further domestic term debt issue in government guaranteed format, raising A$300 million of fixed rate funds with a term of 5 years, and paying a coupon equal to BBSW + 0.40% (before issuance and government guarantee fees).

Operational risk management

Operational risk description

Operational risk is defined as the risk of loss or earnings volatility arising from inadequate or failed internal processes, people and systems, or from external events.

We recognise operational risk as a significant risk category, and strive to manage this within acceptable levels through the promotion of appropriate and relevant sound operational risk management practices.

We have adopted The Standardised Approach to calculate the regulatory operational risk capital requirement.

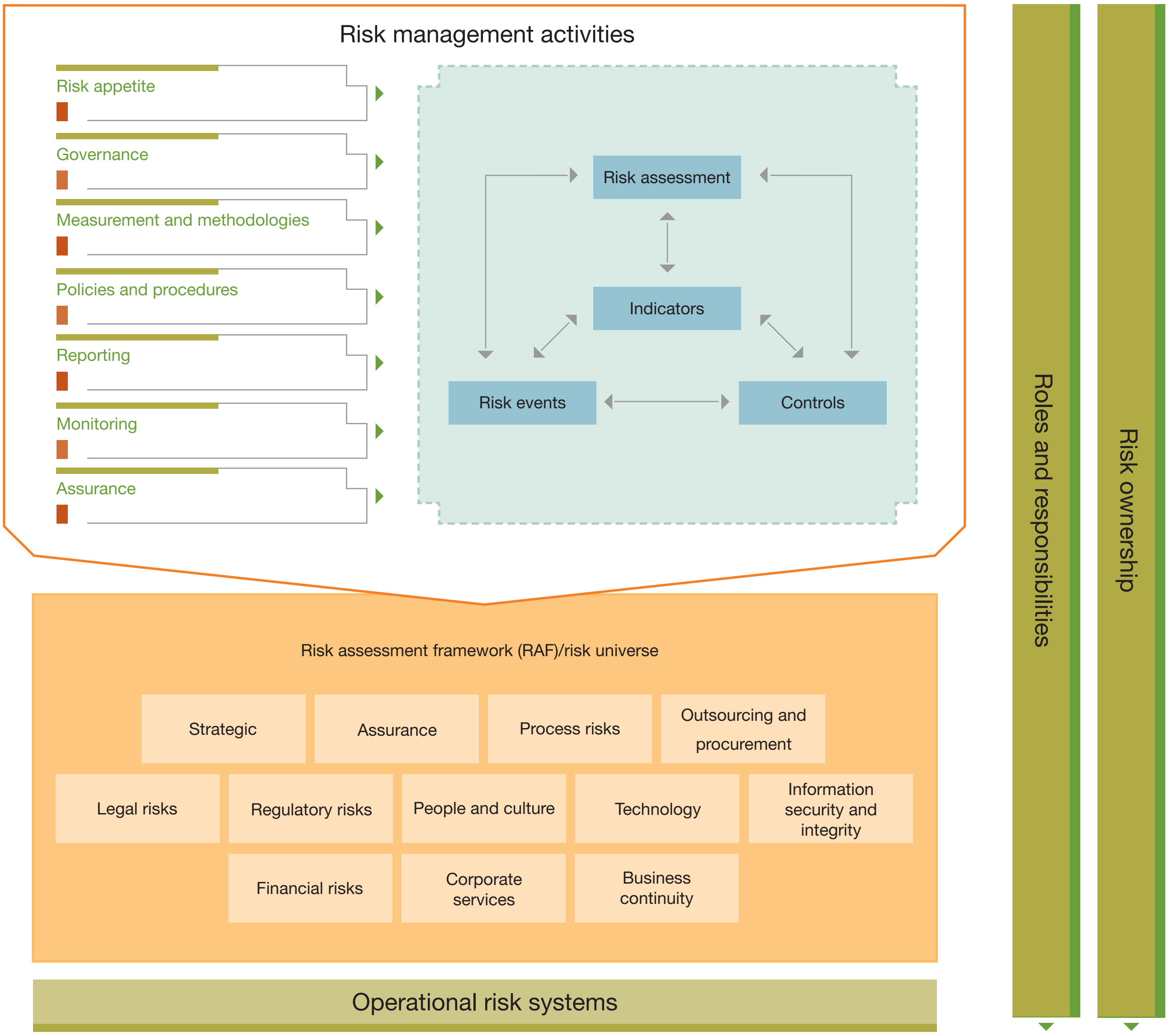
Operational risk management framework

The operational risk management framework adopted by the group sets out a structured and consistent approach for implementing a systematic process to manage operational risk across the group.

A group wide operational risk system is used for the recording, identification, assessment, measurement and monitoring of operational risks facing the individual business units. This system allows for the recording and linking of risk assessments, risk events and risk indicators where appropriate, enabling a comprehensive view, analysis and reporting of the group's operational risk profile.

A group wide operational risk system is used for the recording, identification, assessment, measurement and monitoring of operational risks facing the individual business units

The following diagram provides an overview of the operational risk management framework



Operational risk governance structure

The governance structure for operational risk management is outlined below.

Board

The board of directors through the BRCC and Audit Committee approve, monitor and review the operational risk framework, policies and practices of the group. Reports are presented to these committees on a regular basis.

Group Operational Risk Management

An independent specialist group Operational Risk Management function is responsible for establishing the framework for operational risk management, and promotes consistent and sound operational risk management policies and practices across the group. This is in line with regulatory and stakeholder expectations.

The Operational Risk Committee and/or working groups promote and monitor the effectiveness of the operational risk management framework and develop and implement practices supporting operational risk policies and practices.

Group Operational Risk Management is responsible for the interaction and relationship with the various supervisors of the group in relation to operational risk.

Business Units

Business unit senior management is responsible for the management of operational risk within their business units. This is achieved by ensuring that the operational risk management framework, policies and practices, as established by group Operational Risk Management, are embedded within the business unit.

A network of Embedded Risk Managers (ERMs) within the business units assists management with the monitoring and mitigation of operational risk. Material operational risks are addressed at the individual business unit risk committees and, if necessary, escalated to group Operational Risk Management and the BRCC.

Risk appetite

The Operational Risk Appetite policy sets out the operational risk exposure that the bank is willing to accept or retain, and the required action for mitigation and escalation of operational risk exposures.

If a risk appetite threshold is breached, mitigating treatments are implemented to bring the exposure back within an acceptable range.

Measurement and methodologies

Operational risk identification and risk assessments

The risk assessment process is central to the operational risk management process. A qualitative risk assessment is conducted using an identified universe of operational risks contained in the Risk Assessment Framework (RAF).

The RAF is organised into risk areas and relevant associated detailed risks. A controlled operational risk exposure is determined based on an assessment of the consequence, likelihood of occurrence and the effectiveness of the relevant controls.

Surveys and publications from reliable sources are monitored and compared to the RAF to confirm relevance and completeness, and to identify emerging issues.

The assessment of risks and controls is conducted at business unit level and is subject to treatment and escalation in terms of the Operational Risk Appetite policy, which sets out the operational risk exposure that the group is willing to accept or retain.

Risk assessments are reviewed regularly based on the internal and external events and changes in the business environment.

Risks are assessed and considered before implementation of new products in line with the relevant policies and procedures applicable to the respective operating jurisdictions.

4

Key operational risks

The following risks have been identified, through a combination of a top down and bottom up process, as key operational risks for the group:

Area	Key operational risks	Key considerations
People	Talent	• Inability to attract and retain suitable skills and resources
Processes	Business practices	• Unsuitable products and services • Conflicts of interest
	Data or model risk	• Inaccurate and unreliable data and models
	Legal	• Inappropriate documentation and legal advice
	Regulatory compliance	• Non-adherence to laws, regulations and industry codes
	Settlement and execution	• Inadequate settlement / payment processes and systems
	Tax	• Underestimation of tax liability
	Unauthorised transaction execution	• Trading outside of mandate or approved limits
Systems	Business continuity	• Unavailability of systems and processes • Inability to continue operations
	Privacy and confidentiality	• Loss of information and data assets
	Technology	• Inappropriate and unreliable technology skills and resources
External	Financial crime	• Theft or misappropriation of the financial assets of the company
	Outsourcing	• Inadequate monitoring and management of third party outsourcing relationships

Group Operational Risk Management interacts regularly with Internal Audit and group Compliance to discuss matters of common concern relating to the risk and control environment.

We have considered these risks and appropriate measures have been taken to mitigate and manage the exposure to these risks within acceptable levels.

Operational risk measurement

Each key operational risk has been subjected to a scenario analysis process. Various plausible, extreme, infrequent scenarios were developed and documented for each material operational risk. Scenario information was sourced from an evaluation of the external business environment, internal business considerations, internal and external event data, and controlled operational risk exposures.

The data collected through the scenario process was evaluated using a Monte Carlo simulation technique. This provided a measure of the exposure arising from the key risks and was used to determine internal operational risk capital requirements. This is reviewed by the Capital Committee.

The operational risk capital measurement process improves awareness of operational risk and the control environment within the business units.

Operational risk indicators

Business units track and report appropriate risk indicators in order to monitor and control their operational risk exposures. These are reviewed regularly to ensure that they are relevant.

Policies and practices

Policies and practices have been established by Group Operational Risk Management to ensure that operational risk is managed in an appropriate manner, and integrated across the group. These are regularly reviewed by the Operational Risk Committees and/or working groups as well as the BRCC.

Reporting

Group Operational Risk Management reports to the board, BRCC and Audit Committee on a regular basis. These reports are based on monitoring performed by group Operational Risk Management, input received from the business units and data recorded in the operational risk system. Improving the relevance and reliability of reporting continues to be an area of focus.

Monitoring

The individual components of the Operational Risk Management Framework (risk assessments, risk events, indicators, scenario analysis etc.) are monitored on an ongoing basis by group Operational Risk Management and the ERMs. These components are integrated to inform each other, enabling more efficient monitoring of operational risk data integrity, compliance with the policies and practices, and the operational risk profile across the group.

Assurance

Operational risk practices are subject to reviews by Internal Audit as well as onsite reviews by the relevant supervisors. In certain instances, internal specialist subject matter experts are called on to validate the operational risk practices.

Developments

Supervisory interaction

During the year, the group was subject to regulatory onsite reviews by the FSA and APRA.

We have actively participated in the FSA's "Raising the Bar" discussion groups. Regular engagement with industry groups and fora enables the group to be informed of developments and thus advance operational risk management practices.

Areas of focus include:

- Embedding more sophisticated operational risk practices within the group
- Business continuity capability: rigorous and ongoing simulations and readiness evaluation.
- Financial crime: initiatives to improve understanding, awareness and internal processes are in place to minimise losses and recover assets and, where appropriate, to report suspicious transactions to the relevant authorities. Developments in this area are monitored through participation in the industry fora
- Privacy and confidentiality: ongoing focus on ensuring the confidentiality, availability and integrity of our information by identifying and reducing the risks to our information assets and systems
- Continued attention to practices and controls relating to execution, delivery and process risks.

Embedding operational risk management practices in the group remains an ongoing activity. The framework and practices are continuously monitored and developed to ensure that they remain relevant, appropriate, adequate and in line with leading industry practices and regulatory requirements.

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 risks.

Reputational risk

Reputational risk is damage to our reputation, name or brand. Reputational risk arises as a result of other risks manifesting and not being mitigated.

We have various policies and practices to mitigate reputational risk, including strong values that are regularly and proactively reinforced. We also subscribe to sound corporate governance practices, which require that activities, processes and decisions are based on carefully considered principles.

We are aware of the impact of practices that may result in a breakdown of trust and confidence in the organisation. The group's policies and practices are regularly reinforced through transparent communication, accurate reporting, continuous group culture and values assessment, internal audit and regulatory compliance review, and risk management practices.

Pension risk

Pension risk arises from defined benefit scheme, where the group is required to fund any deficit in the scheme.

The benefit scheme within the Investec plc group is 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 causes of any deficit 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.

The Investec plc group monitors the position of the funds closely, regularly assessing potential adverse movements in the scheme. Further information is provided on pages 186 to 188.

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.

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

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

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

The legal risk policy is implemented through:

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

Capital management and allocation

Although Investec plc (and its subsidiaries) and Investec Limited (and its subsidiaries) are managed independently, the approach to capital management is consistent across the two groups. The DLC structure requires the two groups to be considered independent from a capital perspective and hence capital is managed on this basis. This approach is exercised through the BRCC (via the Investec DLC Capital Committee) which is an Investec plc board sub-committee with ultimate responsibility for the capital sufficiency of both Investec plc and Investec Limited.

The legal and regulatory treatment of capital is independent of existing shareholder arrangements that are in place to ensure that shareholders have common economic and voting interests as if Investec plc and Investec Limited were a single unified enterprise.

Investec Bank plc is regulated by the FSA in the UK. In addition, a number or subsidiaries are subject to the capital regulations of the regulators for the jurisdictions in which they operate.

Philosophy and approach

As a consequence of the global financial crisis over the past two years, capital adequacy standards for banks globally have been raised. Accordingly, the group maintains capital adequacy targets of a minimum tier one capital ratio of 11% and a total capital adequacy ratio range of 14% to 17%, on a consolidated basis, for Investec plc and Investec Limited, respectively.

4

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

Our internal (economic) capital framework is designed to manage and achieve this balance. The internal capital framework is tied to group-wide disciplines surrounding:

- Risk identification, review and assessment
- Capital allocation and structuring
- Investment decision making and pricing
- Risk management, especially as it relates to the selection of deals, markets, and investment opportunities
- Performance measurement
- Risk-based incentive compensation.

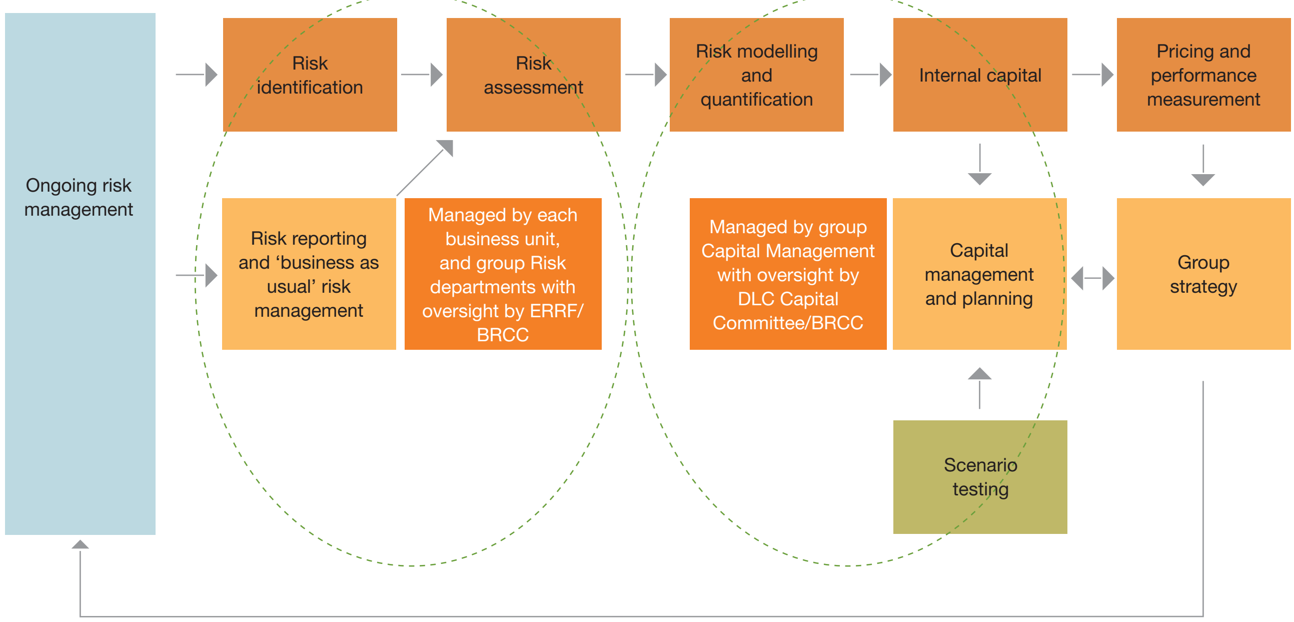
Consequently the objectives of the internal capital framework are to:

- Ensure that all identified risks are, where appropriate, incorporated into risk based pricing
- Maintain sufficient capital to satisfy the board's risk appetite across all risks faced by the group
- Support a target level of financial strength aligned with a long-term rating of at least A
- 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 support growth in assets
- Maintain sufficient capital to meet regulatory requirements across each regulated entity
- Support our growth strategy
- Allow the exploration of acquisition opportunities where such opportunities are consistent with our strategy and risk appetite
- Facilitate pricing that is commensurate with the risk being taken
- Allocate capital according to the greatest expected marginal risk based return, and track performance on this basis
- Reward performance taking into account the relative levels of risk adopted.

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 basis.

In order to achieve these objectives, we adhere to the following approach to the integration of risk and capital management.

The (simplified) integration of risk and capital management



Risk assessment and identification

We review the business annually to map our universe of key risks, which are ultimately reviewed and agreed by the BRCC following an extensive process of engagement with senior management. This is a bottom up process initially performed by each business unit across the group. Key risks are then debated and agreed at senior management level and ultimately by BRCC. Assessment of the materiality of risks is directly linked to the board's stated risk appetite and approved risk management policies covering all key risks.

Risk reporting

As part of standard business practice, identified key risks are monitored by group Risk Management and by Internal Audit to ensure that risks are managed to an acceptable level of risk. Detailed performance and control metrics of these risks are reported to each ERRF and BRCC meeting, including, where appropriate the results of scenario testing. Key risk types that are considered fall within the following:

- Credit and counterparty risk
- Traded market risk
- Equity risk in the banking book
- Balance sheet liquidity and non-trading interest rate risk
- Legal risk
- Operational risk.

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

Role of regulatory capital in capital management

On 1 January 2008, we began operating under the Basel II regulatory regime across all regulated entities. We have adopted the Standardised Approach under "Pillar 1" to determine our minimum capital requirements.

The regulatory rules within Basel II are designed to provide greater differentiation of risk between asset classes. In addition, the rules seek to account for operational risk, in addition to the traditional capital requirements for credit and market risks. We do not, however, use regulatory capital as the exclusive driver of capital allocation.

In addition, while the measurement of capital from a regulatory perspective has changed following the introduction of Basel II, the risk appetite of the board and senior management remains unchanged. Indeed, given the rapid deterioration in capital availability across the global banking industry and the increasing risk aversion of the market, senior management have determined that capital should remain at conservative levels, in line with capital targets, regardless of any potential benefit arising from a change in regulatory capital rules. This requirement has been adopted within our approach to "Pillar 2", of which the internal capital framework constitutes a central role.

Therefore, while capital requirements under "Pillar 1" form the minimum capital for Investec plc, Investec Limited and their various regulated subsidiaries, our capital management framework places emphasis on the determination of internal capital requirements. However, we do manage our capital resources to ensure that all group entities exceed local capital adequacy rules in the jurisdictions in which they operate. Local management are responsible for compliance with the entities' minimum regulatory requirements, although the allocation of capital supply is controlled by the DLC Capital Committee.

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. Assessments for all risks are based on analysis of internal data, management expertise and judgment and external benchmarking.

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

- Credit and counterparty risk, including:
  - Underlying counterparty risk
  - Concentration risk
  - Securitisation risk
- Traded market risk
- Equity and property risk held in the banking book
- Balance sheet risk, including:
  - Liquidity
  - Non-trading interest rate risk
- Strategic and reputational risks
- Business risk
- Operational risk
- Pension risk (UK only).

Operational risk is considered as an umbrella term and covers a range of independent risks including, but not limited to, risks relating to: fraud, litigation, business continuity, outsourcing and out of policy trading. The specific risks covered are assessed dynamically through constant assessment of the underlying business environment.

Capital management, planning and scenario testing

A group capital plan is prepared at least three times annually considering the impact of business strategy and market conditions on our capital sufficiency. This plan is designed to determine capital sufficiency under a range of economic and internal conditions over the medium term (three years), with the impact on both earnings and asset growth considered. The plan provides the board (via the BRCC) with a basis for which to align strategy given constraints on capital where these exist. This plan is revised based on actual results and presented to the BRCC at least three times annually.

Internal capital is fully integrated into many key operational processes, including:

- Determining transactional risk based returns on capital
- Establishing break even pricing
- Optimising capital allocation
- Comparing risk based performance across business areas
- Forming a basis for the determination of Economic Value Added at a transactional level, and hence the basis for discretionary variable remuneration

Stressing the capital plans is an important tool by which the board can gain insight as to the potential sources of vulnerability of the capital sufficiency of the group through market, economic or internal events. As such, we stress the capital plans based on conditions most likely to place us under duress. The conditions themselves are agreed by the DLC Capital Committee after consultation with relevant internal and external experts and research. Such plans are used by management to formulate responses to potential adverse business conditions using all available management levers.

In particular, 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 a range of scenarios based on an expected case, upturn and downturn scenarios. On the basis of the results of this analysis the DLC Capital Committee, and the BRCC, are presented with the potential variability in capital adequacy and are responsible, in consultation with the board, for consideration of the appropriate response.

Pricing and performance measurement

The use of internal capital means that all transactions are considered in the context of the impact on the allocation of our capital resources, and hence on the basis of their contribution to return on risk adjusted capital. This is to ensure 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. This compels a wider population (beyond the formal governance committees) to understand the capital implications of business activity and ensure that risk is priced appropriately.

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

Responsibility for the risk and capital management process

The Investec plc and Investec Limited boards of directors are ultimately responsible for the respective silo's capital management. The group's senior management take active roles in allocating capital at a transactional level. At the highest level, the boards have delegated direct responsibility for capital management to the BRCC, and in turn the DLC Capital Committee. These forums have been in place for several years.

In order to feed into this forum, Investec plc convenes a separate Capital Committee on a weekly basis to monitor the capital positions of its various subsidiaries, in particular the businesses in the UK and Australia. This structure ensures that capital is actively managed from the lowest reporting level and cascades up to the ultimate responsible body – the BRCC.

The following areas within the structure of the business have specific operational capital management responsibilities:

- Business units, in particular those who conduct their business out of a regulated entity and use large amounts of capital (Private Bank and Capital Markets):
  - The transactional consultants within the business units consider the capital requirements and the projected return on this capital as part of the deal approval process. Pricing explicitly takes into account the capital usage
  - Each business unit is responsible for translating their detailed individual strategies into a "bottom-up" capital usage projection for incorporation into the group capital plan. These plans assist senior management with prioritising the use of our available capital
- Group Finance:
  - Regulatory reporting is the responsibility of a dedicated team within group Finance, who are responsible for ensuring regulatory capital requirements are continuously met
  - Financial control, through the capital management function, is responsible for the development and implementation of the internal capital framework and to manage and report on regulatory capital requirements. The development of the internal capital framework includes the result of analysis performed by Risk Management
  - The Capital Management function also co-ordinates, with assistance from business units, the development of the group's capital plan
  - As part of the responsibility for the internal capital framework, the allocation of capital is managed centrally by group Finance
  - As with Risk Management, the group Finance IT division plays a critical role in ensuring the integrity of the ledger and all supporting applications which contribute to the regulatory and business intelligence reporting processes
- Risk Management:
  - The credit approval process for each (relevant) transaction is approved only after review and approval by our central credit risk management team. Capital usage forms an explicit part of the approval process
  - For exposures which generate market risk, the market risk management team quantify and monitor market risk generated by trading activities. Traded market risk is closely monitored by our various risk management fora
  - As part of operational risk management, a process managed by centralised operational risk management and embedded risk managers within each business unit identify, assess and quantify key operational risks arising from Investec's operations. Quantification is then used as the basis for the operational risk capital used held via the internal capital framework
  - Underpinning all risk management functions is their IT support division, which ensures that all applications used to calculate and report risk are functioning properly and reconcile to underlying source systems
- Board and group executive:
  - The board has ultimate responsibility which is mandated to BRCC for the oversight of day to day risk management, capital management and ensuring that both risk and capital are managed commensurate with our strategy and risk appetite
  - The BRCC has delegated management of capital to the DLC Capital Committee and risk management to ERRF.

We optimise the use of capital through a rigorous risk based approach to pricing, performance and remuneration. Capital is managed closely for return and risk from the inception of a transaction. This approach ensures that the linkage of risk to target capital sufficiency is entrenched in our transactional processes.

This results in a capital management process driven by capital adequacy goals which are closely monitored by strategic capital plans.

These strategic capital plans, as with all elements of internal capital, are subject to a robust approval process involving senior business unit managers, group executive and the board.

Capital disclosures in terms of Basel II

The tables that follow provide information as required in terms of Basel II.

4

Capital structure

Summary information on the terms and conditions of the main features of all capital instruments is provided on page 190.

	IBP* £'mn	IBAL* A$'mn
As at 31 March 2010		
Regulatory capital		
Tier 1		
Called up share capital	748	292
Share premium	71	–
Retained income	343	360
Other reserves	67	(7)
Minority interests in subsidiaries	(10)	–
Goodwill	(96)	(89)
Primary capital (Tier 1)	1 123	556
Less: deductions	(14)	(76)
	1 109	480
Tier 2 capital		
Aggregate amount	525	88
Less: deductions	(14)	(11)
	511	77
Other deductions from Tier 1 and Tier 2	(101)	–
Total capital	1 519	557
As at 31 March 2009		
Regulatory capital		
Tier 1		
Called up share capital	655	292
Share premium	37	–
Retained income	275	336
Other reserves	50	(7)
Minority interests in subsidiaries	(11)	–
Goodwill	(72)	(89)
Total Tier 1	934	532
Less: deductions	(18)	(94)
	916	438
Tier 2		
Aggregate amount	604	134
Less: deductions	(18)	(17)
	586	117
Tier 3		
Aggregate amount	10	–
Other deductions from Tier 1 and Tier 2	(105)	–
Total capital	1 407	555

**Where: IBP is Investec Bank plc; IBAL is Investec Bank (Australia) Limited. The information for IBP includes the information for IBAL.*

Capital requirements

	IBP* £'mn	IBAL* A$'mn
As at 31 March 2010		
Capital requirements	720	376
Credit risk – prescribed standardised exposure classes	591	323
Corporates	230	232
Secured on real estate property	190	5
Counterparty risk on trading positions	20	5
Short term claims on institutions and corporates	28	4
Retail	44	16
Institutions	10	9
Other exposure classes	69	52
Securitisation exposures	19	–
Equity risk – standardised approach	16	8
Listed equities	2	2
Unlisted equities	14	6
Market risk – portfolios subject to internal models approach	23	2
Interest rate	12	2
Foreign Exchange	1	–
Equities	10	–
Operational risk – standardised approach	71	43
As at 31 March 2009		
Capital requirements	709	394
Credit risk – prescribed standardised exposure classes	578	340
Corporates	216	245
Secured on real estate property	197	6
Counterparty risk on trading positions	25	18
Short term claims on institutions and corporates	25	23
Retail	41	16
Institutions	14	11
Other exposure classes	60	21
Securitisation exposures	16	–
Equity risk – standardised approach	16	11
Listed equities	2	1
Unlisted equities	14	10
Market risk – portfolios subject to internal models approach	29	1
Interest rate	14	1
Foreign Exchange	1	–
Equities	14	–
Operational risk – standardised approach	70	42

**Where: IBP is Investec Bank plc; IBAL is Investec Bank (Australia) Limited. The information for IBP includes the information for IBAL.*

Capital adequacy

	IBP* £'mn	IBAL* A$'mn
As at 31 March 2010		
Tier 1 capital	1 123	556
Less: deductions	(14)	(76)
	1 109	480
Tier 2 capital		
Aggregate amount	525	88
Less: deductions	(14)	(11)
	511	77
Other deductions from Tier 1 and Tier 2	(101)	–
Total capital	1 519	557
Risk-weighted assets (banking and trading)	8 997	2 899
Credit risk – prescribed standardised exposure classes	7 380	2 485
Corporates	2 874	1 781
Secured on real estate property	2 371	37
Counterparty risk on trading positions	245	41
Short term claims on institutions and corporates	346	34
Retail	550	121
Institutions	131	69
Other exposure classes	863	402
Securitisation exposures	243	–
Equity risk – standardised approach	203	62
Listed equities	25	16
Unlisted equities	178	46
Market risk – portfolios subject to internal models approach	285	17
Interest rate	149	16
Foreign Exchange	11	1
Commodities	–	–
Equities	125	–
Operational risk – standardised approach	886	335
Capital adequacy ratio	16.9%	19.2%
Tier 1 ratio	12.3%	16.6%
Capital adequacy ratio – pre operational risk	18.7%	21.7%
Tier 1 ratio – pre operational risk	13.7%	18.7%

**Where: IBP is Investec Bank plc; IBAL is Investec Bank (Australia) Limited. The information for IBP includes the information for IBAL.*

Capital adequacy

	IBP* £'mn	IBAL* A$'mn
As at 31 March 2009		
Tier 1 capital	934	621
Less: deductions	(18)	(183)
	916	438
Tier 2		
Aggregate amount	604	134
Less: deductions	(18)	(17)
	586	117
Tier 3		
Aggregate amount	10	–
Other deductions from Tier 1 and Tier 2	(105)	–
Total capital	1 407	555
Risk-weighted assets (banking and trading)	8 855	3 028
Credit risk – prescribed standardised exposure classes	7 220	2 612
Corporates	2 701	1 882
Secured on real estate property	2 459	44
Counterparty risk on trading positions	308	136
Short term claims on institutions and corporates	312	176
Retail	514	126
Institutions	175	83
Other exposure classes	751	165
Securitisation exposures	206	–
Equity risk – standardised approach	197	83
Listed equities	27	7
Unlisted equities	170	76
Market risk – portfolios subject to internal models approach	359	11
Interest rate	171	10
Foreign Exchange	12	1
Commodities	2	–
Equities	174	–
Operational risk – standardised approach	873	322
Capital adequacy ratio	15.9%	18.3%
Tier 1 ratio	10.3%	14.4%
Capital adequacy ratio – pre operational risk	17.6%	20.5%
Tier 1 ratio – pre operational risk	11.5%	16.2%

**Where: IBP is Investec Bank plc; IBAL is Investec Bank (Australia) Limited. The information for IBP includes the information for IBAL.*

Credit ratings

In terms of our Dual Listed Companies structure, Investec plc and Investec Limited are treated separately from a credit point of view. As a result, the rating agencies have assigned ratings to the significant banking entities within the group, namely Investec Bank plc, Investec Bank Limited and Investec Bank (Australia) Limited. Certain rating agencies have assigned ratings to the holding companies, namely, Investec plc and Investec Limited.

Rating agency		Investec plc	Investec Bank plc – a subsidiary of Investec plc	Investec Bank (Australia) Limited – a subsidiary of Investec Bank plc
Fitch	Individual rating		C	C
	Support rating		5	2
	Foreign currency			
	Short-term		F3	F2
	Long-term		BBB	BBB
	National			
	Short-term			
	Long-term			
Moody's	Bank financial strength rating		D+	C-
	Foreign currency			
	Short-term deposit rating	Non prime	Prime-3	Prime-2
	Long-term deposit rating	Ba1	Baa3	Baa2
	National			
	Short-term			
	Long-term			
Global Credit Ratings	**Local currency**			
	Short-term rating		A2	
	Long-term rating		BBB+	

4

An internal audit charter, approved by the group Audit Committees and reviewed annually, governs our internal audit activity. The charter defines the role, objectives, authority and responsibilities of the function.

As a result of the silo specific regulatory responsibilities arising from our DLC structure, there are two group Internal Audit departments located in London and Johannesburg, responsible for Investec plc and Investec Limited respectively. An Internal Audit function, reporting into Investec plc, also exists in Sydney. The combined functions cover all of the geographies in which Investec operates. These departments use similar risk-based methodologies 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. They operate independently of executive management but have access to their local Chief Executive Officer and the Chairman of the Audit Committee. The head of the Investec plc Audit Department is also responsible for coordinating internal audit efforts to ensure coverage is global and departmental skills are leveraged in order to maximise efficiency. For administrative purposes the heads of Internal Audit also report to the global head of Corporate Governance and Compliance. The functions have adopted, and comply with, the International Standards for the Professional Practice of Internal Auditing.

Annually, Internal Audit conducts a formal risk assessment of all businesses from which a comprehensive risk-based annual audit plan is derived. The assessment and programme are validated by executive management and approved by the responsible Audit Committee. High risk businesses and processes are audited annually, 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 our dependence on IT systems. As a result of the continuing instability in the macroeconomic environment, there has been a focus in the past year on the provision of assurance over liquidity, credit and capital management controls. We also liaise with the external auditors to enhance efficiencies. The annual plan is reviewed regularly to ensure it remains relevant and responsive, given changes in our operating environment. The Audit Committee approves any changes to the plan.

Internal Audit proactively reviews its practices and resources for adequacy and appropriateness, to meet our increasingly demanding corporate governance and regulatory environment. Audit teams comprise well-qualified, experienced staff and ensure that the function has the competence to match Investec's diverse requirements. Where specific specialist skills or additional resources are required, these will be obtained from third parties as appropriate. The Internal Audit resources are subject to review by the respective Audit Committees.

Significant control weaknesses are reported, in terms of an escalation protocol, to the Audit and Compliance Implementation Forums, where rectification procedures and progress are considered and monitored at a detailed level by management. The Audit Committee receives a report on significant issues and actions taken by management to enhance related controls.

Internal audit

The Internal Audit division provides objective and independent assurance, to management and the board via the group Audit Committees, that group processes are adequate to identify the significant risks to which Investec is exposed and that the control environment is effective enough to manage these risks. Internal Audit recommends enhancements to risk management, control and governance processes to address any identified weaknesses

In keeping with our core values, we endeavour to comply with the highest professional standards of integrity and behaviour, which builds trust

Compliance risk is the risk that we fail to comply with the letter and spirit of all statutes, regulations, supervisory requirements and industry codes of conduct which apply to our businesses. We seek to bring the highest standard of compliance best practice to all our jurisdictions. In keeping with our core values, we also endeavour to comply with the highest professional standards of integrity and behaviour, which builds trust.

We are subject to extensive supervisory and regulatory governance in the countries in which we operate.

Under the DLC structure, both Investec plc and Investec Limited maintain separate Compliance structures. Each Compliance structure operates under terms of reference which are approved by its listed company board and Audit Committee. Each Compliance structure is headed by a group Compliance Officer, who operates independently from operational management and is responsible for ensuring adequate management of Compliance risk within their area of business. Each group Compliance Officer reports to the Chief Executive Officer of their listed company, as well as to the global head of Compliance, who is ultimately responsible for management of the Compliance function of both listed groups. The group Compliance Officers have unrestricted access to the Chairman of their respective Audit Committees.

The Compliance divisions operate under matrix management reporting structures and are decentralised throughout the businesses.

Under these arrangements, Compliance Officers are appointed to all significant business units and report to the business heads, but remain under the general supervision of group Compliance. Where appropriate, certain cross-enterprise compliance functions, such as Compliance Monitoring, are centralised and report directly to the group Compliance Officer.

Compliance risk is managed through internal policies and processes, which include legal, regulatory and other technical requirements relevant to the business. The Compliance Officers provide regular training to ensure that all employees are familiar with their regulatory obligations. They also provide advice on regulatory issues. Compliance staff independently monitor the business units to ensure adherence to policies and procedures and other technical requirements.

Compliance staff work closely with business and operational units to ensure consistent management of compliance risk. Compliance Officers are charged with developing and maintaining constructive working relationships with regulators and supervisors in all geographies.

UK and Europe – year in review

The turmoil in the financial systems has led to a number of suggested and actual reforms to the international and domestic regulatory and supervisory framework. Significant work has been undertaken at the G20 level and by supra national bodies such as the Financial Stability Board and global standard setters including the Basel Committee on Banking Supervision and the International Organisation of Securities Commissions.

In the UK a significant contribution to the debate was provided by the Chairman of the UK's Financial Services Authority in the form of the Turner Review. This report had a wide scope which included a review of the causes of the crisis, and proposed changes in regulation and supervisory approach needed to create a more robust banking system for the future. Since then Sir David Walker has published recommendations on corporate governance in financial institutions. The FSA has responded to Sir David's recommendations with a range of corporate governance proposals regarding supervision of governance, risk oversight and shareholder engagement.

Capital

The regulation and supervision of financial institutions is currently undergoing a period of significant change in response to the global financial crisis. Increased capital requirements for market risk and securitisations have already been announced by the FSA, and are due for implementation in the UK in 2011.

In December 2009 the Basel Committee on Banking Supervision issued a consultative document that outlined proposed changes to the definition of regulatory capital. These proposals are going through a period of consultation and are expected to be introduced by the beginning of 2013, with substantial transitional arrangements. Proposals have included:

- Requiring banks to hold a greater proportion of capital in the form of core tier 1 capital
- More restrictive definitions of hybrid capital instruments eligible as capital
- Introduction of a gross leverage ratio
- Requirement for capital buffers in excess of then-current levels to serve as capital in the event of a downturn.

Liquidity

The FSA has now implemented parts of its far-reaching liquidity requirements for banks, building societies and investment firms. The nature and scale of these changes are clearer in the UK than in many other countries because the FSA's rules have already been published. However, it is expected that international developments will move in the same direction.

The new FSA rules are based on agreed international liquidity standards, in particular the BCOB Principles for Sound Liquidity Risk Management and Supervision, and are focused on two high-level principles. Firstly, all FSA-regulated entities must have adequate liquidity and, secondly, they must not depend on other parts of their group to survive liquidity stresses, unless permitted to do so by the FSA.

Aside from corporate governance, during the period under review regulatory activity in the UK has also been focused on the following:

- Capital requirements for banks
- Liquidity and stress testing
- Remuneration
- Resolution arrangements for banks
- Banking Conduct of Business (BCOB)
- Payment services
- Financial Services Compensation Scheme
- Anti-money laundering (AML)

Stress testing

The FSA made changes to its rules and guidance on stress and scenario testing. The key changes were:

- Introduction of a 'reverse-stress test' requirement. This requires firms to consider the scenarios most likely to cause their current business model to become unviable
- Changes to the existing requirements on Pillar 2 capital stress and scenario testing (the ICAAP provisions), or where firms use internal models to assess their Pillar 1 capital requirements. These changes are intended to clarify the FSA's current policy on stress and scenario testing.

This regime will be in force from December 2010.

Remuneration practices in financial services

The FSA's Remuneration Code for large companies in the financial services sector took effect from 1 January 2010. The Code is designed to achieve two objectives: firstly, that boards focus more closely on ensuring that the total amount distributed by a firm is consistent with good risk management and sustainability; and secondly that individual compensation practices provide the right incentives.

The Code has a general requirement that a firm must establish, implement and maintain remuneration policies, procedures and practices that are consistent with and promote effective risk management. Eight principles have been added to the FSA's handbook to ensure firms understand how the FSA will assess compliance.

Resolution arrangements

The Financial Services Act 2010 has placed a duty on the FSA to make rules requiring financial institutions to create and maintain Recovery and Resolution Plans (often referred to as 'living wills') to reduce the likelihood of, and the systemic risks associated with, the failure of such institutions. These living wills will set out the options that firms have if they face financial difficulty (the "Recovery" aspect). The plan will also describe how the business is run so that, if the Recovery Plan does not work, an administrator has a guide to how to resolve the position (the "Resolution" aspect).

Banking Conduct of Business

From 1 November 2009 the FSA commenced regulating the way banks treat their clients. The new regime creates high level rules in a Banking Conduct of Business Sourcebook (BCOBS), alongside the extension of the application of the FSA's General Principles to include the regulated activities of accepting deposits and issuing e-money.

Payment Services Directive

The Payment Services Regulations 2009 (PSR) were introduced in the UK from 1 November 2009. The PSRs are the UK interpretation of the Payment Services Directive (PSD), a European Union initiative to support the Single Euro Payments Area (SEPA) and to create a single market for payments across Europe. These regulations came into force in the UK on 1 November 2009.

Under PSD, there is no difference between "domestic" and "cross-border" payments. The PSD makes the payment service activities of banks subject to statutory regulation (payment services were previously not the subject of any regulatory conduct of business requirement in the UK and were largely left to industry self-regulation under the Banking Codes). Payment services covered by the PSD include: direct debits, credit transfers, card payments, transferring e-money, money transfers, cash deposits on an account used for the execution of payment transactions, current accounts, flexible savings accounts, combined savings and mortgage accounts.

The additional conduct of business requirements consist of:

- Rules governing the information that needs to be provided to customers before and after the execution of a payment transaction
- Rules governing the rights and obligations of both firms and their customers in relation to payment transactions.

Financial Services Compensation Scheme

The FSA have introduced a new regime which outlines how the FSA intends to raise awareness and understanding of the Financial Services Compensation Scheme. The FSA's intention is to increase public confidence in the scheme and the protection it provides. The FSA has also put in place a system that ensures that compensation can be paid to the majority of depositors in a target of seven days following the failure of a deposit taker. The FSA expects the fast payout proposals to provide rapid access to liquid funds for depositors, minimise hardship and increase consumer confidence.

Anti-money laundering

We continue to maintain adequate systems and controls to manage the risk from being used in money laundering, terrorist financing and other financial crime. In April 2009 the Bribery Act was enacted replacing the existing legislation in relation to bribery and corruption. The Act created four main offences including a corporate offence of failing to have adequate systems and controls to prevent bribery. Senior management has the responsibility to ensure that such systems and controls are in place.

Australia – year in review

There has been increased activity as a result of our regulators, namely the Australian Prudential Regulation Authority (APRA) and the Australian Securities and Investments Commission (ASIC), introducing reforms to their supervisory and regulatory frameworks. During the period under review APRA regulatory activity focused on:

- Liquidity and risk management
- Remuneration practices
- Enhancement of the Basel II framework in Australia.

APRA released its final prudential requirements on remuneration for Australian deposit taking institutions. APRA's approach recognises that poorly structured remuneration practices may result in excessive risk taking. These revised governance standards came into effect on 1 April 2010. The Investec Australia board has reviewed its remuneration practices in light of the new standard and has implemented a Remuneration Policy and Committee.

The introduction of the National Credit Code (which replaces the Uniform Consumer Credit Code) covers credit activities. ASIC will become the national regulator for consumer credit. This means that home loans, personal loans and consumer leases, among other products and services, will be regulated under Commonwealth legislation and administered by ASIC. Investec Bank Australia is currently assessing the registration and licensing requirements of this legislation.

Introduction

While the board provides leadership based on an ethical foundation, and oversees the overall process and structure of corporate governance, each business area and every employee of the group is responsible for acting in accordance with sound corporate governance practices.

This section provides a summary of our corporate governance philosophy and practices. A more detailed review is provided in the Investec group's 2010 annual report.

Our values and philosophies are the framework against which we measure behaviour and practices so as to assess the characteristics of good governance. Our values require that directors and employees behave with integrity, displaying consistent and uncompromising moral strength and conduct in order to promote and maintain trust.

Sound corporate governance is implicit in our values, culture, processes, functions and organisational structure. Structures are designed to ensure that our values remain embedded in all businesses and processes. We continually refine these structures and a written Statement of Values serves as our Code of Ethics.

Investec is committed to promoting sustainable stakeholder confidence in our conduct as a business and as a responsible corporate citizen

Board statement

The board, management and employees of Investec are in full support of and committed to complying with the Disclosure and Transparency Rules and Listing Rules of the United Kingdom Listing Authority (UKLA), regulatory requirements in the countries in which we operate and, the London Combined Code (2008), whereby all stakeholders are assured that we are being managed ethically and in compliance with the latest legislation, regulations and best practices.

London Combined Code (2008)

The board is of the opinion that, based on the practices disclosed throughout this report, which were in operation during the year under review, Investec has complied with the Principles of Good Governance and Code of Best Practice contained in Section 1 of the London Combined Code (2008), excluding the following:

- Independence of the Chairman: The Chairman, Hugh Herman, is not considered to be independent as, at the time of his appointment and up to 2005, his duties included promoting the group and introducing clients, but excluded day-to-day executive decisions. His role was full time and he sat on certain management forums. He was also included in various management incentive schemes.
- Board evaluation: The last evaluation of the board, as required by the London Combined Code A.6, was conducted in 2008. The next evaluation of the board, its committees and individual directors will be conducted during 2010 and annually thereafter.

Financial reporting and going concern

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

- Budgeting and forecasts
- Profitability
- Capital
- Liquidity.

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

Our financial statements are prepared on a going concern basis.

The board is of the opinion, based on its knowledge of the group, key processes in operation and specific enquiries, that there are adequate resources to support the group as a going concern for the foreseeable future. Further information on our liquidity and capital position is provided on pages 84 to 91 and pages 98 to 106.

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

Board of directors

The composition of the board of Investec Bank plc is set out on page 116.

The board is accountable for the performance and affairs of Investec. It provides entrepreneurial leadership for the group within a framework of prudent and effective controls which allows risks to be assessed and managed. Specifically, it is responsible for the adoption of strategic plans, monitoring of operational performance and management, ensuring an effective risk management strategy, compliance with applicable legislation, upholding corporate governance standards and succession.

The board meets its objectives by reviewing and guiding corporate strategy, setting the group's values and standards, promoting the highest standards of corporate governance, approving key policies and objectives, ensuring that obligations to its shareholders and other stakeholders are understood and met, understanding the key risks we face, determining our risk tolerance and approving and reviewing the processes in operation to mitigate risk from materialising, including the approval of the terms of reference of key supporting board committees.

The board has defined the limits of delegated authority. It is responsible for assessing and managing risk policies and philosophies, ensuring appropriate internal controls, overseeing major capital expenditure, acquisitions and disposals, approving the establishment of businesses and approving the introduction of new products and services.

In fulfilling its responsibilities, the board is supported by management in implementing the plans and strategies approved by the board. The board monitors and evaluates management's progress on an ongoing basis.

The board seeks to exercise leadership, integrity and judgement in pursuit of strategic goals and objectives, to achieve long-term sustainable growth and prosperity.

Board committees

The board is supported by key committees, as follows:

- Audit Committee
  - Audit Sub-Committees
  - Audit and Compliance Implementation Forums
- Board Risk and Capital Committee
  - Capital Committee
  - Executive Risk Review Forum
  - Various specialist risk committees and forums as described in the risk management section of the Investec group's 2010 annual report
- Nominations and Directors' Affairs Committee
- Remuneration Committee

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

Management and succession planning

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

Each strategic business unit has an executive management committee and is responsible for taking and implementing operational decisions, managing risk and aligning divisional objectives with the group strategy and vision.

Matters of succession are considered regularly. Decision making is spread to encourage and develop an experienced pool of talent.

Internal control

4

The board considers that the group's systems of internal control are appropriately designed to:

- Provide reasonable, although not absolute, assurance of both the integrity and reliability of financial information
- Identify and appropriately mitigate significant risks
- Safeguard, verify and maintain accountability of assets
- Mitigate risk exposure to fraud and misappropriation
- Support business objectives and sustainability under normal and adverse operating conditions
- Ensure compliance with applicable laws and regulations

We have adopted the Turnbull guidance (Internal Control: Guidance for Directors on the Combined Code issued by the Institute of Chartered Accountants of England and Wales in 1999 and revised in 2005), and continued to embed these principles throughout the group during the year under review.

Risks and controls are reviewed and monitored regularly for relevance and effectiveness. The Investec plc Board Risk and Capital Committee and Audit Committees assist the board in this regard. Sound risk management practices are promoted by the group Risk Management function, which is independent of operational management. The board recognises its responsibility for the overall risk and control framework and for reviewing its effectiveness.

Internal control is designed to mitigate, not eliminate, significant risks faced. It is recognised that such a system provides reasonable, but not absolute, assurance against material error, omission, misstatement or loss. This is achieved within the group through a combination of risk identification, evaluation and monitoring processes, appropriate decision and oversight forums, and assurance and control functions such as group Risk Management, Internal Audit and Compliance. These ongoing processes which comply with the Turnbull guidance were in place throughout the year under review and up to the date of approval of the annual report and accounts.

Internal Audit reports any control recommendations to senior management, group Risk Management and the relevant Audit Committee. Appropriate processes, including review by the Audit and Compliance Implementation Forums, ensure that timely corrective action is taken on matters raised by Internal Audit. Significant risks are reviewed regularly by the Executive Risk Review Forum and by the Board Risk and Capital Committee. Material incidents and losses and significant breaches of systems and controls are reported to the Board Risk and Capital Committee and the Audit Committees. Reports from the Audit Committees, Board Risk and Capital Committee and Risk and Control functions are reviewed at each board meeting.

Internal financial controls

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

External audit

Investec's external auditors are Ernst & Young LLP. The independence of the external auditors is reviewed by the Audit Committees each year.

The Audit Committees meet with the external auditors to review the scope of the external audit, 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 Chairman of each Audit Committee. Recommendations on the rotation of auditors, as laid out in the UK Auditing Practices Board Ethical Standard 3, were adhered to during the period under review.

Non-audit services are dealt with in terms of an agreed policy.

Regulation and supervision

Investec is subject to external regulation and supervision by various supervisory authorities in each of the jurisdictions in which we operate, the main ones being the UK Financial Services Authority (FSA) and the Australian Prudential Regulatory Authority (APRA).

Communication, public disclosure obligations and stakeholder relations

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.

Values and code of conduct

We have a strong organisational culture of entrenched values, which forms the cornerstone of our behaviour towards all stakeholders. These values are embodied in a written Statement of Values, which serves as our Code of Ethics, and is continually reinforced.

We view all employees as the custodians of ethical behaviour, which is reinforced through internal processes, policies and procedures. As such all new employees are invited, and are strongly encouraged, to attend an induction process at which our philosophies, values, culture, risk management and compliance procedures are explained and discussed.

Our Organisation Development team plays an important role in facilitating the understanding and ongoing practice of our values, philosophies and culture. In addition to our values, acceptable business practices are communicated through the Human Resources practices manual, available on our intranet.

We continually strive to conduct our business with uncompromising integrity and fairness, so as to promote trust and confidence in the banking industry.

Sustainable business practices

We have an acute awareness of the need for longevity and durability, across all our businesses, and an ingrained understanding of the practices that underpin sustainability. Our triple bottom line approach is documented on pages 269 and 270 of the combined consolidated financial statements of Investec plc and Investec Limited and further detail can be found on our website.

Hugh S Herman (69)
BA LLB LLD (hc)
Non-Executive Chairman

Steven Heilbron (44)
BCom CA(SA)
Joint Chief Executive Officer of the bank

David M van der Walt (45)
BCom (Hons) CA(SA)
Joint Chief Executive Officer of the bank

George FO Alford (61)
BSc (Econ) FCIS FIPD MSI

Bernard Kantor (60)
CTA

Ian R Kantor (63)
BSc (Eng) MBA

Sir Chips Keswick (70)

Stephen Koseff (58)
BCom CA(SA) H Dip BDP MBA

Alan Tapnack (63)
BCom CA(SA)

Ian R Wohlman (55)
ACIB

Remuneration report

Remuneration report | **FIVE**

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

Details of the directors' remuneration are shown in the notes to the consolidated financial statements.

Philosophy and policy on executive directors' and employees' remuneration

Remuneration philosophy

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

We reward executive directors and employees for their contribution through:

- payment of an industry competitive annual package (base salary and benefits)
- a variable performance reward (linked to our EVA model as discussed on page 120 and 121)
- ownership in the form of share incentive scheme participation.

We tend to look at the aggregate of the above as the overall remuneration package designed to attract, retain, incentivise and drive the behaviour of our employees over the short, medium and longer term.

Overall rewards are considered as important as our core values of work content (greater responsibility, variety of work and high level of challenge) and work affiliation (entrepreneurial feel to the company and unique culture) in the attraction, retention and motivation of employees.

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

The type of people the organisation attracts, and the culture and environment within which they work, remain crucial in determining our success and long-term progress.

Our reward programmes are clear and transparent, designed and administered to align directors' and employees' interests with those of all stakeholders and ensure the group's short and long-term success.

Remuneration policy

The key principles of our remuneration policy for executive directors and employees, which were consistently applied during the financial year, are as follows:

- Total rewards comprise a fixed and variable component
- The fixed component of our rewards includes a base salary, pension and benefits and is set at median market levels to keep fixed cost elements low
- Variable rewards (a portion of which is deferred for senior employees) are largely EVA based (and underpinned by our risk appetite and capital utilisation as discussed on pages 98 to 106)
- Long-term share incentive participation ensures alignment with stakeholders
- Total compensation (base salary, pension, benefits and incentives) is targeted in normal market conditions to the relevant competitive market (see below) at upper quartile levels for superior performance
- We do not apply an upper limit on performance bonuses given our risk based EVA approach and prefer to contain the fixed cost component of remuneration at modest levels.

Qualitative and quantitative issues form an integral part of the determination of reward levels. Key inputs into the reward process are as follows:

- A significant proportion of rewards, including annual and long-term incentive components, are explicitly linked to the performance of the business and the individual business units

- We recognise the performance of the business and the individual
- An individual's alignment with and adherence to our culture and values system is a key consideration
- Other aspects considered include, for example, attitude displayed towards risk consciousness; the level of co-operation and collaboration fostered; the ability to grow and develop markets; the possible replacement cost of such individuals.

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

- The most relevant competitive reference points for reward levels are based on the scope of responsibility and individual contributions made
- Appropriate benchmark, industry and comparable organisations' remuneration practices are reviewed regularly
- For executive directors, the FTSE 350 General Finance firms have provided the most appropriate benchmark
- The committee also reviews data on other international banks with which we compete, including certain FTSE100 companies
- The committee recognises that we operate an international business and compete with both local and international competitors in each of our markets
- In order to avoid disproportionate packages across areas of the group and between executives, adjustments are made at any extremes to ensure broad internal consistency. Adjustments may also be made to the competitive positioning of pay components for individuals, in cases where a higher level of investment is needed in order to build or grow either a business unit or our capability in a geography.

Components of remuneration

The reward package for executive directors and employees comprises:

- Base salary and benefits
- Annual performance bonuses
- Long-term share incentive plans.

The elements of the reward package, as listed above, are discussed below.

As a consequence of the global financial markets' crisis and the resultant debate and review surrounding remuneration policies and procedures, the committee has made a few changes to the components of our reward programmes.

Base salary and benefits

Salaries are reviewed annually and reflect the relative skills and experience of, and contribution made by, the individual. It is the company's policy to set base salaries (including benefits) at median market levels.

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

Annual performance bonus

Annual performance bonuses are closely linked to business performance, based on target business unit performance goals determined in the main by realised EVA profit performance against pre-determined targets above a risk and capital weighted return. These targets have been in force, and unchanged, for the past few years and are subject to annual review.

The EVA model and process

Our business strategy and associated risk appetite, together with effective capital utilisation form the key cornerstones which underpin the EVA annual bonus allocation model. This model has been consistently applied for more than 10 years and encompasses the following principles and processes:

- Targeted returns differ by business unit reflecting the competitive economics and shareholder expectation for the specific area of the business, and are set with reference to competitive benchmarks for each product line. In essence varying levels of return are required for each business unit reflecting the state of market maturity, country of operation, risk, capital invested (capital intensive businesses) or expected expense base (fee based businesses)

- Capital allocated is a function of both regulatory and internal capital requirements, the risk assumed within the business and our overall business strategy
- The group has always held capital in excess of minimum regulatory requirements, and this philosophy is perpetuated in our internal capital allocation process. This process ensures that risk and capital discipline is embedded at the level of deal initiation and incorporates independent approval (outside of the business unit) of transactions by the various risk committees. A detailed explanation of our capital management and allocation process is provided on pages 98 to 106
- Growth in profitability over time will result in an increasing incentive pool, as long as it is not achieved at the expense of capital efficiency
- Target returns must be reflective of the inherent risk assumed in the business. Thus, an increase in absolute profitability does not automatically result in an increase in the annual bonus pool. This approach allows us to embed risk and capital discipline in our business processes
- A fixed predetermined percentage of any return in excess of the EVA hurdle accrues to the business units' EVA pool
- A portion of the total EVA pool is allocated towards the bonus pool for central service and head office employees
- Once the annual audit of the EVA pools is complete, line managers in each business unit will make discretionary bonus recommendations for each team member taking into consideration qualitative and quantitative criteria (as mentioned above)
- Bonus recommendations are then subject to an extensive geographic review involving Human Resources, local management and local remuneration committees
- Thereafter, these recommendations are subject to a global review by executive management, before the DLC Remuneration Committee review and approval process.

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

Year in review

During the prior financial year the group refined its performance bonus policies by introducing a non-cash element (in the form of forfeitable share awards) for all employees whose bonuses exceed a pre-determined hurdle level and by introducing a formal deferral requirement. These awards are made in terms of our existing long-term incentive plans.

During the current year, the pre-determined hurdle level was increased and the deferral period was extended from 11 months to two years.

Share option and long-term share incentive plans

We have a number of share option and long-term share incentive plans that are designed to link the interests of directors and employees with those of shareholders and long-term organisational interests, through performance and risk-based equity grants.

Details with respect to the share option and long-term share incentive plans in operation and in which the directors are eligible to participate are provided on our website.

Policy on non-executive directors' remuneration

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

Directors' interest

According to the register of directors' interests, no director holding office at 31 March 2010 had any debentures or beneficial interest in the shares of Investec Bank plc during the year.

Following the implementation of the Investec group's DLC structure, it is our policy to award the directors and employees with share options in both Investec Limited and Investec plc. Consequently, interests in both companies have been disclosed.

Directors' shareholdings in Investec plc and Investec Limited shares as at 31 March 2010

Name	Beneficial and non-beneficial interest Investec plc[2] 1 April 2009	Beneficial and non-beneficial interest Investec plc[2] 31 March 2010	% of shares in issue[1] Investec plc 31 March 2010	Beneficial and non-beneficial interest Investec Limited[3] 1 April 2009	Beneficial and non-beneficial interest Investec Limited[3] 31 March 2010	% of shares in issue[1] Investec Limited 31 March 2010
Executive directors						
S Koseff[4]	4 986 633	4 839 133	1.0%	1 899 330	1 809 330	0.7%
B Kantor[5]	48 525	48 525	–	5 301 000	4 863 500	1.8%
B Fried[7]	100 000	–	–	400 000	–	–
S Heilbron[8]	109 200	–	–	929 515	851 990	0.3%
A Tapnack	–	–	–	340 607	203 192	0.1%
DM van der Walt	–	–	–	690 140	690 140	0.3%
IR Wohlman	–	–	–	164 045	100 000	0.1%
Total number	5 244 358	4 887 658	1.0%	9 724 637	8 518 152	3.3%
Non-executive directors						
HS Herman[6]	1 369 915	1 369 915	0.3%	760 470	760 470	0.3%
GFO Alford	3 100	3 100	–	–	–	–
IR Kantor	1 509 545	3 509 545	0.7%	2 000 325	325	–
Sir C Keswick	15 750	15 750	–	9 250	9 250	–
Total number	2 898 310	4 898 310	1.0%	2 770 045	770 045	0.3%
Total number	8 142 668	9 785 968	2.0%	12 494 682	9 288 197	3.6%

1 *The total number of Investec plc and Investec Limited shares in issue as at 31 March 2010 was 471.1 million and 269.8 million, respectively.*

2 *The market price of an Investec plc share as at 31 March 2010 was £5.39 (2009: £2.92), ranging from a low of £2.87 to a high of £5.62 during the financial year.*

3 *The market price of an Investec Limited share as at 31 March 2010 was R62.49 (2009: R38.86), ranging from a low of R37.51 to a high of R65.40 during the financial year.*

In addition to their shareholdings reflected in the table above, some of the directors have an interest in options over Investec Limited shares, the details of which are as follows:

4 *S Koseff: European call options over 146 232 (2009:155 825) Investec Limited shares at a strike price of R51.44 (2009: R48.27) per share and an expiry date of 11 June 2011. The number of shares and strike price are adjusted occasionally in terms of the dividend adjustment provision in the option agreement.*

5 *B Kantor:*

- *European call options over 457 065 (2009:500 000) Investec Limited shares at a strike price of R51.44 (2009: R52.03) per share and an expiry date of 22 July 2010*
- *European call options over 477 908 (2009:500 000) Investec Limited shares at a strike of R50.50 (2009: R48.27) per share and an expiry date of 11 June 2011*
- *The number of shares and strike price are adjusted for both options occasionally in terms of the dividend adjustment provision in the option agreement.*

6 *HS Herman: European call options over 28 974 (2009:30 875) Investec Limited shares at a strike of R51.44 (2009: R48.27) per share and an expiry date of 11 June 2011. The number of shares and strike price are adjusted occasionally in terms of the dividend adjustment provision in the option agreement.*

7 *B Fried resigned as a director with effect from 24 February 2010.*

8 *S Heilbron was appointed as a director with effect from 24 February 2010.*

5

Directors' interest in preference shares as at 31 March 2010

Name	Investec plc		Investec Limited		Investec Bank Limited	
	1 April 2009	31 March 2010	1 April 2009	31 March 2010	1 April 2009	31 March 2010
Executive directors						
S Koseff	101 198	101 198	3 000	3 000	4 000	4 000
Non-executive directors						
HS Herman	–	–	–	–	1 135	1 135

- *The market price of an Investec plc preference share as at 31 March 2010 was R47.05 (2009: R34.00)*
- *The market price of an Investec Limited preference share as at 31 March 2010 was R91.00 (2009: R75.80)*
- *The market price of an Investec Bank Limited preference share as at 31 March 2010 was R98.70 (2009: R82.00).*

Directors' interest in options as at 31 March 2010

Investec plc shares

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2009	Exercised during the year	Lapsed during the year	Balance at 31 March 2010	Market price at date of exercise	Gross gains made on date of exercise	Period exercisable
Executive directors									
S Heilbron	20 Dec 2002	£1.59	9 455	–	–	9 455	–	–	Vesting scale in terms of the scheme rules. Vesting ends 20 Mar 2012
B Kantor	20 Dec 2002	£1.59	9 455	–	–	9 455	–	–	Vesting scale in terms of the scheme rules. Vesting ends 20 Mar 2012
A Tapnack	20 Dec 2002	£1.59	9 455	–	–	9 455	–	–	Vesting scale in terms of the scheme rules. Vesting ends 20 Mar 2012
DM van der Walt	20 Dec 2002	£1.59	9 455	–	–	9 455	–	–	Vesting scale in terms of the scheme rules. Vesting ends 20 Mar 2012
IR Wohlman	20 Dec 2002	£1.59	9 455	–	–	9 455	–	–	Vesting scale in terms of the scheme rules. Vesting ends 20 Mar 2012
	1 Dec 1999	£3.15	3 780	3 780	–	–	£4.46	£4 952	

Investec Limited shares

Name	Date of grant	Exercise price	Number of Investec Limited shares at 1 April 2009	Exercised during the year	Lapsed during the year	Balance at 31 March 2010	Market price at date of exercise	Gross gains made on date of exercise	Period exercisable
Executive directors									
IR Wohlman	1 Dec 1999	R49.20	2 220	2 220	–	–	R59.47	R22 799	

No new grants were made to executive directors during the financial year. The total number of Investec plc and Investec Limited shares in issue as at 31 March 2010 was 471.1 million and 269.8 million, respectively. The market price of an Investec plc share as at 31 March 2010 was £5.39 (2009: £2.92), ranging from a low of £2.87 to a high of £5.62 during the financial year. The market price of an Investec Limited share as at 31 March 2010 was R62.49 (2009: R38.86), ranging from a low of R37.51 to a high of R65.40 during the financial year.

Details with respect to options exercised:

- *IR Wohlman exercised his options and sold 3 780 Investec plc shares on 23 November 2009, when the share price was £4.46 per share. IR Wohlman exercised his options and sold 2 220 Investec Limited shares on 23 November 2009, when the share price was R59.47 per Investec Limited share. No performance conditions were applicable to these options.*

5

5

Directors' interest in the Share Matching Plan 2005 as at 31 March 2010

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2009	Exercised during the year	Options granted/ lapsed during the year	Balance at 31 March 2010	Market price at date of exercise	Gross gains made on date of exercise	Period exercisable
S Koseff	21 Nov 2005	Nil	750 000	562 500		187 500	£4.00	£2 250 000	The remaining 25% will become exercisable on 30 Jun 2010
	25 Jun 2009	Nil	–	–	300 000	300 000	–	–	75% is exercisable on 25 Jun 2013 and 25% on 25 Jun 2014
B Kantor	21 Nov 2005	Nil	750 000	562 500	–	187 500	R47.67	R26 814 375	The remaining 25% will become exercisable on 30 Jun 2010
	25 Jun 2009	Nil	–	–	300 000	300 000	–	–	75% is exercisable on 25 Jun 2013 and 25% on 25 Jun 2014
A Tapnack	21 Nov 2005	Nil	200 000	150 000	–	50 000	£4.47	£670 500	75% is exercisable on 30 Jun 2009 and 25% on 30 Jun 2010

Notes:

This plan was approved by shareholders at an extraordinary general meeting held on 14 November 2005. The plan is considered essential in improving our long-term prospects for recruitment and retention of key individuals. The plan also provides further alignment of the interests of shareholders and management as the committee believes that a significant element of remuneration should be linked to our ability to deliver sustainable results to shareholders, and at the same time enable management to share in these results. Further details on the plan are available on our website.

The performance conditions in terms of this plan were met in respect of the November 2005 awards and the director's were entitled to 75% of the matching award on 30 June 2009.

Additional matching awards were made during the year, following the vesting of the first tranche of such awards made in 2005.

Directors' interest in long-term incentive plans as at 31 March 2010

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2009	Exercised during the year	Options granted/lapsed during the year	Balance at 31 March 2010	Market price at date of exercise	Gross gains made on date of exercise	Period exercisable
S Heilbron	16 Mar 2005	Nil	500 000	375 000	–	125 000	£4.00	£1 500 000	The remaining 25% will become exercisable on 30 Jun 2010
	25 Jun 2007	Nil	200 000	–	–	200 000	–	–	75% is exercisable on 25 Jun 2011 and 25% on 25 Jun 2012
	25 Jun 2009	Nil	–	–	300 000	300 000	–	–	75% is exercisable on 25 Jun 2013 and 25% on 25 Jun 2014
DM van der Walt	16 Mar 2005	Nil	425 000	318 750	–	106 250	£4.31	£1 373 813	The remaining 25% will become exercisable on 30 Jun 2010
	25 Jun 2007	Nil	200 000	–	–	200 000	–	–	75% is exercisable on 25 Jun 2011 and 25% on 25 Jun 2012
	25 Jun 2009	Nil	–	–	300 000	300 000	–	–	75% is exercisable on 25 Jun 2013 and 25% on 25 Jun 2014
IR Wohlman	16 Mar 2005	Nil	150 000	112 500	–	37 500	£3.51	£395 237	The remaining 25% will become exercisable on 30 Jun 2010
	25 Jun 2007	Nil	50 000	–	–	50 000	–	–	75% is exercisable on 25 Jun 2011 and 25% on 25 Jun 2012
	25 Jun 2009	Nil	–	–	75 000	75 000	–	–	75% is exercisable on 25 Jun 2013 and 25% on 25 Jun 2014

The bank has made forfeitable awards in respect of nil cost options in the capital of Investec plc for nil consideration pursuant to the Long-Term Incentive Plan (LTIP). The awards are in accordance with the determination of the Remuneration Committee and with the rules of the LTIP.

5

Financial statements

Financial statements | **SIX**

The directors present their report and financial statements for the year ended 31 March 2010.

Business and principal activities

The principal activities of Investec Bank plc (the "bank") and its subsidiaries are property activities, private banking, investment banking and capital markets. These activities are also undertaken by the bank's branch in Dublin.

Review of the business and future developments

A review of the bank's business for the year and future proposed activities can be found in the financial review on pages 13 to 30.

On 23 January 2009 the bank changed its status to that of a public limited company and accordingly changed its name from Investec Bank (UK) Limited to Investec Bank plc.

Accounting policies and disclosures

Accounting policies are set having regard to commercial practice and comply with applicable United Kingdom law. To align with the accounting policies applied in the consolidated financial statements of the bank's listed parent, Investec plc, the consolidated financial statements of the bank are prepared under International Financial Reporting Standards (IFRS) as adopted by the EU. These policies are set out on pages 139 to 149.

The accounts of the bank itself continue to be drawn up under UK Generally Accepted Accounting Practice. The accounting policies for the bank's own accounts are set out on pages 205 to 212.

Authorised and issued share capital

Details of the share capital as at 31 March 2010 are set out in note 33 of the bank's consolidated financial statements.

The bank has issued the following ordinary shares of £1 each at par:

Date of issue	Number of ordinary shares
15 September 2009	18 million at a premium of 52.4 pence per share
25 September 2009	30 million at par
15 October 2009	13 million at a premium of 52.4 pence per share
8 December 2009	26 million at a premium of 53.0 pence per share
2 March 2010	6 million at a premium of 52.4 pence per share

Results and dividends

The results for the year are shown on page 134. Movements in reserves are shown in the reconciliation of equity on pages 137 and 138 of the financial statements.

An interim dividend of £5 000 000 was paid on 26 November 2009.

Directors and their interests

The directors of the bank for the year ended 31 March 2010 are shown on page 116. There have been the following changes during the year:

On 24 February 2010, Bradley Fried resigned from the board as a director and Chief Executive Officer. At the same time, Steven Heilbron was appointed as a director of the board and Steven Heilbron and David van der Walt were appointed as joint Chief Executive Officers.

The interests of the directors are set out in the Remuneration report on pages 119 to 126.

Except as disclosed in this report no other director held any beneficial interest in the shares of the company or the group.

Creditor payment policy

The group's standard practice is to agree the terms of payment with suppliers at the time of contract and make payments within the agreed credit terms, subject to satisfactory performance.

Employees

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

We are committed to ensuring the health, safety and welfare of our employees and to providing and maintaining safe working conditions. We have health and safety policies in all regions of operation that cover all legislated requirements and additional benefits are provided for staff where possible. We constantly seek to improve both policies and the execution of health and safety standards in all our offices. This takes the form of staff education, regular fire drills and maintenance of an open door policy with regards to dialogue on the issue. Where appropriate the appointment of individuals responsible for various areas of health and safety are made.

Environment

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

Further information can be found in the Investec group's 2010 Our Business Responsibility report.

Auditors

Ernst & Young LLP have expressed their willingness to continue in office as auditors. A resolution proposing their reappointment as auditors will be submitted to the annual general meeting.

By order of the board

David Miller
Company Secretary

21 June 2010

Directors' Responsibility statement

The following statement, which should be read in conjunction with the Auditors' report set out on pages 132 and 133, is made with a view to distinguishing for stakeholders the respective responsibilities of the directors and of the auditors in relation to the consolidated financial statements.

The directors are responsible for the preparation, integrity and objectivity of the consolidated 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 Investec plc 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 Investec plc 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.

6

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 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 financial statements of the company and the group have been prepared in accordance with the Companies Act 2006 and comply with IFRS and Article 4 of the IAS regulation.

The directors are of the opinion, based on their knowledge of the group, key processes in operation and specific enquiries that adequate resources exist to support the company on a going concern basis over the next year. These financial statements have been prepared on that basis.

It is the responsibility of the independent auditors to report on the consolidated financial statements. Their report to the members of the group is set out on pages 132 and 133 of this report. As far as the directors are aware, there is no relevant audit information of which the companies' 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 group's auditors are aware of that information.

Approval of financial statements

The Directors' report and the financial statements of the company and the group, which appear on pages 129 and 130 and pages 134 to 199, were approved by the board of directors on 21 June 2010.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the group's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Signed on behalf of the board

David van der Walt
Joint Chief Executive Officer

21 June 2010

We have audited the group financial statements of Investec Bank plc for the year ended 31 March 2010 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity and the related notes 1 to 42. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities statement set out on page 131, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the group financial statements:

- Give a true and fair view of the state of the group's affairs as at 31 March 2010 and of its profit for the year then ended;
- Have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- The information given in the Directors' report for the financial year for which the group financial statements are prepared is consistent with the group financial statements;
- The information given in the Corporate Governance statement set out on pages 112 to 116 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Certain disclosures of directors' remuneration specified by law are not made; or;
- We have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the parent company financial statements of Investec Bank Plc for the year ended 31 March 2010.

Ernst & Young LLP

Andy Bates (Senior Statutory Auditor)

for and on behalf of Ernst &Young LLP, Statutory Auditor

London

25 June 2010

Consolidated income statement

For the year to 31 March £'000	Notes	2010	2009
Interest income		537 082	754 420
Interest expense		(374 022)	(519 450)
Net interest income		**163 060**	**234 970**
Fee and commission income		166 966	207 478
Fee and commission expense		(16 096)	(14 744)
Principal transactions		218 724	46 308
Operating income from associates	21	88	190
Other operating income/(loss)		17 602	(22 999)
Other income		**387 284**	**216 233**
Total operating income before impairment losses on loans and advances		**550 344**	**451 203**
Impairment losses on loans and advances		(133 186)	(110 236)
Total operating income		**417 158**	**340 967**
Administrative expenses	3	(361 331)	(323 640)
Depreciation, amortisation and impairment of property, equipment and intangible assets	24/26	(22 377)	(17 877)
Operating profit/(loss) before goodwill		**33 450**	**(550)**
Impairment of goodwill	21/25	–	(30 265)
Profit/(loss) before taxation		**33 450**	**(30 815)**
Taxation		2 965	(4 962)
Profit/(loss) after taxation		**36 415**	**(35 777)**
Losses attributable to minority interests		16 297	47 287
Earnings attributable to shareholders		**52 712**	**11 510**

6

Consolidated statement of comprehensive income

For the year to 31 March £'000	2010	2009
Profit/(loss) after taxation	36 415	(35 777)
Other comprehensive income:		
Fair value movements on cash flow hedges*	13 095	(15 716)
(Gains)/losses on realisation of available for sale assets recycled through income*	(7 902)	4 388
Fair value movements on available for sale assets*	20 425	(925)
Foreign currency adjustments	9 972	30 410
Total comprehensive income	**72 005**	**(17 620)**
Total comprehensive income attributable to minority shareholders	(17 829)	(33 179)
Total comprehensive income attributable to ordinary shareholders	89 834	15 559
	72 005	**(17 620)**

**Net of taxation of £9.963 million (2009: (£4.765 million)).*

Consolidated balance sheet

At 31 March £'000	Notes	2010	2009*
Assets			
Cash and balances at central banks		2 008 743	872 422
Loans and advances to banks		1 307 254	1 015 952
Reverse repurchase agreements and cash collateral on securities borrowed	15	490 494	253 247
Trading securities	16	347 763	360 025
Derivative financial instruments	17	757 136	922 108
Investment securities	18	1 880 655	1 015 873
Loans and advances to customers	19	8 226 215	7 781 494
Securitised assets	20	1 121 867	849 597
Interests in associated undertakings	21	14 345	15 197
Deferred taxation assets	22	84 730	88 873
Other assets	23	488 424	402 710
Property and equipment	24	140 321	155 572
Goodwill	25	86 561	69 591
Intangible assets	26	26 218	25 517
		16 980 726	13 828 178
Liabilities			
Deposits by banks		1 445 131	2 662 473
Derivative financial instruments	17	539 389	649 090
Other trading liabilities	28	190 295	191 897
Repurchase agreements and cash collateral on securities lent	15	545 018	1 048 550
Customer accounts (deposits)		9 264 474	5 486 068
Debt securities in issue	29	1 772 674	939 346
Liabilities arising on securitisation	20	1 048 368	761 477
Current taxation liabilities		65 128	63 248
Deferred taxation liabilities	22	7 204	21 301
Other liabilities	30	383 025	330 262
		15 260 706	12 153 712
Subordinated liabilities	32	538 321	688 297
		15 799 027	12 842 009
Equity			
Called up share capital	33	748 000	655 000
Share premium		70 533	37 365
Other reserves		56 914	22 200
Profit and loss account		303 467	252 623
Shareholders' equity excluding minority interests		1 178 914	967 188
Minority interests	34	2 785	18 981
Total equity		1 181 699	986 169
Total liabilities and equity		16 980 726	13 828 178

Approved and authorised for issue by the Board of Directors on 21 June 2010 and signed on its behalf by:

David van der Walt
Joint Chief Executive Officer

**As restated for reclassifications detailed in the accounting policies on page 139.*

For the year to 31 March £'000	Notes	2010	2009*
Operating profit adjusted for non-cash items	36	190 071	128 919
Taxation paid		(6 566)	(13 454)
Increase in operating assets		(2 101 130)	(1 221 220)
Increase in operating liabilities		3 089 003	1 421 591
Net cash inflow from operating activities		1 171 378	315 836
Cash flow on acquisition of group operations		(416)	–
Cash flow on acquisition and disposal of property, equipment and intangible assets		(13 836)	(7 772)
Reduction/(increase) in associated undertakings		1 326	(1 224)
Net cash outflow from investing activities		(12 926)	(8 996)
Dividends paid to ordinary shareholders		(5 000)	(18 000)
Dividends paid to other equity holders		(136)	–
Proceeds on issue of other equity instruments**		118 166	103 537
Proceeds from subordinated debt raised		11 277	–
Reduction in subordinated debt		(154 368)	(6 592)
Net cash (outflow)/inflow from financing activities		(30 061)	78 945
Effects of exchange rates on cash and cash equivalents		38 420	(18 970)
Net increase in cash and cash equivalents		1 166 811	366 815
Cash and cash equivalents at the beginning of the year		1 347 665	980 850
Cash and cash equivalents at the end of the year		2 514 476	1 347 665
Cash and cash equivalents is defined as including:			
Cash and balances at central banks		2 008 743	872 422
On demand loans and advances to banks		505 733	475 243
Cash and cash equivalents at the end of the year		2 514 476	1 347 665

As restated for reclassifications detailed in the accounting policies on page 139.

***Includes equity instruments issued by subsidiaries.*

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

6

Consolidated statement of changes in equity

£'000	Ordinary share capital	Share premium
At 1 April 2008	555 000	37 365
Movement in reserves 1 April 2008 - 31 March 2009		
Total comprehensive income/(expense) for the year	–	–
Share based payments adjustments	–	–
Dividends paid to ordinary shareholders	–	–
Issue of equity by subsidiaries	–	–
Issue of equity shares	100 000	–
Transfer to regulatory general risk reserve	–	–
At 31 March 2009	655 000	37 365
Movement in reserves 1 April 2009 - 31 March 2010		
Total comprehensive income/(expense) for the year	–	–
Share based payments adjustments	–	–
Dividends paid to ordinary shareholders	–	–
Dividends paid to minorities	–	–
Issue of ordinary shares	93 000	33 168
Issue of equity by subsidiaries	–	–
Minorities arising on acquisitions of subsidiaries	–	–
Transfer to regulatory general risk reserve	–	–
At 31 March 2010	748 000	70 533

6

	Other reserves							
	Available for sale reserve	Regulatory general risk reserve	Cash flow hedge reserve	Foreign currency reserves	Profit and loss account	Shareholders' equity excluding minority interests	Minority interests	Total
	(12 744)	8 139	–	18 445	261 962	868 167	48 623	916 790
	3 463	468	(15 716)	12 336	15 008	15 559	(33 179)	(17 620)
	–	–	–	–	1 462	1 462	–	1 462
	–	–	–	–	(18 000)	(18 000)	–	(18 000)
	–	–	–	–	–	–	3 537	3 537
	–	–	–	–	–	100 000	–	100 000
	–	7 809	–	–	(7 809)	–	–	–
	(9 281)	16 416	(15 716)	30 781	252 623	967 188	18 981	986 169
	12 176	4 067	9 202	10 514	53 875	89 834	(17 829)	72 005
	–	–	–	–	724	724	274	998
	–	–	–	–	(5 000)	(5 000)	–	(5 000)
	–	–	–	–	–	–	(136)	(136)
	–	–	–	–	–	126 168	–	126 168
	–	–	–	–	–	–	1 142	1 142
	–	–	–	–	–	–	353	353
	–	(1 245)	–	–	1 245	–	–	–
	2 895	19 238	(6 514)	41 295	303 467	1 178 914	2 785	1 181 699

Basis of presentation

The group financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU) which comply with the IFRSs as issued by the International Accounting Standards Board. At 31 March 2010, IFRS standards as endorsed by the EU are identical to current IFRSs applicable to the group.

The group financial statements have been prepared on a historical cost basis, except for 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 cash-settled share-based payments that have been measured at fair value, and on a going concern basis.

Accounting policies applied are consistent with those of the prior year, expect for the adoption of the following amendments:

- IFRS 7 – Improving Disclosures about Financial Instruments, an amendment to IFRS 7

  The group has applied the improvement that requires enhanced disclosures about financial instruments. The amended standard requires additional disclosure about fair value measurement and liquidity risk.

- IAS 1 – Presentation of Financial Statements (revised)

  Adoption of this standard has resulted in the reformatting of the statement of total recognised gains and losses into statement of comprehensive income.

These changes have had no impact on the recognition and measurement policies applied by the group.

Restatements

The group applies a policy of offsetting financial assets and financial liabilities when there is both an intention to settle on a net basis (or simultaneously) and a legal right to offset exists. With regard to derivative instruments, the group identified that in certain isolated instances offsetting was applied in prior financial periods to derivative assets and liabilities where it is not market practice to settle net, whilst the legal right to settle net exists. The impact of this restatement on the balance sheet of the two prior years is noted below:

£'000	31 Mar 2009	31 Mar 2008
Restated		
Derivative financial instrument assets	922 108	606 476
Derivative financial instrument liabilities	649 090	364 763
As previously reported		
Derivative financial instrument assets	661 873	486 153
Derivative financial instrument liabilities	388 855	244 440
Change to previously reported		
Derivative financial instrument assets	260 235	120 323
Derivative financial instrument liabilities	260 235	120 323

The above restatements have no impact on equity nor on the net cash position and, on the basis of materiality, a full balance sheet for 2008 has not been presented.

Basis of consolidation

All subsidiaries and special purpose vehicles in which the group holds more than one half of the voting rights or over which it has the ability to control (either directly or in substance) are consolidated from the effective dates of acquisition (that is from when control exists) and up to the effective dates of loss of control, except entities which are classified as non-current assets held for sale. Subsidiaries classified as non-current assets held for sale are consolidated in one line item as discontinued operations.

Entities, other than subsidiary undertakings, in which the group exercises significant influence over operating and financial policies, are treated as associates. In the group accounts, associates are accounted for using the equity method from the date that significant influence commences until the date that significant influence ceases, except as noted below.

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

In circumstances where associates 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 and loss.

All intergroup balances, transactions and unrealised gains and losses within the group are eliminated to the extent that they do not reflect an impairment to the asset.

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 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 four principal business divisions and Group Services and Other Activities.

A geographical analysis is also presented in terms of the main geographies in which the group operates representing the group's exposure to various economic environments.

For further detail on the group's segmental reporting basis refer to pages 7 to 10 of the annual report.

Goodwill

Goodwill represents the net excess of the purchase consideration over the fair value of net identifiable assets of entities acquired. Goodwill is capitalised and tested for impairment at balance sheet dates or when there is an indication of impairment. Goodwill is allocated to cash generating units for the purposes of testing impairment based on the synergies expected in the business combination, with any impairments arising being recognised immediately in the income statement. Impairments recognised are not reversed in subsequent periods.

In circumstances where the group acquires an interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the acquisition, the group reassess the identification and measurement of all assets and liabilities (including contingent liabilities) following which any remaining excess is recognised immediately in profit and loss.

Goodwill arising is denominated in the functional currency of the foreign operation and is translated to the presentation currency of the group (Pounds Sterling) at the applicable closing rate.

Goodwill arising on investment in associates is included within the investment in associates.

Share-based payments to employees

The group engages in equity-settled share-based payments and in certain limited circumstances cash-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 over the vesting period of the grant in the income statement on a straight-line basis, based on an estimate of the amount of instruments that will eventually vest.

A liability and expense in respect of cash-settled share-based payments is recognised over the vesting period of the grant in the income statement on a straight-line basis, based on the fair value of the instrument that will eventually vest. The liability is recognised at the current fair value at each balance sheet date, based on an estimate of the number of instruments that will eventually vest. Subsequent to vesting the liability is measured at fair value, with gains and losses recognised in the income statement until such time as the liability is settled.

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 Bank plc.

Foreign operations are subsidiaries, associates, joint ventures 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.

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 profit and loss on disposal of the foreign operation
- Cash flow items are translated at the exchange rates ruling at the date of the transaction.

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

- Foreign currency monetary items (other than monetary items that form part of the net investment in a foreign operation) are translated using closing rates, with gains and losses recognised in profit and loss
- 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 are recognised in 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.

Revenue recognition

Revenue consists of interest income, fee and commission income and principal transactions.

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 yield, but excludes those fees earned for a separately identifiable significant act, which are recognised upon completion of the act. Fees and commissions charged in lieu of interest are recognised as income as part of the effective interest rate on the underlying loan.

The effective interest rate method is based on the estimated life of the underlying instrument, and, where this estimate is not readily available, the contractual life.

Fee and commission income includes fees earned from providing advisory services as well as portfolio management. All such fee and commission income is recognised as revenue when the related services are performed and is only recognised when it can be estimated reliably.

Principal transaction income includes trading profits, dividend income and gains and losses on financial assets and liabilities designated as held at fair value. Dividend income is recognised when the group's right to receive payment is established.

Trading profits are shown net of the funding cost of the underlying positions and include the unrealised profits on trading portfolios which are marked to market daily. Equity investments received in lieu of corporate finance fees are included in trading securities and valued accordingly. Funding costs allocated against trading profits are disclosed in note 9.

Included in other operating income is revenue from consolidated private equity investments. Operating costs associated with these investments are included in administration expenses.

Financial instruments

Financial instruments are initially recognised at their fair value plus, for financial assets or financial liabilities not at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liabilities.

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 and loss

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

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

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

- It eliminates or significantly reduces an inconsistent measurement or recognition 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 modify the cash flows that would be required by the contract and are 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 and loss.

Held-to-maturity financial assets

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

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

Loans and receivables

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

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

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, through 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".

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 associates, joint ventures or subsidiaries of the group. Further, certain loans and receivables that are held at fair value due to being quoted on an active market, which are neither actively traded nor held-to-maturity instruments, are classified as available for sale financial assets.

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

If an available for sale instrument is determined to be impaired, the respective cumulative unrealised losses previously recognised in equity 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 and 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 and loss, are measured at fair value.

Valuation of financial instruments

All financial instruments are initially recognised at fair value. On initial recognition, the fair value of a financial instrument is the transaction price unless it is determined appropriate that the fair value of a financial instrument is more accurately determined by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. In circumstances where unobservable data has a significant impact on the valuation of a financial instrument, the entire difference between the model determined fair value and the transaction price is not recognised on initial recognition. The difference arising is recognised in the income statement over the life of the transaction, or when inputs become observable, or when the transaction is effectively closed out.

Subsequent to initial recognition the following financial instruments are measured at fair value:

- Fixed maturity securities classified as trading, held at fair value through profit or loss and available for sale
- Equity securities
- Private equity investments
- Derivative positions
- Loans and advances designated as held at fair value through profit and loss
- Loans and advances designated as available for sale
- Financial liabilities classified as trading or designated as held at fair value through profit and loss.

Subsequent to initial recognition, the fair value of financial instruments quoted in an active market is based on published price quotations. Where market prices are not available, fair value is determined by discounting the expected cash flows, using market interest rates taking into account the credit quality and duration of the investment. In certain instances model pricing may be used to determine fair values. For private equity investments that are not publicly traded, management uses comparisons to similar listed companies, relevant third party arms' length transactions and other data specific to the investment.

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 objective evidence of impairment at least at each balance sheet reporting date. 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 has implemented a collective impairment allowance at a central level (within the Group Services and Other business segment) that takes into account macro economic factors, mainly driven by data related to the prevailing credit markets and which indicate incurred but not specifically identified losses across the loan portfolios (that is, exposures in all business segments). Assets specifically identified as impaired are excluded from the collective assessment.

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

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

Derecognition of financial assets and liabilities

A financial asset or a portion thereof, is derecognised when the group's rights to cash flows has expired; or when the group has transferred its rights to cash flows relating to the financial assets, including the transfer of substantially all the risk and rewards associated with the financial assets or when control over the financial assets has passed.

A financial liability is derecognised when it is extinguished, that is when the obligation is discharged, cancelled or expired.

Reclassification of financial instruments

The bank may reclassify, in certain 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.

6

Derivative instruments

All derivative instruments of the group are recorded on balance sheet at fair value. Positive and negative fair values are reported as assets and liabilities respectively and are offset when there is both an intention to settle net and a legal right to offset exists.

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

Derivative instruments transacted as economic hedges but 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.

Hedge accounting

The group applies either fair value or cash flow hedge 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
- The hedge is expected to be highly effective in achieving offsetting, that is within a range of 80% to 125%, changes in fair value or cash flows attributable to the hedged risk, consistent with the originally documented risk management strategy for that particular hedging relationship
- For cash flow hedges, a forecasted transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit and loss
- The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured
- The hedge effectiveness is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

Hedge accounting is discontinued when it is determined that the instrument ceases to be highly effective as a hedge; the derivative expires, or is sold, terminated or exercised; when the hedge item matures or is sold or repaid; or when a forecasted transaction is no longer deemed highly probable.

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 are attributable to the hedged risk are also recognised in the income statement.

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

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

Embedded derivatives

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

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

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 legal right to offset exists.

Issued debt and equity financial instruments

Financial instruments issued by the group are classified as liabilities if they contain an obligation to transfer economic benefits. 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 Bank plc are recorded as minority interests on balance sheet.

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

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 the shareholder.

Sale and repurchase agreements (including securities borrowing and lending)

Where securities are sold subject to a commitment to repurchase them, they 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 rate method.

Securities borrowing transactions that are not cash collateralised are not included in 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 guarantees are initially recognised at fair value, being the premium received. Subsequent to initial recognition, the liability under each guarantee is measured at the higher of the amortised premium 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 balance sheet carrying values are recognised in the income statement.

Instalment credit, leases and rental agreements

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 financial lease.

Where classified as a finance lease, amounts outstanding on these contracts, net of unearned finance charges, are included in loans and advances where Investec is the lessor and included in liabilities where the Investec is the lessee. Finance charges on finance leases and instalment credit transactions are credited or debited to income in proportion to the capital balances outstanding at the rate implicit in the agreement.

Where classified as operating leases, rentals payable/receivable are charged/credited in the income statement on a straight-line basis over the lease term. Contingent rentals (if any) are accrued to the income statement when incurred.

Property and equipment

Property and equipment is 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 anticipated useful life of the asset. The depreciable amount related to each asset is determined as the difference between the cost and the residual value of the asset. The residual value is the estimated amount, net of disposal costs that the group would currently obtain from the disposal of an asset in similar age and condition as expected at the end of its useful life.

The current and comparative annual depreciation rates for each class of property and equipment is as follows:

- Computer and related equipment 20-33%
- Motor vehicles 20-25%
- Furniture and fittings 10-20%
- Freehold buildings 2%
- Leasehold improvements*

Leasehold improvements depreciation rates are determined by reference to the appropriate useful life of its separate components, limited to the period of the lease.

No depreciation is provided on freehold land, however, similar to other property related assets, it is subject to impairment testing when deemed necessary.

Routine servicing and maintenance of assets are expensed as incurred. Subsequent expenditure is only capitalised if it is probable that future economic benefits associated with the item will flow to the group.

Dealing properties

Dealing properties are carried at the lower of cost and net realisable value.

Impairment of non-financial assets

At each balance sheet date the group reviews the carrying value of non-financial assets, other than investment property and deferred tax assets for indication of impairment. The recoverable amount, being the higher of fair value less cost to sell 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 value.

Impairment losses are recognised as an expense in the income statement in the period in which they are identified. Reversal of impairment losses is recognised in income in the period in which the reversal is identified, to the extent that the asset is not revalued to a carrying value 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 reflected on the balance sheet but are included at market value as part of assets under administration.

Taxation and deferred taxation

Current tax payable is provided on taxable profits 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 profit or loss
- In respect of temporary differences associated with the investments in subsidiaries and associates, 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 by 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 comprehensive income are net of related taxation 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 income, 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 or deficit in the balance sheet (to the extent that it is considered recoverable). Actuarial gains and losses related to the defined benefit asset or liability are recognised immediately directly in comprehensive income.

The group has no liabilities for other post retirement benefits.

Intangible assets

Intangible assets are recorded at cost less accumulated amortisation and impairments.

For intangible assets with a finite life, amortisation is provided on the depreciable amount of each intangible asset on a straight-line basis over the anticipated useful life of the asset (currently three to eight years). The depreciable amount related to each intangible 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, which the group would currently obtain from the disposal of an intangible asset in similar age and condition as expected at the end of its useful life.

Intangible assets with an indefinite life are not amortised, however they are tested for impairment on an annual basis.

Borrowing costs

Borrowing costs in respect of property developments that take a substantial period of time to develop for sale are capitalised.

Provisions, contingent liabilities and contingent assets

Provisions are liabilities of uncertain timing or amount, and are recognised as soon as the group has created a legal or constructive obligation which will lead to an outflow of economic resources to settle the obligation as a result of a past event. Contingent assets and contingent liabilities are not recognised on balance sheet.

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 financial statements. The group intends to comply with these standards from the effective dates.

New standards

IFRS 9 - Financial Instruments (applicable for reporting periods beginning on or after 1 January 2013)

The International Accounting Standards Board (IASB) has issued IFRS 9 - Financial Instruments, which is the first step in its project to replace IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets. The IASB expanded IFRS 9 during 2010 to add new requirements for the classification and measurement of financial liabilities and impairments of financial assets. Future amendments will address the derecognition of financial instruments and hedge accounting.

The implementation of the standard is expected to have a material impact on the group. The group is currently evaluating the impact of the adoption of the current requirements of the standard.

The standard is effective for the group for the year commencing 1 April 2014.

Revised IFRS 3 - Business Combinations and Consequential Amendments to IAS 27 – Consolidated and Separate Financial Statements (applicable for financial years beginning on or after 1 July 2009)

The main changes to the standard that affect the group's current policies is that acquisition related costs are expensed in the income statement in the periods in which the costs are incurred and the services received, except for costs related to the issue of debt (recognised as part of the effective interest rate) and the cost of issue of equity (recognised directly in shareholders' equity). Currently the group recognises acquisition costs as part of the purchase consideration.

The standard will be effective for the group for the year commencing 1 April 2010.

IAS 24 – Related Parties (applicable for financial years beginning on or after 1 January 2011)

The amended standard requires commitments, as well as the nature of the relationship between related parties to be identified and disclosed. The amended standard gives clarity to the related party definition and other terms in the standard.

The standard will be effective for the group for the year commencing 1 April 2011.

Amendments to IAS 32 – Classification of Rights Issues (applicable for financial years beginning on or after 1 February 2010)

The amendment states that rights, options and warrants – otherwise meeting the definition of equity instruments in IAS 32.11 – issued to acquire a fixed number of an entity's own non-derivative equity instruments for a fixed amount in any currency are classified as equity instruments, provided the offer is made pro rata to all existing owners of the same class of the entity's own non-derivative equity instruments.

The amendment is effective for the group for the annual periods commencing on or after 1 April 2010 and is not expected to have a significant impact on the group.

There were numerous updates issued, which are considered by the IASB to be non-urgent but important. None of these updates will result in a change to the accounting policies of the group.

Other

The following standards or interpretations have been issued or amended which are deemed to have no impact on the group financial statements but have not been formally adopted by the group:

- IFRS 5 - Discontinued Operations
- IFRS 2 - Group Cash Settled Share Based Transactions
- IAS 17- Leases
- IAS 38 - Intangible Assets
- IAS 18 - Revenue
- IAS 36 - Impairment of Assets
- IAS 39 - Financial Instruments Recognition and Measurement
- IFRIC 9 - Reassessment of Embedded Derivatives
- IFRIC 16 - Hedges of a Net Investment in a Foreign Operation
- IFRIC 17 - Distribution of Non-Cash Assets to Owners
- IFRIC 18 - Transfers of Assets from Customers

Key management assumptions

In preparation of the financial statements the group makes estimations and applies judgement that could affect the reported amount of assets and liabilities within the next financial year. Key areas in which judgement is applied include:

- Valuation of unlisted investments in the private equity and direct investments portfolios. Key valuation inputs are based on observable market inputs, adjusted for factors that specifically apply to the individual investments and recognising market volatility. Details of unlisted investments can be found in note 16, Trading securities and note 18, Investment securities
- The determination of impairments against assets that are carried at amortised cost and impairments relating to available for sale financial assets involves the assessment of future cash flows which is judgmental in nature
- Determination of interest income and interest expense using the effective interest method involves judgment in determining the timing and extent of future cash flows.

2. Segmental analysis

For the year to 31 March £'000	Property Activities	Private Banking	Investment Banking	Capital Markets	Group Services and Other Activities	Total
Business analysis 2010						
Net interest income	(571)	140 628	(10 294)	57 450	(24 153)	163 060
Fee and commission income	5 403	64 878	49 140	51 207	(3 662)	166 966
Fee and commission expense	(1 550)	(7 307)	(4 018)	(2 423)	(798)	(16 096)
Principal transactions	2 427	6 965	23 880	128 361	57 091	218 724
Operating income from associates	–	(171)	180	79	–	88
Other operating income	–	–	16 057	–	1 545	17 602
Other income	6 280	64 365	85 239	177 224	54 176	387 284
Impairment losses on loans and advances	–	(73 201)	–	(47 485)	(12 500)	(133 186)
Operating income	5 709	131 792	74 945	187 189	17 523	417 158
Administrative expenses	(3 812)	(118 904)	(81 820)	(126 239)	(30 556)	(361 331)
Depreciation, amortisation and impairment of property, equipment and intangible assets	–	(2 493)	(14 181)	(2 576)	(3 127)	(22 377)
Operating profit	1 897	10 395	(21 056)	58 374	(16 160)	33 450
(Profit)/loss attributable to minority interest	–	–	16 863	(59)	(507)	16 297
Operating profit after minorities	1 897	10 395	(4 193)	58 315	(16 667)	49 747
Reconciliation to profit before taxation						
Operating profit after minorities						49 747
Operating profit attributable to minorities						(16 297)
Profit before taxation						33 450
Cost to income ratio	66.8%	59.2%	>100%	54.9%	>100%	69.7%
Number of permanent employees	13	681	218	504	327	1 743
Total assets (£'million)	20	6 719	537	7 415	2 290	16 981

6

For the year to 31 March £'000	Property Activities	Private Banking	Investment Banking	Capital Markets	Group Services and Other Activities	Total
2. Segmental analysis (continued)						
Business analysis 2009						
Net interest income	(472)	155 013	(1 249)	73 945	7 733	234 970
Fee and commission income	5 783	68 538	48 310	84 584	263	207 478
Fee and commission expense	(692)	(4 674)	(4 164)	(5 213)	(1)	(14 744)
Principal transactions	848	4 518	10 104	26 294	4 544	46 308
Operating income from associates	–	(58)	248	–	–	190
Other operating income/(loss)	–	330	(24 774)	–	1 445	(22 999)
Other income	5 939	68 654	29 724	105 665	6 251	216 233
Impairment losses on loans and advances	–	(71 156)	–	(39 080)	–	(110 236)
Operating income	5 467	152 511	28 475	140 530	13 984	340 967
Administrative expenses	(2 554)	(106 577)	(77 681)	(109 570)	(27 258)	(323 640)
Depreciation, amortisation and impairment of property, equipment and intangible assets	–	(1 589)	(10 919)	(2 469)	(2 900)	(17 877)
Operating loss before goodwill	2 913	44 345	(60 125)	28 491	(16 174)	(550)
(Profit)/loss attributable to minority interest		–	22 212	(23)	9 844	32 033
Operating profit before goodwill and after minorities	2 913	44 345	(37 913)	28 468	(6 330)	31 483
Goodwill	–	–	(27 900)	(2 365)	–	(30 265)
Goodwill attributable to minorities	–	–	15 254	–	–	15 254
Operating profit after minorities	2 913	44 345	(50 559)	26 103	(6 330)	16 472
Reconciliation to profit before taxation						
Operating profit after minorities						16 472
Operating profit before goodwill attributable to minorities						(32 033)
Goodwill attributable to minorities						(15 254)
Profit before taxation						(30 815)
Cost to income ratio	46.7%	48.4%	>100%	62.4%	>100%	75.7%
Number of permanent employees	13	657	185	480	308	1 643
Total assets (£'million)*	17	5 548	446	6 889	928	13 828

As restated for reclassifications detailed in the accounting policies on page 139.

For the year to 31 March £'000	UK and Europe	Australia	Total
2. Segmental analysis (continued)			
Geographical income statement analysis 2010			
Net interest income	105 504	57 556	163 060
Fee and commission income	119 842	47 124	166 966
Fee and commission expense	(12 768)	(3 328)	(16 096)
Principal transactions	199 101	19 623	218 724
Operating income from associates	692	(604)	88
Other operating income	21 291	(3 689)	17 602
Other income	328 158	59 126	387 284
Impairment losses on loans and advances	(105 776)	(27 410)	(133 186)
Operating income	327 886	89 272	417 158
Administrative expenses	(290 957)	(70 374)	(361 331)
Depreciation, amortisation and impairment of property, equipment and intangible assets	(21 014)	(1 363)	(22 377)
Operating profit before goodwill	15 915	17 535	33 450
Operating profit attributable to minorities	15 641	656	16 297
Operating profit after minorities	31 556	18 191	49 747
Taxation	6 841	(3 876)	2 965
Earnings attributable to shareholders	38 397	14 315	52 712
Cost to income ratio	71.9%	61.5%	69.7%
Number of permanent employees	1 387	356	1 743
Total assets (£'million)	13 757	3 224	16 981

For the year to 31 March £'000	UK and Europe	Australia	Total
2. Segmental analysis (continued)			
Geographical income statement analysis 2009			
Net interest income	180 802	54 168	234 970
Fee and commission income	183 587	23 891	207 478
Fee and commission expense	(13 395)	(1 349)	(14 744)
Principal transactions	45 028	1 280	46 308
Operating income from associates	371	(181)	190
Other operating loss	(18 013)	(4 986)	(22 999)
Other income	197 578	18 655	216 233
Impairment losses on loans and advances	(87 551)	(22 685)	(110 236)
Operating income	290 829	50 138	340 967
Administrative expenses	(274 572)	(49 068)	(323 640)
Depreciation, amortisation and impairment of property, equipment and intangible assets	(16 810)	(1 067)	(17 877)
Operating loss before goodwill	(553)	3	(550)
Loss attributable to minority interest	29 588	2 445	32 033
Operating profit before goodwill and after minorities	29 035	2 448	31 483
Goodwill	(24 825)	(5 440)	(30 265)
Goodwill attributable to minorities	12 127	3 127	15 254
Profit before taxation	16 337	135	16 472
Taxation	(9 292)	4 330	(4 962)
Earnings attributable to shareholders	7 045	4 465	11 510
Cost to income ratio	77.0%	68.8%	75.7%
Number of permanent employees	1 291	352	1 643
Total assets (£'million)*	11 440	2 388	13 828

**As restated for reclassifications detailed in the accounting policies on page 139.*

6

At 31 March £'000	UK and Europe	Australia	Total
2. Segmental analysis (continued)			
Geographical analysis of assets and liabilities 2010			
Assets			
Cash and balances at central banks	1 502 962	505 781	2 008 743
Loans and advances to banks	1 237 321	69 933	1 307 254
Reverse repurchase agreements and cash collateral on securities borrowed	490 494	–	490 494
Trading securities	347 763	–	347 763
Derivative financial instruments	716 880	40 256	757 136
Investment securities	1 189 613	691 042	1 880 655
Loans and advances to customers	6 927 615	1 298 600	8 226 215
Securitised assets	603 928	517 939	1 121 867
Interests in associated undertakings	11 562	2 783	14 345
Deferred taxation assets	63 397	21 333	84 730
Other assets	475 426	12 998	488 424
Property, plant and equipment	135 983	4 338	140 321
Goodwill	32 573	53 988	86 561
Intangible assets	21 418	4 800	26 218
Total assets	13 756 935	3 223 791	16 980 726
Liabilities			
Deposits by banks	1 445 131	–	1 445 131
Derivative financial instruments	492 115	47 274	539 389
Other trading liabilities	190 295	–	190 295
Repurchase agreements and cash collateral on securities lent	529 690	15 328	545 018
Customer accounts (deposits)	8 240 464	1 024 010	9 264 474
Debt securities in issue	619 054	1 153 620	1 772 674
Liabilities arising on securitisation	533 008	515 360	1 048 368
Current taxation liabilities	67 198	(2 070)	65 128
Deferred taxation liabilities	7 204	–	7 204
Other liabilities	351 303	31 722	383 025
	12 475 462	2 785 244	15 260 706
Subordinated liabilities	523 819	14 502	538 321
Total liabilities	12 999 281	2 799 746	15 799 027

6

At 31 March £'000	UK and Europe	Australia	Total
2. Segmental analysis (continued)			
Geographical analysis of assets and liabilities 2009*			
Assets			
Cash and balances at central banks	872 088	334	872 422
Loans and advances to banks	883 281	132 671	1 015 952
Reverse repurchase agreements and cash collateral on securities borrowed	253 247	–	253 247
Trading securities	354 289	5 736	360 025
Derivative financial instruments	822 778	99 330	922 108
Investment securities	366 566	649 307	1 015 873
Loans and advances to customers	6 814 909	966 585	7 781 494
Securitised assets	408 013	441 584	849 597
Interests in associated undertakings	11 356	3 841	15 197
Deferred taxation assets	63 899	24 974	88 873
Other assets	383 982	18 728	402 710
Property, plant and equipment	151 516	4 056	155 572
Goodwill	32 873	36 718	69 591
Intangible assets	21 658	3 859	25 517
Total assets	11 440 455	2 387 723	13 828 178
Liabilities			
Deposits by banks	2 560 361	102 112	2 662 473
Derivative financial instruments	576 033	73 057	649 090
Other trading liabilities	191 897	–	191 897
Repurchase agreements and cash collateral on securities lent	1 048 550	–	1 048 550
Customer accounts (deposits)	4 635 348	850 720	5 486 068
Debt securities in issue	309 156	630 190	939 346
Liabilities arising on securitisation	322 531	438 946	761 477
Current taxation liabilities	70 622	(7 374)	63 248
Deferred taxation liabilities	21 301	–	21 301
Other liabilities	309 135	21 127	330 262
	10 044 934	2 108 778	12 153 712
Subordinated liabilities	649 774	38 523	688 297
Total liabilities	10 694 708	2 147 301	12 842 009

As restated for reclassifications detailed in the accounting policies on page 139.

For the year to 31 March £'000	UK and Europe	Australia	Total

2. Segmental analysis (continued)

A geographical breakdown of business operating profit before goodwill, taxation and after minorities is shown below:

	UK and Europe	Australia	Total
2010			
Property Activities	825	1 072	1 897
Private Banking	9 218	1 177	10 395
Investment Banking	(4 465)	272	(4 193)
Capital Markets	42 911	15 404	58 315
Group Services and Other Activities	(16 933)	266	(16 667)
	31 556	18 191	49 747
Minority interest - equity			(16 297)
Operating profit before goodwill			33 450
2009			
Property Activities	775	2 138	2 913
Private Banking	41 870	2 475	44 345
Investment Banking	(30 824)	(7 089)	(37 913)
Capital Markets	26 259	2 209	28 468
Group Services and Other Activities	(9 045)	2 715	(6 330)
	29 035	2 448	31 483
Minority interest - equity			(32 033)
Operating loss before goodwill			(550)

A further analysis of business line operating profit before goodwill, taxation and after minorities is shown below:

For the year to 31 March £'000	2010	2009
Property Activities	1 897	2 913
Private Banking	10 395	44 345
Investment Banking		
Corporate Finance	(3 394)	109
Institutional Research, Sales and Trading	3 283	4 719
Direct Investments	14 218	(5 237)
Private Equity	(18 300)	(37 504)
	(4 193)	(37 913)
Capital Markets	58 315	28 468
Group Services and Other Activities		
Central Funding	13 803	21 082
Central Costs	(30 470)	(27 412)
	(16 667)	(6 330)
Total group	49 747	31 483

6

For the year to 31 March £'000	2010	2009
3. Administrative expenses		
Staff costs	240 755	222 638
- Salaries and wages (including directors' remuneration)	189 271	179 699
- Share-based payment expense	21 466	18 908
- Social security costs	19 920	14 170
- Pensions and provident fund contributions	10 098	9 861
Premises (excluding depreciation)	19 012	17 106
Equipment (excluding depreciation)	15 954	14 256
Business expenses*	68 421	54 755
Marketing expenses	17 189	14 885
	361 331	323 640
The following amounts were paid to the auditors:		
Ernst & Young fees		
Fees payable to the company's auditors for the audit of the company's accounts	2 053	1 828
Fees payable to the company's auditors and its associates for other services:		
Audit of the company's subsidiaries pursuant to legislation	429	888
Other services pursuant to legislation	140	142
Tax services	440	349
All other services	477	567
	3 539	3 774
Other		
Fees payable to the company's auditors and its associates for other services:		
Audit of the company's subsidiaries pursuant to legislation	57	64
Tax services	88	7
All other services	92	93
	237	164
Total	3 776	3 938

**Business expenses mainly comprise insurance costs, consulting and professional fees, travel expenses and subscriptions.*

The 2010 UK Finance Bill contained provisions for a bank payroll tax applying to certain bonuses awarded in the period 9 December 2009 to 5 April 2010. The estimated tax payable by the group, for which provision has been made in the financial statements for the year ended 31 March 2010, is £209 000.

For the year to 31 March £'000	2010	2009
4. Directors emoluments		
Aggregate emoluments (excluding pension contributions)	6 114	4 831
Contributions to defined contributions scheme	261	454
	6 375	5 285
Number of directors in defined contributions scheme	4	4

Emoluments of the highest paid director were £3 320 930 (2009: £1 568 631) excluding £31 222 (2009: £230 352) of pension contributions to the defined contributions scheme.

The highest paid director was a member of the defined contributions scheme.

Included in aggregate emoluments for the current financial year are deferred bonuses of £1 995 000 which are payable in two equal installments on 31 January 2011 and 31 January 2012. The deferred component will be equivalent to the value of 211 336 Investec plc shares at the close of business on each of 31 January 2011 and 31 January 2012.

The directors' emoluments of Messrs. Herman, Koseff, B Kantor and I Kantor have been borne by Investec plc. These directors were employed and remunerated as directors, or executives, of Investec plc and its subsidiaries in respect of their services to that group as a whole. It is considered that there is no appropriate basis on which they can apportion part of their remuneration for services to the company.

5. Share-based payments

The group operates share option and share purchase schemes 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 Investec group's Remuneration report.

Expenses charged to income statement (included in administrative expenses) For the year to 31 March £'000	PA*	PB*	IB*	CM*	GSO*	Total
2010						
Equity-settled^	162	5 280	6 014	4 080	5 486	21 022
Cash-settled	–	–	–	–	–	–
Total income statement charge	162	5 280	6 014	4 080	5 486	21 022
2009						
Equity-settled ^	35	4 184	4 660	3 280	7 164	19 323
Cash-settled	0	(4)	9	(23)	0	(18)
Total income statement charge	35	4 180	4 669	3 257	7 164	19 305

Included in the above income statement charge is an accelerated share based payment charge as a result of modifications to certain options granted. The expense for the year was £1 046 744 (2009: £928 483).

** PA = Property Activities, PB = Private Banking, IB = Investment Banking, CM = Capital Markets, GSO = Group Services and Other Activities*

^ The expense charged to the income statement in respect of equity settled options includes £1.0 million (2009: £1.5 million) expensed by IdaTech plc, a private equity direct investment. Full details of IdaTech plc's share-based payments are given in its annual report. The balance of the expense relates to options issued to employees of the bank which are settled by equity issued by the bank's ultimate parent, Investec plc, for which the bank pays cash to its immediate parent, Investec 1 Limited.

	2010	2009
Liabilities on cash settled options		
Total liability included in other liabilities	–	–
Total fair value for vested appreciation rights	–	–
Weighted average fair value of options granted in the year	27 537	7 409

Details of options outstanding during the year	UK schemes			
	2010		2009	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
5. Share based payments (continued)				
Outstanding at the beginning of the year	23 520 813	0.27	21 382 215	0.46
Granted during the year	11 432 330	0.03	5 217 403	0.15
Exercised during the year*	(6 267 510)	0.27	(2 226 515)	0.66
Expired during the year	(1 321 824)	0.81	(852 290)	1.88
Outstanding at the end of the year	27 363 809	0.14	23 520 813	0.28
Exercisable at the end of the year	211 742	1.99	502 068	3.22

**Weighted average share price during the year was £4.43 (2009: £3.01).*

	2010	2009
The exercise price range and weighted average remaining contractual life for the options are as follows:		
Options with strike prices		
Exercise price range	£1.55 – £6.52	£1.55 – £6.52
Weighted average remaining contractual life	2.01 years	2.47 years
Long-term incentive grants with no strike price		
Exercise price range	£0	£0
Weighted average remaining contractual life	2.98 years	2.79 years
The fair values of options granted were calculated using a Black-Scholes option pricing model. For options granted during the year, the inputs into the model were as follows:		
- Share price at date of grant	£3.20 – £4.36	£2.60 – £3.02
- Exercise price	£0, £3.20 – £4.36	£0, £2.60 – £3.02
- Expected volatility	33% – 45%	34% – 45%
- Option life	5 – 5.25 years	5 – 5.25 years
- Expected dividend yields	3.97%	11.55% – 11.95%
- Risk-free rate	2.14% – 2.58%	2.85% – 6.12%

Expected volatility was determined based on the historical volatility of the respective share price over the last 6 months.

The expected attrition rates used were determined based on historical group data, with an adjustment to actual attrition on final vesting.

For the year to 31 March £'000	2010	2009
6. Taxation		
Current taxation		
UK		
Current taxation on income for the year	13 950	38 047
Adjustment in respect of prior years	(9 769)	–
Corporation taxation before double taxation relief	4 181	38 047
- Double taxation relief	(17 662)	(23 461)
	(13 481)	14 586
Europe	1 309	6 760
Australia	5 682	(6 062)
Other	17 752	19 248
	24 743	19 946
Total current taxation	11 262	34 532
Deferred taxation		
UK	(11 317)	(24 871)
Europe	14	–
Australia	(1 807)	1 733
Others	(1 117)	(6 432)
Total deferred taxation	(14 227)	(29 570)
Total taxation charge for the year	(2 965)	4 962
Deferred taxation comprises:		
Origination and reversal of temporary differences	(18 207)	(27 887)
Adjustment in respect of prior years	3 980	(1 683)
	(14 227)	(29 570)
The rates of corporation taxation for the relevant years are:		
UK	28%	28%
Europe (average)	10%	10%
Australia	30%	30%
Profit/(loss) on ordinary activities before taxation	33 450	(30 815)
Taxation on ordinary activities	(2 965)	4 962
Effective tax rate	(9%)	(16%)
The tax charge on activities for the year is different to the standard rate as detailed below:		
Tax on profit on ordinary activities before taxation at UK rate of 28% (2009: 28%)	9 366	(8 628)
Tax adjustments relating to foreign earnings	5 255	1 703
Taxation relating to prior years	(5 789)	(1 683)
Share options accounting expense	6 575	3 718
Share options exercised during the year	(10 651)	(1 189)
Unexpired share options future tax deduction	(6 588)	(1 238)
Non-taxable income	(10 941)	(263)
Net other permanent differences	7 402	6 794
Unrealised capital losses	2 406	5 748
Total taxation	(2 965)	4 962

For the year to 31 March £'000	2010	2009
7. Dividends		
Final dividend for prior year	–	10 000
Interim dividend for current year	5 000	8 000
Total dividend attributable to ordinary shareholders recognised in current financial year	5 000	18 000

For the year to 31 March £'000	2010	2009
8. Miscellaneous income statement items		
Total foreign currency gains recognised in income except for trading income	12 117	11 279
Operating lease expenses recognised in administrative expenses:		
Minimum lease payments	17 203	16 644
	17 203	16 644
Operating lease income recognised in income split as follows:		
Minimum lease payments	5 612	15 282
Sublease payments	–	184
	5 612	15 466

The majority of the leases in the group are leases on property. Rental income from leases are included in "other operating income".

6

For the year to 31 March £'000	At fair value through profit and loss Trading	Designated at inception
9. Analysis of income and expenses by financial instrument classification		
2010		
Net interest income	(204)	394
Fee and commission income	27 448	9 586
Fee and commission expense	(1 488)	(1 223)
Principal transactions*	93 689	31 466
Operating income from associates	–	–
Other operating income**	–	–
Other income	119 445	40 223
Impairment losses on loans and advances	–	–
Operating income	119 445	40 223
2009		
Net interest income	(5 588)	48 173
Fee and commission income	48 651	10 427
Fee and commission expense	–	(3 394)
Principal transactions*	77 426	(23 576)
Operating income from associates	–	–
Other operating loss**	–	–
Total income	120 489	31 630
Impairment losses on loans and advances	–	–
Operating income	120 489	31 630

Included in principal transactions are funding costs of £899 000 (2009: £4 908 000) and non-trading dividend income of £2 614 000 (2009: £1 791 000).

***Included in other operating income is the net operating income of certain private equity investments that have been consolidated amounting to £16.1 million (2009: operating loss of £24.8 million). The net operating income includes gross income of £181.6 million (2009: £192.7 million) net of all direct costs. Their other indirect costs are included in administrative expenses.*

	Held-to-maturity	Loans and receivables	Available for sale	Financial liabilities at amortised cost	Non-financial instruments	Other activities	Total
	18 617	479 277	41 542	(376 566)	–	–	163 060
	682	17 719	47	(642)	–	112 126	166 966
	–	(1 574)	–	(1 580)	(1 528)	(8 703)	(16 096)
	–	32 600	8 701	49 713	(59)	2 614	218 724
	–	–	–	–	88	–	88
	–	–	–	–	–	17 602	17 602
	19 299	528 022	50 290	(329 075)	(1 499)	123 639	550 344
	(13 296)	(119 890)	–	–	–	–	(133 186)
	6 003	408 132	56 290	(329 075)	(1 499)	123 639	417 158
	43 245	616 826	45 154	(512 840)	–	–	234 970
	451	47 710	–	238	20 442	79 559	207 478
	(168)	(1 290)	–	(82)	(782)	(9 028)	(14 744)
	–	–	(4 388)	(4 909)	(36)	1 791	46 308
	–	–	–	–	190	–	190
	–	–	–	–	330	(23 329)	(22 999)
	43 528	663 246	40 766	(517 593)	20 144	48 993	451 203
	(19 332)	(90 904)	–	–	–	–	(110 236)
	24 196	572 342	40 766	(517 593)	20 144	48 993	340 967

6

At 31 March 2010 £'000	At fair value through profit and loss Trading	 Designated at inception
10. Analysis of assets and liabilities by financial instrument classification		
Assets		
Cash and balances at central banks	–	–
Loans and advances to banks	55	–
Reverse repurchase agreements and cash collateral on securities borrowed	155 746	–
Trading securities	292 785	54 978
Derivative financial instruments*	757 136	–
Investment securities	–	–
Loans and advances to customers	457	197 418
Securitised assets	–	66 156
Interests in associated undertakings	–	–
Deferred taxation assets	–	–
Other assets	160 613	–
Property and equipment	–	–
Goodwill	–	–
Intangible assets	–	–
	1 366 792	318 552
Liabilities		
Deposits by banks	–	–
Derivative financial instruments*	539 389	–
Other trading liabilities	190 295	–
Repurchase agreements and cash collateral on securities lent	204 562	–
Customer accounts (deposits)	480	–
Debt securities in issue	–	–
Liabilities arising on securitisation	–	–
Current taxation liabilities	–	–
Deferred taxation liabilities	–	–
Other liabilities	161 839	–
	1 096 565	–
Subordinated liabilities	–	–
	1 096 565	–

**Derivative financial instruments have been classified as held for trading and include derivatives held as hedges. For more information on hedges, please refer to note 39 on pages 193 and 194.*

6

	Available for sale	Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total carrying value
	–	–	–	2 008 743	–	2 008 743	–	2 008 743
	–	55	–	1 307 199	–	1 307 199	–	1 307 254
	–	155 746	–	334 748	–	334 748	–	490 494
	–	347 763	–	–	–	–	–	347 763
	–	757 136	–	–	–	–	–	757 136
	1 265 106	1 265 106	615 549	–	–	615 549	–	1 880 655
	–	197 875	480 792	7 547 548	–	8 028 340	–	8 226 215
	–	66 156	–	1 055 711	–	1 055 711	–	1 121 867
	–	–	–	–	–	–	14 345	14 345
	–	–	–	–	–	–	84 730	84 730
	–	160 613	–	196 336	–	196 336	131 475	488 424
	–	–	–	–	–	–	140 321	140 321
	–	–	–	–	–	–	86 561	86 561
	–	–	–	–	–	–	26 218	26 218
	1 265 106	2 950 450	1 096 341	12 450 285	–	13 546 626	483 650	16 980 726
	–	–	–	–	1 445 131	1 445 131	–	1 445 131
	–	539 389	–	–	–	–	–	539 389
	–	190 295	–	–	–	–	–	190 295
	–	204 562	–	–	340 456	340 456	–	545 018
	–	480	–	–	9 263 994	9 263 994	–	9 264 474
	–	–	–	–	1 772 674	1 772 674	–	1 772 674
	–	–	–	–	1 048 368	1 048 368	–	1 048 368
	–	–	–	–	–	–	65 128	65 128
	–	–	–	–	–	–	7 204	7 204
	–	161 839	–	–	43 811	43 811	177 375	383 025
	–	1 096 565	–	–	13 914 434	13 914 434	249 707	15 260 706
	–	–	–	–	538 321	538 321	–	538 321
	–	1 096 565	–	–	14 452 755	14 452 755	249 707	15 799 027

At 31 March 2009* £'000	At fair value through profit and loss	
	Trading	Designated at inception
10. Analysis of assets and liabilities by financial instrument classification (continued)		
Assets		
Cash and balances at central banks	–	–
Loans and advances to banks	11 521	–
Reverse repurchase agreements and cash collateral on securities borrowed	170 835	–
Trading securities	279 681	80 344
Derivative financial instruments**	922 108	–
Investment securities	–	–
Loans and advances to customers	–	221 302
Securitised assets	–	77 435
Interests in associated undertakings	–	–
Deferred taxation assets	–	–
Other assets	174 196	–
Property and equipment	–	–
Goodwill	–	–
Intangible assets	–	–
	1 558 341	379 081
Liabilities		
Deposits by banks	5 546	–
Derivative financial instruments**	649 090	–
Other trading liabilities	191 897	–
Reverse repurchase agreements and cash collateral on securities lent	213 365	–
Customer accounts (deposits)	17 683	–
Debt securities in issue	–	–
Liabilities arising on securitisation	–	–
Current taxation liabilities	–	–
Deferred taxation liabilities	–	–
Other liabilities	142 109	–
	1 219 690	–
Subordinated liabilities	–	–
	1 219 690	–

**As restated for reclassifications detailed in the accounting policies on page 139.*

***Derivative financial instruments have been classified as held for trading and include derivatives held as hedges. For more information on hedges, please refer to note 39 on pages 193 and 194.*

6

Available for sale	Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total carrying value
–	–	–	872 422	–	872 422	–	872 422
–	11 521	–	1 004 431	–	1 004 431	–	1 015 952
–	170 835	–	82 412	–	82 412	–	253 247
–	360 025	–	–	–	–	–	360 025
–	922 108	–	–	–	–	–	922 108
1 015 873	1 015 873	–	–	–	–	–	1 015 873
7 797	229 099	641 289	6 911 106	–	7 552 395	–	7 781 494
–	77 435	–	772 162	–	772 162	–	849 597
–	–	–	–	–	–	15 197	15 197
–	–	–	–	–	–	88 873	88 873
–	174 196	–	109 175	–	109 175	119 339	402 710
–	–	–	–	–	–	155 572	155 572
–	–	–	–	–	–	69 591	69 591
–	–	–	–	–	–	25 517	25 517
1 023 670	2 961 092	641 289	9 751 708	–	10 392 997	474 089	13 828 178
–	5 546	–	–	2 656 927	2 656 927	–	2 662 473
–	649 090	–	–	–	–	–	649 090
–	191 897	–	–	–	–	–	191 897
–	213 365	–	–	835 185	835 185	–	1 048 550
–	17 683	–	–	5 468 385	5 468 385	–	5 486 068
–	–	–	–	939 346	939 346	–	939 346
–	–	–	–	761 477	761 477	–	761 477
–	–	–	–	–	–	63 248	63 248
–	–	–	–	–	–	21 301	21 301
–	142 109	–	–	66 366	66 366	121 787	330 262
–	1 219 690	–	–	10 727 686	10 727 686	206 336	12 153 712
–	–	–	–	688 297	688 297	–	688 297
–	1 219 690	–	–	11 415 983	11 415 983	206 336	12 842 009

11. Reclassifications of financial instruments

During the prior year the group reclassified certain financial instruments out of fair value through profit and 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.

The following table shows carrying values and fair values of the assets reclassified:

At 31 March £'000	Carrying value 2010	Fair value 2010	Carrying value 2009	Fair value 2009
Trading assets reclassified to loans and receivables	89 662	79 703	112 402	106 189
Trading assets reclassified to available for sale	–	–	7 797	7 797
	89 662	79 703	120 199	113 986

If the reclassifications had not been made, the group's income before tax in 2010 would have reduced by £8.1 million (2009: a reduction of £6.2 million).

In the current year the reclassified assets have contributed £2.6 million to net interest income (2009: after reclassification, a net interest expense of £0.3 million). As at the date of reclassification, the effective interest rates on reclassified trading assets ranged from 4.61% to 18.29%.

12. Fair value hierarchy

IFRS 7 requires that an entity disclose for each class of financial instruments measured at fair value, the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety. The fair value hierarchy reflects the significance of the inputs used in making fair value measurements. The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The fair value hierarchy shall have the following levels:
Level 1 – quoted prices (unadjusted) 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).

The table includes investment properties in the analysis as this is an asset carried at fair value with fair value adjustments recognised through profit and loss. Assets and liabilities related to the long-term assurance business attributable to policyholders have been excluded from the analysis as the change in fair value of related assets is attributable to policyholders.

At 31 March £'000	Total instruments at fair value	Valuation technique applied		
		Level 1	Level 2	Level 3

12. Fair value hierarchy (continued)

2010				
Assets				
Loans and advances to banks	55	–	55	–
Reverse repurchase agreements and cash collateral on securities borrowed	155 746	–	155 746	–
Trading securities	347 763	278 955	45 712	23 096
Derivative financial instruments	757 136	63 801	659 435	33 900
Investment securities	1 265 106	560 173	680 567	24 366
Loans and advances to customers	197 875	–	–	197 875
Securitised assets	66 156	9 049	–	57 107
Other assets	160 613	160 559	54	–
	2 950 450	1 072 537	1 541 569	336 344
Liabilities				
Derivative financial instruments	539 389	58 582	480 807	–
Other trading liabilities	190 295	190 295	–	–
Repurchase agreements and cash collateral on securities lent	204 562	–	204 562	–
Customer accounts (deposits)	480	–	480	–
Other liabilities	161 839	161 839	–	–
	1 096 565	410 716	685 849	–
2009				
Assets				
Loans and advances to banks	11 521	11 521	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	170 835	–	170 835	–
Trading securities	360 025	273 296	76 914	9 815
Derivative financial instruments*	922 108	60 451	773 700	87 957
Investment securities	1 015 873	834 447	155 328	26 098
Loans and advances to customers	229 099	–	4 214	224 885
Securitised assets	77 435	15 240	17 896	44 299
Other assets	174 196	174 196	–	–
	2 961 092	1 369 151	1 198 887	393 054
Liabilities				
Derivative by banks	5 546	5 546	–	–
Derivative financial instruments*	649 090	75 085	574 005	–
Other trading liabilities	191 897	191 897	–	–
Repurchase agreements and cash collateral on securities lent	213 365	–	213 365	–
Customer accounts (deposits)	17 663	–	17 683	–
Other liabilities	142 109	132 252	9 857	–
	1 219 690	404 780	814 910	–

**As restated for reclassifications detailed in the accounting policies on page 139.*

6

12. Fair value hierarchy (continued)

Transfers between level 1 and 2

During the year £7 158 000 of derivative financial instruments were transferred from level 2 to level 1 as third party valuations were acquired in the current year. There were no transfers between level 1 and level 2 in the prior year.

At 31 March 2010 £'000	Total level 3 financial instruments	Fair value movements through income statement	Fair value movements through comprehensive income
The following table shows a reconciliation from the opening balances to the closing balances for fair value measurements in level 3 of the fair value hierarchy:			
Group			
Opening balance	393 054	363 987	29 067
Total gains or losses	871	(1 301)	2 172
In the income statement	1 323	(1 301)	2 624
In the statement of comprehensive income	(452)	–	(452)
Purchases	32 702	21 006	11 696
Sales	(19 182)	–	(19 182)
Settlements	(48 949)	(43 139)	(5 810)
Transfers into level 3	9 793	7 817	1 976
Transfers out of level 3	(37 636)	(37 636)	–
Foreign exchange adjustments	5 691	5 822	(131)
Closing balance	**336 344**	**316 556**	**19 788**

Instruments were transferred out of level 3 to level 2 due to improved levels of observable inputs. Instruments were transferred into level 3 when certain significant inputs to model valuations were no longer observable.

6

£'000	Total
12. Fair value hierarchy (continued)	
The following table quantifies the changes in fair values recognised on level 3 financial instruments:	
Total gains or losses included in profit or loss for the period	
Fee and commission income	2 661
Principal transactions	(1 337)
	1 324
Total gains and losses for the period included in profit or loss for assets and liabilities held at the end of the reporting period	
Fee and commission income	1 828
Principal transactions	(9 884)
	(8 056)

	Reflected in income statement		Reflected in comprehensive income	
At 31 March 2010 £'000	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Sensitivity of fair values to reasonably possible alternative assumptions by level 3 instrument type The fair value of financial instruments in level 3 is 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:				
Trading securities	13 821	(6 754)	–	–
Derivative financial instruments	11 297	(2 221)	–	–
Investment securities	–	–	17 110	(9 508)
Loans and advances to customers	3 052	(2 157)	–	–
Securitised assets	6 325	(3 900)	–	–
	34 495	(15 032)	17 110	(9 508)

6

At 31 March £'000	2010 Carrying amount	2010 Fair value	2009 Carrying amount	2009 Fair value
13. Fair value of financial instruments at amortised cost				
Assets				
Cash and balances at central banks	2 008 743	2 008 743	872 422	872 422
Loans and advances to banks	1 307 199	1 307 199	1 004 431	1 004 431
Reverse repurchase agreements and cash collateral on securities borrowed	334 748	334 748	82 412	82 412
Investment securities	615 549	615 549	–	–
Loans and advances to customers	8 028 340	7 897 472	7 552 395	7 511 883
Securitised assets	1 055 711	1 038 730	772 162	788 311
Other assets	196 336	196 336	109 175	109 175
Liabilities				
Deposits by banks	1 445 131	1 441 309	2 656 927	2 646 570
Repurchase agreements and cash collateral on securities lent	340 456	340 456	835 185	835 185
Customer accounts (deposits)	9 263 994	9 258 444	5 468 385	5 466 807
Debt securities in issue	1 772 674	1 554 041	939 346	936 088
Liabilities arising on securitisation	1 048 368	1 048 368	761 477	761 477
Other liabilities	43 811	43 811	66 366	66 366
Subordinated liabilities	538 321	567 279	688 297	387 486

The paragraphs below describe the methodologies and assumptions used to determine fair values for those financial assets which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair values of fixed rate financial assets and financial liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. 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 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.

14. Designated at fair value: loans and receivables and financial liabilities

At 31 March Loans and receivables designated at fair value through profit and loss £'000	Carrying value	Fair value adjustment		Change in fair value attributable to credit risk		Maximum exposure to credit risk	Carrying value of related credit derivatives or similar instrument	Change in fair value of credit since designation of loan or receivable	
		Year to date	Cumulative	Year to date	Cumulative			Year to date	Cumulative
2010									
Loans and advances to customers	197 875	(5 442)	12 137	–	–	197 875	–	–	–
Securitised assets	66 156	(5 999)	21 537	(2 612)	(3 351)	21 537	–	–	–
	264 031	(11 441)	33 674	(2 612)	(3 351)	219 412	–	–	–
2009									
Loans and advances to customers	221 302	13 270	11 056	–	–	221 302	–	–	–
Securitised assets	77 435	(2 854)	7 188	(5 927)	(8 629)	77 435	18 267	15 725	18 267
	298 737	10 416	18 244	(5 927)	(8 629)	298 737	18 267	15 725	18 267

Changes in fair value to credit risk are determined as the change in the fair value of the financial instrument that is not attributable to changes in market inputs.

15. Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent

At 31 March £'000	2010	2009
Assets		
Reverse repurchase agreements	277 279	169 392
Cash collateral on securities borrowed	213 215	83 855
	490 494	253 247
As part of the reverse repurchase and securities borrowing agreements, the group has received securities that it is allowed to sell or re-pledge. £425 million (2009: £266 million) has been re-sold or re-pledged to third parties in connection with financing activities or to comply with commitments under short sale transactions.		
Liabilities		
Repurchase agreements	528 837	1 041 807
Cash collateral on securities lent	16 181	6 743
	545 018	1 048 550

6

At 31 March £'000	2010 Fair value	2010 Cumulative unrealised gains/(losses)	2009 Fair value	2009 Cumulative unrealised gains/(losses
16. Trading securities				
Listed equities	64 859	(3 029)	24 952	(2 225)
Unlisted equities	52 036	(6 956)	69 138	(11 816)
Bonds	230 868	3 881	265 935	(16 366)
	347 763	(6 104)	360 025	(30 407)

6

17. 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 balance sheet date.

At 31 March £'000	2010			2009*		
	Notional principal amounts	Positive fair value	Negative fair value	Notional principal amounts	Positive fair value	Negative fair value
Foreign exchange derivatives						
Forward foreign exchange	1 634 672	45 871	(33 487)	2 680 940	112 834	(59 344)
Currency swaps	1 834 630	79 037	(28 160)	1 410 910	73 374	(33 133)
OTC options bought and sold	184 437	1 929	(2 386)	73 139	2 016	(1 856)
Other foreign exchange contracts	150 951	6 762	–	618 038	18 807	(17 826)
OTC derivatives	3 804 690	133 599	(64 033)	4 783 027	207 031	(112 159)
Exchange traded futures	–	–	–	–	–	–
	3 804 690	133 599	(64 033)	4 783 027	207 031	(112 159)
Interest rate derivatives						
Caps and floors	444 666	1 234	(1 560)	243 239	87	(524)
Swaps	10 446 448	168 219	(131 887)	13 338 238	199 510	(142 933)
Forward rate agreements	220 655	–	(61)	200 000	37	(58)
OTC options bought and sold	–	–	–	1 702	27	(27)
Other interest rate contracts	–	–	–	12 153	2 224	–
OTC derivatives	11 111 769	169 453	(133 508)	13 795 332	201 885	(143 542)
Exchange traded futures	140 376	181	–	28 817 996	844	–
Exchange traded options	281 736	253	(141)	720 391 308	2 107	(3 384)
	11 533 881	169 887	(133 649)	763 004 636	204 836	(146 926)
Equity and stock index derivatives						
OTC options bought and sold	1 373 158	41 403	(660)	369 267	15 881	(39 097)
Equity swaps and forwards	30 647	635	(982)	1	165	(135)
OTC derivatives	1 403 805	42 038	(1 642)	369 268	16 046	(39 232)
Exchange traded futures	7 123	1 236	(1 236)	13	–	–
Exchange traded options	693 728	35 990	(42 239)	141 767	11 060	(22 402)
Warrants	–	450	–	–	819	–
	2 104 656	79 714	(45 117)	511 048	27 925	(61 634)
Commodity derivatives						
OTC options bought and sold	115 480	2 582	(2 509)	229 602	4 955	(18 274)
Commodity swaps and forwards	1 678 547	276 655	(319 143)	3 028 662	398 236	(447 439)
OTC derivatives	1 794 027	279 237	(321 652)	3 258 264	403 191	(465 713)
Exchange traded futures	848 954	227 808	(150 935)	2 071 590	294 340	(170 617)
Exchange traded options	–	–	–	35 544	9 110	(1 138)
	2 642 981	507 045	(472 587)	5 365 398	706 641	(637 468)
Credit derivatives						
Credit linked notes bought and sold	–	–	–	–	–	–
Credit swaps bought and sold	69 516	13 029	(3 841)	78 615	26 232	(4 107)
	69 516	13 029	(3 841)	78 615	26 232	(4 107)
Embedded derivatives**		33 700	–		54 759	–
Gross fair values		936 974	(719 227)		1 235 310	(962 292)
Effect of on balance sheet netting		(179 838)	179 838		(313 202)	313 202
Derivatives per balance sheet		757 136	(539 389)		922 108	(649 090)

The replacement values of these contracts are their positive fair values.

**As restated for reclassifications detailed in the accounting policies on page 139.*

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

At 31 March £'000	2010 Fair value	2010 Cumulative unrealised gains/(losses)	2009 Fair value	2009 Cumulative unrealised gains/ (losses)
18. Investment securities				
Listed equities	12 229	(5 491)	6 364	(6 760)
Unlisted equities	57 891	3 916	43 269	11 902
Certificates of deposit, bank bills and other commercial paper	793 857	136	344 853	(15 539)
Floating rate notes	619 682	7 352	488 618	(2 565)
Bonds	396 868	(940)	132 627	(1 182)
Other investments	128	–	142	–
	1 880 655	4 973	1 015 873	(14 144)

6

At 31 March £'000	2010	2009
19. Loans and advances to customers		
Loans and advances to customers	8 226 215	7 781 494
Specific and portfolio impairments included above	142 983	91 516
Gross loans and advances to customers	8 369 198	7 873 010
Less: warehouse facilities and warehouse assets arising from securitisation and principal finance activities*	(655 493)	(232 575)
Less: intergroup loans	(875 536)	(657 289)
Own originated securitised assets (refer to note 20)	519 511	442 597
Gross core loans and advances to customers	7 357 680	7 425 743
For further analysis on gross core loans and advances refer to pages 53 to 68 in the Risk Management section.		
Specific and portfolio impairments		
Reconciliation of movements in group specific and portfolio impairments:		
Loans and advances to customers		
Specific impairment		
Balance at beginning of year	88 484	28 053
Charge to the income statement	114 477	108 397
Utilised	(83 158)	(49 943)
Exchange adjustments	3 936	1 977
Balance at end of year	123 739	88 484
Portfolio impairment		
Balance at beginning of year	3 032	2 236
Charge to the income statement	16 244	700
Exchange adjustments	(32)	96
Balance at end of year	19 244	3 032
Interest income recognised on loans that have been impaired	12 324	12 386
Amounts charged to income statement		
Loans and advances	130 721	109 097
Specific impairment charged to income statement	114 477	108 397
Portfolio impairment charged to income statement	16 244	700
Securitised assets (refer to note 20)	2 465	1 139
Specific impairment charged to income statement	1 837	1 139
Portfolio impairment charged to income statement	628	–
Total income statement charge	133 186	110 236

**Whilst the group manages all risks (including credit risk) from a day to day operational perspective, these assets are within special purpose vehicles that ring fence the assets to specific credit providers and limits security to the assets in the vehicle.*

At 31 March £'000	2010	2009
20. Securitised assets		
Securitised assets are made up of the following categories of assets:		
Cash and cash equivalents	11 897	15 239
Loans and advances to customers	1 045 385	757 935
Other financial instruments at fair value	66 156	77 435
	1 123 438	850 609
Total impairment of securitised assets	(1 571)	(1 012)
Total securitised assets	1 121 867	849 597
Analysis of securitised assets by risk exposure		
Own originated securitised assets	519 511	442 597
Securitisation exposures arising from securitisation/principal finance activities	79 378	72 701
Total credit and counterparty exposure	598 889	515 298
Securitised assets with no legal credit exposure	522 978	334 299
Gross securitised assets deemed to have no legal credit exposure	524 549	335 311
Impairment of securitised assets deemed to have no legal credit exposure	(1 571)	(1 012)
Total securitised assets	1 121 867	849 597
Analysis of impairments		
Reconciliation of movements in group specific and portfolio impairments of loans and advances that have been securitised:		
Specific impairment		
Balance at beginning of year	1 012	241
Charge to the income statement	1 837	1 139
Utilised	(2 053)	(308)
Exchange adjustments	110	(60)
Balance at end of year	906	1 012
Portfolio impairment		
Balance at beginning of year	–	–
Charge to the income statement	628	–
Exchange adjustments	37	–
Balance at end of year	665	–
Total impairments	1 571	1 012
The associated liabilities are recorded on balance sheet in "Liabilities arising on securitisation":		
Carrying value at year end	1 048 368	761 477

6

At 31 March £'000	2010	2009
21. Interests in associated undertakings		
Interests in associated undertakings consist of:		
Net asset value	7 273	8 125
Goodwill	7 072	7 072
Investment in associated undertaking	14 345	15 197
Analysis of the movement in our share of net assets:		
At beginning of year	8 125	6 837
Exchange adjustments	808	(42)
Acquisitions	245	1 224
Disposal of shareholdings in associated undertakings	(1 571)	–
Operating income from associates	88	190
Dividends received	(422)	(84)
At end of year	7 273	8 125
Analysis of the movement in goodwill:		
At beginning of year	7 072	7 603
Exchange adjustments	–	832
Goodwill impairment	–	(1 363)
At end of year	7 072	7 072
Associated undertakings:		
Unlisted	14 345	15 197
	14 345	15 197
Summarised financial information of the bank's principal associate, Hargreave Hale, is as follows:		
Total assets	31 047	35 768
Total liabilities	23 494	27 571
Total revenue	17 172	14 480
Profit before tax	1 776	604

6

At 31 March £'000	2010	2009
22. Deferred taxation		
Deferred taxation assets		
Accelerated capital allowances	50 967	48 621
Income and expenditure accruals	13 270	4 175
Arising from unexpired share options	14 751	8 067
Unrealised fair value adjustments on financial instruments	2 901	9 473
Losses carried forward	2 944	13 741
Other temporary differences	(103)	4 796
	84 730	88 873
Deferred taxation liabilities		
Deferred capital allowances	–	(4)
Income and expenditure accruals	–	(3 562)
Arising on anticipated foreign dividends	–	(6 766)
Other temporary differences	(7 204)	(10 969)
	(7 204)	(21 301)
Net deferred taxation asset	77 526	67 572
Reconciliation of net deferred taxation asset:		
At beginning of year	67 572	21 891
Credit to profit and loss - current year taxation	14 227	29 570
Credit/(charge)directly in equity	(10 758)	17 183
Exchange adjustments	6 258	(444)
Transfer to corporate taxation	683	(683)
Other	(456)	55
At end of year	77 526	67 572
Deferred tax liability on available for sale instruments recognised directly in equity	1 052	1 141

At 31 March £'000	2010	2009
23. Other assets		
Settlement debtors	312 228	247 417
Trading initial margin	19 949	18 532
Dealing properties	18 557	7 499
Accruals and prepayments	23 755	24 108
Other debtors	113 935	105 154
	488 424	402 710

At 31 March £'000	Freehold properties	Leasehold improvements	Furniture and vehicles	Equipment	Total
24. Property and equipment					
2010					
Cost					
At beginning of year	32 622	31 536	10 432	143 275	217 865
Exchange adjustments	(613)	989	302	(7 521)	(6 843)
Acquisition of subsidiary undertakings	884	–	543	46	1 473
Additions	–	1 601	2 940	1 636	6 177
Disposals	–	(366)	(1 271)	(1 579)	(3 216)
At end of year	32 893	33 760	12 946	135 857	215 456
Accumulated depreciation					
At beginning of year	(5 529)	(11 724)	(6 395)	(38 645)	(62 293)
Exchange adjustments	(134)	(794)	(202)	742	(388)
Disposals	–	277	1 223	774	2 274
Depreciation charge for year	(1 426)	(2 016)	(1 386)	(9 900)	(14 728)
At end of year	(7 089)	(14 257)	(6 760)	(47 029)	(75 135)
Net carrying value	25 804	19 503	6 186	88 828	140 321
2009					
Cost					
At beginning of year	30 039	27 232	8 466	99 186	164 923
Exchange adjustments	3 078	352	497	43 902	47 829
Reclassifications	–	–	(684)	1 808	1 124
Additions	460	3 952	2 248	3 815	10 475
Disposals	(955)	–	(95)	(5 436)	(6 486)
At end of year	32 622	31 536	10 432	143 275	217 865
Accumulated depreciation					
At beginning of year	(5 555)	(9 378)	(5 720)	(18 343)	(38 996)
Exchange adjustments	–	(21)	(577)	(8 624)	(9 222)
Reclassifications	–	–	675	(1 851)	(1 176)
Disposals	26	–	66	593	685
Depreciation charge for year	–	(2 325)	(839)	(10 420)	(13 584)
At end of year	(5 529)	(11 724)	(6 395)	(38 645)	(62 293)
Net carrying value	27 093	19 812	4 037	104 630	155 572

Prior year comparatives have been restated for the reclassification of some assets from equipment to property.

6

At 31 March £'000	2010	2009
25. Goodwill		
Cost		
At beginning of year	102 145	91 308
Additions	8 502	–
Reclassifications	–	(1 459)
Exchange adjustments	8 544	12 296
At end of year	119 191	102 145
Accumulated impairments		
At beginning of year	(32 554)	(3 026)
Impairments	–	(28 902)
Exchange adjustments	(76)	(626)
At end of year	(32 630)	(32 554)
Net carrying value	86 561	69 591
Analysis of goodwill by line of business and geography		
UK and Europe	40 746	32 873
Private Banking	14 192	14 121
Capital Markets	14 689	6 187
Investment Banking	11 865	12 565
Australia	45 815	36 718
Private Banking	22 214	19 483
Investment Banking	23 601	17 235
Total group	86 561	69 591

Goodwill is tested annually for impairment, or more frequently if evidence exists that goodwill might be impaired.

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.

Discount rates are arrived at 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 most recent financial budgets for the next financial year and are extrapolated for a period of three years, adjusted for expected future events.

The two most significant cash-generating units rise to goodwill are in the bank's Australian operations:

Investment Banking - Goodwill acquired through business combinations has been allocated to investment banking, for impairment testing purposes.

The recoverable amount of goodwill represents a normalised pre-tax historic average earnings multiple of approximately four times. Management are comfortable that this carrying value is supported based on discussions with investment banking executives and available market data for comparable businesses. Management believe that it is highly unlikely that a change in any of the above key assumptions would cause the carrying value to materially exceed its recoverable amount.

Private Banking - Experien was acquired in October 2007. The goodwill amount is derived from the estimated purchase consideration taking into account an upfront payment plus future expected earn-out payments which have now substantially been achieved.

The recoverable amount of goodwill represents a pre-tax historic average earnings multiple of approximately five times. Management are comfortable that this carrying value is supported based on discussions with Experien executives and available market data for comparable businesses. Management believe that it is highly unlikely that a change in any of the above key assumptions would cause the carrying value to materially exceed its recoverable amount.

25. Goodwill (continued)

Movement in goodwill

2010

£8.5 million of goodwill arose in the year from the acquisition of Leasedirect Finance Limited. See note 27.

2009

There were no movements in goodwill arising from acquisitions or disposals of group operations.

Income statement movement

2010

There were no impairments of goodwill.

2009

- Following adverse movements in commodity prices which have squeezed margins, Global Ethanol Holdings Limited, in which the group has a 44.4% interest, impaired all of the £25.6 million of goodwill mainly attributable to its 60% owned subsidiary Global Ethanol LLC.
- Other goodwill impairments of £2.4 million.

At 31 March £'000	Acquired software	Core technology	Intellectual property	Total
26. Intangible fixed assets				
2010				
Cost				
At beginning of year	18 019	6 879	15 913	40 811
Exchange adjustments	273	93	(105)	261
Reclassifications	1 867	–	(1 867)	–
Additions	7 632	–	2 141	9 773
Disposals	(9)	–	(1 164)	(1 173)
At end of year	27 782	6 972	14 918	49 672
Accumulated amortisation and impairments				
At beginning of year	(11 529)	(754)	(3 011)	(15 294)
Exchange adjustments	(383)	(20)	(109)	(512)
Disposals	1	–	–	1
Amortisation	(3 324)	(309)	(4 016)	(7 649)
At end of year	(15 235)	(1 083)	(7 136)	(23 454)
Net carrying value	12 547	5 889	7 782	26 218
2009				
Cost				
At beginning of year	19 704	11 463	2 073	33 240
Exchange adjustments	417	4 483	1 163	6 063
Reclassifications	(455)	–	507	52
Additions	1 708	–	14 688	16 396
Disposals	(3 355)	(9 067)	(2 518)	(14 940)
At end of year	18 019	6 879	15 913	40 811
Accumulated amortisation and impairments				
At beginning of year	(10 195)	(426)	20	(10 601)
Exchange adjustments	(505)	(167)	515	(157)
Reclass	939	–	(2 824)	(1 885)
Disposals	1 642	–	–	1 642
Amortisation	(3 410)	(161)	(722)	(4 293)
At end of year	(11 529)	(754)	(3 011)	(15 294)
Net carrying value	6 490	6 125	12 902	25 517

27. Acquisitions

2010

On 2 March 2010 the bank issued 6 000 000 ordinary shares to its immediate parent at a value of 152.4 pence each as consideration for the acquisition of 75% of the issued share capital of Leasedirect Finance Limited (LDF) as part of a group reorganisation.

In the period 2 March 2010 to 31 March 2010, LDF made a profit before taxation of £109 000.

The assets and liabilities at the date of acquisition, goodwill arising on the transaction and total consideration paid are disclosed in the table below:

£'000	Book value at date of acquisition	Fair value at date of acquisition
Cash	2	2
Loans and advances to banks	72	72
Loans and advances to customers	6 295	6 295
Other assets	220	220
Property and equipment	1 473	1 473
	8 062	8 062
Deposits by banks	5 984	5 984
Current tax liability	71	71
Other liabilities	596	596
Minority interests	353	353
	7 004	7 004
Net assets / fair value of net assets	1 058	1 058
Goodwill		8 502
Fair value of consideration		9 560
Total value of cash consideration		416

There were no acquisitions of group companies in the prior period.

6

At 31 March £'000	2010	2009
28. Other trading liabilities		
Short positions		
- Equities	34 327	6 399
- Gilts	155 968	185 498
	190 295	191 897

At 31 March £'000	2010	2009
29. Debt securities in issue		
Bonds and medium term notes repayable:		
Up to one year	10 171	–
Greater than one year but less than five years	16 486	17 472
	26 657	17 472
Other unlisted debt securities in issue repayable:		
Not more than three months	202 897	322 958
Over three months but not more than one year	53 773	52 820
Over one year but not more than five years	1 356 349	540 699
Greater than five years	132 998	5 397
	1 746 017	921 874
	1 772 674	939 346

At 31 March £'000	2010	2009
30. Other liabilities		
Settlement liabilities	196 225	184 530
Other creditors and accruals	126 029	95 806
Other non interest bearing liabilities	60 771	49 926
	383 025	330 262

At 31 March £'000	2010	2009
31. Pension commitments		
Cost of defined contribution schemes	10 098	9 861

Pension costs relate to defined contribution schemes. The group has adopted IAS 19 in respect of defined benefit schemes.

Employees of the bank participate in the Guinness Mahon Pension scheme (the scheme) which is a non-contributory defined benefit scheme and its assets are held in separate trustee administered funds. Employees from other Investec plc undertakings also participate in this scheme and the bank is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis. Therefore the bank has accounted for this scheme on a defined contribution basis. The scheme is closed to new entrants and accrual of service ceased on 31 March 2002. The bank made no contributions to the scheme in the year ended 31 March 2010 (31 March 2009: £Nil).

The accounts of Investec plc, the bank's ultimate parent company, disclose the actuarial valuation of the scheme under IAS 19 at 31 March 2010.

This was performed by a qualified, independent actuary. The valuation showed a surplus in the scheme of £2 569 000 (31 March 2009: surplus of £10 326 000). This surplus has been recognised in the financial statements of Investec plc.

At 31 March £'000	2010	2009
31. Pension commitments (continued)		
The major assumptions used were:		
- Discount rate	5.50%	6.80%
- Rate of increase in salaries	3.70%	3.30%
- Rate of increase in pensions in payment	3.60%	3.20%
- Inflation	3.70%	3.30%
Demographic assumptions		
One of the most significant demographic assumptions underlying the valuation is mortality. The specific mortality rates used are based on the PMA92 and PFA92 base tables with allowance for future improvements in line with the medium cohort projection, subject to a 1% underpin. The life expectancies underlying the valuation are as follows:		
Male aged 65	87.7	87.6
Female aged 65	91.0	90.9
Male aged 45	89.7	89.6
Female aged 45	93.1	93.0

The assets in the schemes and the expected rates of return were:

At 31 March	Value at 2010 £'000	Long-term rate of return expected	Value at 2009 £'000	Long-term rate of return expected
Equities	37 721	7.80%	26 660	8.00%
Gilts	63 336	4.40%	60 696	4.20%
Cash	3 530	4.40%	2 556	4.20%
Total market value of assets	104 587		89 912	

At 31 March £'000	2010	2009
Recognised in the balance sheet		
Fair value of fund assets	104 587	89 912
Present value of obligations	(102 018)	(79 586)
Net asset	2 569	10 326
Amounts in balance sheet		
Asset	2 569	10 326
Net asset	2 569	10 326
Recognised in the income statement		
Expected return on pension scheme assets	4 843	5 455
Interest on pension obligations	(5 361)	(5 244)
Net return	(518)	211
Recognised in the statement of recognised income and expense		
Actuarial gain/(losses) on plan assets	7 794	(12 838)
Actuarial (losses)/gains	(18 585)	1 770
Actuarial losses	(10 791)	(11 068)
Deferred taxation	3 021	3 099
Actuarial loss in statement of recognised income and expense	(7 770)	(7 969)

The cumulative amount of net actuarial losses recognised in the consolidated statement of recognised income and expense of Investec plc in respect of the scheme is £24.2 million (£17.4 million net of deferred tax) (2009: £13.6 million (£9.6 million net of deferred tax)).

£'000	
31. Pension commitments (continued)	
Changes in the fair value of defined benefit obligations	
Defined benefit obligation at 31 March 2008	80 319
Interest cost	5 244
Actuarial gains	(1 770)
Benefits paid	(4 207)
Defined benefit obligation at 31 March 2009	79 586
Interest cost	5 361
Actuarial losses	18 585
Benefits paid	(1 514)
Defined benefit obligation at 31 March 2010	102 018
Changes in the fair value of plan assets	
Assets at 31 March 2008	97 950
Expected return	5 455
Actuarial losses	(12 838)
Contributions by the employer	3 552
Benefits paid	(4 207)
Assets at 31 March 2009	89 912
Expected return	4 843
Actuarial gains	7 794
Contributions by the employer	3 552
Benefits paid	(1 514)
Assets at 31 March 2010	104 587

The group expects to make £3.6 million of contributions to the scheme in 2011.

At 31 March £'000	2010	2009	2008	2007	2006
£'000					
History of experience gains and losses					
GM scheme					
Defined benefit obligation	(102 018)	(79 586)	(80 319)	(91 178)	(89 927)
Plan assets	104 587	89 912	97 950	95 356	93 175
Surplus/(deficit)	2 569	10 326	17 631	4 178	3 248
Experience adjustments on plan liabilities	(18 585)	1 770	11 543	(165)	(5 765)
Experience adjustments on plan assets	7 794	12 838	(2 410)	(3 315)	8 125

6

At 31 March £'000	2010	2009
32. Subordinated liabilities		
Issued by Investec Bank plc		
Zero coupon bonds	–	10 241
Issued by subsidiaries of Investec Bank plc:		
Issued by Investec Finance plc		
Guaranteed subordinated step-up notes	208 576	212 063
Guaranteed undated subordinated callable step-up notes	269 983	391 196
Issued by Investec Bank (Australia) Limited		
Guaranteed subordinated medium term notes	15 207	48 887
Subordinated floating rate medium term notes	12 227	–
Issued by Global Ethanol Holdings Limited		
Subordinated loan notes	32 328	25 910
	538 321	688 297
Remaining maturity:		
In one year or less, or on demand	–	10 241
In more than one year, but not more than two years	32 328	–
In more than two years, but not more than five years	–	25 910
In more than five years	505 993	652 146
	538 321	688 297

6

Guaranteed subordinated step-up notes

On 1 March 2004 Investec Finance plc issued £200 000 000 of 7.75% guaranteed subordinated step-up notes due 2016 at a discount. Interest is paid annually. The notes are guaranteed by Investec Bank plc and are listed on the Luxembourg Stock Exchange. The step-up notes may be redeemed by the issuer, at par, at any time after 1 March 2011, subject to the prior consent of the Financial Services Authority. On 1 March 2011 the interest rate will be reset to become the aggregate of 3.5% and the gross redemption yield of the relevant benchmark gilt.

Guaranteed undated subordinated callable step-up notes

On 23 January 2007 Investec Finance plc issued £350 000 000 of 6.25% guaranteed undated subordinated step-up notes callable 2017 at a discount. Interest is paid semi-annually. The notes are guaranteed by Investec Bank plc and are listed on the Luxembourg Stock Exchange. The step-up notes may be redeemed by the issuer, at par, at any time after 23 January 2017, subject to the prior consent of the Financial Services Authority. On 23 January 2017 the interest rate will be reset to become three month LIBOR plus 2.11% payable quarterly in arrears. On 25 September 2009, £50 032 000 of the notes representing approximately 14.3% of the total issued principal amount, were cancelled. A further £55 177 000 of the notes representing approximately 15.8% of the original total issued principal amount was cancelled on 8 December 2009. As at the year-end 31 March 2010 the principal amount in issue was £244 971 000.

Guaranteed subordinated medium term notes

As a result on the acquisition of NM Rothschild, in July 2006, Investec Bank (Australia) Limited (IBAL) has the following subordinated debt instrument in issue: A$25 000 000 of floating rate MTN issued on 10 August 2005 at 3-month BBSW plus 0.90%. The maturity date is 10 August 2015. Interest is payable quarterly up to and excluding the early redemption date 10 August 2010. After this date, if the issuers call is not exercised, the interest will be the aggregate of 3-month BBSW plus 1.40% payable quarterly in arrears.

Subordinated floating rate medium term notes

A$20 000 000 of floating rate medium term notes (MTN) issued by IBAL on 12 February 2010 at 3-month Bank Bills Swap Rate (BBSW) plus 5%. The maturity date is 12 February 2020. Interest is payable quarterly up to and excluding the early redemption date 12 February 2015. After this date, if the issuers call is not exercised, the interest will be the aggregate of 3-month BBSW plus 7.5% payable quarterly in arrears.

Subordinated loan notes

Global Ethanol Holdings Limited has issued loan notes which are redeemable on a date determined by the board of the company, at its absolute discretion. The loan notes will be redeemed on the earlier of: (i) the sale of all or substantially all of the business or assets of the company and its subsidiaries: (ii) the quotation of the company's shares on the Australian Stock Exchange or other stock exchange; (iii) a date on which 50% or more of the shares or more of the shares on issue are sold to any one party; or (iv) on 31 December 2011, the redemption date. The shareholders may agree with the company the interest (if any) which will accrue on the loan notes. They are currently non interest bearing.

At 31 March	2010	2009
33. Called up share capital		
Authorised		
The authorised share capital is £1 000 million (2009 : £1 000 million) comprising:		
1 000 million ordinary shares of £1 each (2009: 1 000 million ordinary shares of £1 each)		
Issued, allotted and fully paid		
Number of ordinary shares	Number	Number
At beginning of year	655 000 000	555 000 000
Issued during the year	93 000 000	100 000 000
At end of year	748 000 000	655 000 000
Nominal value of ordinary shares	£'000	£'000
At beginning of year	655 000	555 000
Issued during the year	93 000	100 000
At end of year	748 000	655 000

At 31 March £'000	2010	2009
34. Minority interests		
Minority interests attributable to holders of ordinary shares in subsidiaries	2 785	18 981
	2 785	18 981

At 31 March Finance lease receivables included in loans and advances £'000	2010 Total future minimum payments	2010 Present value	2009 Total future minimum payments	2009 Present value
35. Miscellaneous balance sheet items				
Lease receivables due in:				
Less than 1 year	190 512	165 764	101 063	82 861
1-5 years	641 086	548 375	276 116	238 206
Later than 5 years	29 663	22 898	16 505	12 900
	861 261	737 037	393 684	333 967
Unearned finance income	124 162		59 717	

At 31 March 2010, unguaranteed residual values accruing to the benefit of the group were £38.3 million (2009: £33.7 million).

At 31 March £'000	2010	2009
36. Cash flow reconciliation		
Reconciliation of operating profit to net operating cash flows		
Profit/(loss) before taxation	33 450	(30 815)
Adjustment for non cash items included in operating profit:		
Impairment of goodwill	–	30 265
Depreciation and impairment of property, equipment and intangibles	22 377	17 877
Impairment of loans and advances	133 186	110 236
Operating income from associates	(88)	(190)
Dividends received from associates	422	84
Share based payment adjustments	724	1 462
Reconciliation of operating profit to net operating cash flows	190 071	128 919

At 31 March £'000	2010	2009
37. Commitments		
Undrawn facilities	511 620	528 980
Other commitments	48 061	34 131
	559 681	563 111
The group has entered into forward foreign exchange contracts and loan commitments in the normal course of its banking business for which the fair value is recorded on balance sheet.		
Operating lease commitments		
Future minimum lease payments under non-cancellable operating leases:		
Less than 1 year	16 858	15 975
1-5 years	48 314	43 258
Later than 5 years	21 413	25 402
	86 585	84 635
At 31 March 2010, Investec was obligated under a number of operating leases for properties, computer equipment and office equipment for which the future minimum lease payments extend over a number of years. The majority of the leases have renewal options.		
Operating lease receivables		
Future minimum lease payments under non-cancellable operating leases:		
Less than 1 year	4 839	8 373
1-5 years	8 430	16 684
Later than 5 years	-	958
	13 269	26 015

At 31 March £'000	Carrying amount 2010	Carrying amount 2009	Related liability 2010	Related liability 2009
37. Commitments (continued)				
Pledged assets				
Loans and advances to banks	229 323	–	229 323	–
Loans and advances to customers	226 745	857 733	187 727	517 812
Investment securities	173 905	268 824	166 308	178 674
Trading securities	214 165	233 955	210 964	213 365
	844 138	1 360 512	794 322	909 851

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 re-pledge the assets, they are classified on the balance sheet as reverse repurchase agreements and cash collateral on securities borrowed.

At 31 March £'000	2010	2009
38. Contingent liabilities		
Guarantees and assets pledged as collateral security:		
- Guarantees and irrevocable letters of credit	222 751	246 529
- Other contingent liabilities	–	–
	222 751	246 529

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 the bank on behalf of third parties and other group companies. The guarantees are issued as part of the banking business.

Financial Services Compensation Scheme

The UK Financial Services Compensation Scheme (FSCS) 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 to meet its management expenses and compensation costs. Individual participating members make payments based on their level of participation (in the case of deposits, the proportion that their protected deposits represent of total protected deposits) at 31 December each year. If an institution is a participating member on this date it is obligated to pay a levy imposed in the immediately following levy period which runs from 1 April to 31 March. The FSCS has borrowed from HM Treasury to fund the compensation costs associated with Bradford & Bingley, Heritable Bank, Kaupthing Singer & Friedlander, Landsbanki 'Icesave' and London Scottish Bank plc. These borrowings are on an interest-only basis until September 2011.

Investec Bank plc is a participating member of the FSCS and the bank has accrued £2 million for its share of levies that will be raised by the FSCS, including the interest on the loan from HM Treasury, in respect of the two levy years to 31 March 2011. 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.

If the remaining available assets of the defaulting institutions are insufficient to allow the FSCS to repay the HM Treasury loan when due, the FSCS will agree a schedule of repayments of any remaining principal outstanding with HM Treasury, which will be recouped from the industry in the form of additional 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 amounts or timing of amounts 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.

39. Hedges

The group uses derivatives for management of financial risks relating to its asset and liability portfolios, mainly associated with non-trading interest rate risks and exposures to foreign currency risk. Most non-trading interest rate risk is transferred from the originating business to the central Treasury. Once aggregated and netted, capital markets, as the sole interface to the wholesale market for cash and derivative transactions, actively manages the liquidity mismatch and non-trading interest rate risk from our asset and liability portfolios. In this regard, Treasury is required to exercise tight control of funding, liquidity, concentration and non-trading interest rate risk within defined parameters.

The accounting treatment of accounting hedges is dependant on the classification between fair value hedges, 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
2010						
Assets	Interest rate swap	6 105	6 082	5 236	(7 266)	(5 718)
	Cross currency swap	(18 245)	(18 245)	(9 381)	18 245	9 396
Liabilities	Interest rate swap	(38 056)	(38 056)	(24 451)	38 115	23 807
	Cross currency swap	(16 488)	(16 488)	1 483	16 174	(1 502)
		(66 684)	(66 707)	(27 113)	65 268	25 983
2009						
Assets	Interest rate swap	(23 695)	(23 718)	(19 204)	22 408	19 389
	Cross currency swap	(9 095)	(9 095)	(9 095)	9 095	9 095
Liabilities	Interest rate swap	9 681	13 980	11 423	(13 033)	(10 429)
	Cross currency swap	6 080	6 080	4 056	(5 372)	(3 310)
		(17 029)	(12 753)	(12 820)	13 098	14 745

6

39. Hedges (continued)

Cash flow hedges

The group is exposed to variability in cash flows on future liabilities arising from changes in base interest rates. The aggregate expected cash flows are hedged based on cash flow forecasts with reference to terms and conditions present in the affected contractual arrangements. Changes in fair value are initially recognised in equity and transferred to the income statement when the cash flow occurs. The nominal expected future cash flows that are subject to cash flow hedges are:

At 31 March £'000	Description of financial instrument designated as hedging instrument	Fair value of hedging instrument	Period cash flows are expected to occur	Ineffective portion recognised in principal transactions
2010				
Assets	Interest rate swap	504	1 to 5 years	–
Liabilities	Variable interest on notes	(5 395)	1 to 5 years	–
		(4 891)		
2009				
Assets	Interest rate swap	297	1 to 5 Years	–
Liabilities	Variable interest on notes	22 795	3 months	–
	Interest rate swap	(21 192)	1 to 5 Years	–
		1 900		

Hedges of net investments in foreign operations

The group has entered into foreign exchange contracts to hedge the exposure of the Investec Bank plc group balance sheet to its net investment, in Australian Dollars, in the Australian operations of the group.

At 31 March £'000	Negative fair value of hedging instrument	Ineffective portion recognised in principal transactions
2010	1 581	–
2009	7 033	–

6

40. Liquidity analysis of financial liabilities based on undiscounted cash flows

At 31 March £'000	Demand	Up to one month
2010		
Liabilities		
Deposits by banks	232 989	326 665
Derivative financial instruments	170 606	18 153
Derivative financial instruments – held for trading	166 817	–
Derivative financial instruments – held for hedging risk	3 789	18 153
Repurchase agreements and cash collateral on securities lent	222 530	44 802
Customer accounts (deposits)	1 371 080	1 490 775
Debt securities in issue	–	97 999
Liabilities arising on securitisation	598	19 572
Other liabilities including other trading liabilities	428 840	48 270
	2 426 643	2 046 236
Subordinated liabilities	–	–
Total on balance sheet liabilities	2 426 643	2 046 236
Off–balance sheet	238 809	19 688
Total liabilities	2 665 452	2 065 924
2009		
Liabilities		
Deposits by banks	445 232	601 562
Derivative financial instruments	344 765	–
Derivative financial instruments - held for trading	147 391	–
Derivative financial instruments - held for hedging risk	197 374	–
Repurchase agreements and cash collateral on securities lent	747 177	100 957
Customer accounts (deposits)	1 179 501	948 306
Debt securities in issue	–	89 028
Liabilities arising on securitisation	441	15 661
Other liabilities including other trading liabilities	398 250	50 968
	3 115 366	1 806 482
Subordinated liabilities	–	–
On balance sheet liabilities	3 115 366	1 806 482
Off-balance sheet	281 903	4 149
Total liabilities	3 397 269	1 810 631

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 analysis based on discounted cash flows, please refer to pages 89 and 90.

	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
	125 246	132 504	372 084	241 673	20 800	1 451 961
	32 479	27 389	62 386	178 282	425 600	914 895
	–	–	–	–	–	166 817
	32 479	27 389	62 386	178 282	425 600	748 078
	15 351	234 149	45 036	–	–	561 868
	2 310 468	2 632 617	440 316	1 128 926	184 200	9 558 382
	128 099	41 035	61 482	1 652 026	142 364	2 123 005
	65 453	85 370	145 689	567 219	290 305	1 174 206
	85 389	43 653	31 120	6 808	3	644 083
	2 762 485	3 196 717	1 158 113	3 774 934	1 063 272	16 428 400
	458	23 341	219 524	143 753	307 851	694 927
	2 762 943	3 220 058	1 377 637	3 918 687	1 371 123	17 123 327
	25 002	23 292	58 985	377 481	60 538	803 795
	2 787 945	3 243 350	1 436 622	4 296 168	1 431 661	17 927 122
	181 446	268 157	852 859	316 123	14 904	2 680 283
	61	21 216	213	10 959	11 816	389 030
	–	–	–	–	–	147 391
	61	21 216	213	10 959	11 816	241 639
	202 225	–	–	–	–	1 050 359
	1 899 841	904 614	313 927	180 493	118 584	5 545 266
	241 939	24 419	47 480	624 315	7 031	1 034 212
	50 185	66 155	310 152	327 269	135 585	905 448
	46 675	67 666	9 419	7 110	550	580 638
	2 622 372	1 352 227	1 534 050	1 466 269	288 470	12 185 236
	753	11 308	73 996	315 355	461 620	863 032
	2 623 125	1 363 535	1 608 046	1 781 624	750 090	13 048 268
	24 962	27 839	88 154	347 234	44 600	818 841
	2 648 087	1 391 374	1 696 200	2 128 858	794 690	13 867 109

6

For the year ended 31 March £'000	
41. Related party transactions	
Transactions, arrangements and agreements involving directors, key management and connected persons and companies controlled by them	
Loans	
Balance at 1 April 2009	14 249
Increase in loans	4 955
Repayment of loans	(11 133)
Balance at 31 March 2010	8 071
Guarantees	
Guarantees in issue at 1 April 2009	1 993
Additional guarantees granted	495
Guarantees cancelled	(1 993)
Guarantees in issue at 31 March 2010	495
Deposits	
Balance at 1 April 2009	18 361
Increase in deposits	20 287
Decrease in deposits	(11 888)
Balance at 31 March 2010	26 760

The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security as for comparable transactions with persons of a similar standing or where applicable, with other employees. The transactions did not involve more than the normal risk of repayment. None of these loans have been impaired.

Details of share based payments transactions are included in note 5.

41. Related party transactions (continued)

For the year ended 31 March £'000	Investec plc and subsidiaries and associates	Investec Limited and subsidiaries	Associates of the bank	Total
2010				
Assets				
Loans and advances to banks	–	29 039	–	29 039
Loans and advances to customers	909 881	65	10 119	920 065
Derivative financial instruments	–	1 709	–	1 709
Liabilities				
Deposits from banks	–	(44 005)	–	(44 005)
Repurchase agreements and cash collateral on securities lent	(205 413)	(10 229)	–	(215 642)
Customer accounts (deposits)	–	(126 556)	–	(126 556)
Derivative financial instruments	(843)	(3 221)	–	(4 064)
Subordinated liabilities	–	(15 086)	–	(15 086)
2009				
Assets				
Loans and advances to banks	–	47 317	–	47 317
Loans and advances to customers	696 101	1 265	12 720	710 086
Derivative financial instruments	852	14 737	–	15 589
Liabilities				
Deposits from banks	–	(85 521)	–	(85 521)
Repurchase agreements and cash collateral on securities lent	–	(301 373)	–	(301 373)
Customer accounts (deposits)	(251 336)	(8 322)	–	(259 658)
Derivative financial instruments	(4 925)	(12 527)	–	(17 452)
Subordinated liabilities	–	(12 091)	–	(12 091)

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.

In the normal course of business, services are provided by Investec Bank plc to other companies in the group. In the year to 31 March 2010, Investec Bank plc received £22.4 million (2009: £21.1 million) for these services. Specific transactions between group entities have resulted in a net fee payment to the bank of £1.2 million (2009: £11.8 million).

During the year to March 2010, interest of £5.2 million (2009: £8.3 million) was paid to entities in the Investec Limited group and £0.6 million (2009: £2.4 million) was paid to Investec plc and fellow subsidiaries. Interest of £0.3 million (2009: £1.5 million) was received from Investec Limited group and interest of £43.8 million (2009: £36.7 million) was received from Investec plc and fellow subsidiaries.

The bank has issued a guarantee on behalf of Start Funding No. 2 (SF2), an ultimate subsidiary of Investec plc. The terms of the guarantee are with regard to performance by SF2 of its obligations to Barclays Bank plc under a €200 million Revolving Credit Facility Agreement (the Facility). The guarantee expires in January 2012. Drawings under the Facility were €186.7 million as at 31 March 2010 (2009: €189.9 million). SF2 pays a fee of 0.21% per annum to the bank on the drawn amount of the Facility.

During the year the bank sold £6.4 million of financial assets to a number of SPVs which are consolidated into the results of the bank's parent, Investec plc. The disposals, which were made at fair value occurred in the normal course of business.

Employees of the bank participate, along with the employees from other Investec plc undertakings, in a non-contributory defined benefit scheme. Full details of the scheme are included in note 31.

42. Principal subsidiary and associated companies

	Principal activity	Country of incorporation	Interest % 2010	Interest % 2009
Direct subsidiaries of Investec Bank plc				
Investec Asset Finance PLC	Leasing company	England and Wales	100	100
Investec Bank (Switzerland) AG	Banking institution	Switzerland	100	100
Investec Finance plc	Debt issuer	England and Wales	100	100
Investec Group Investments (UK) Limited	Investment holding	England and Wales	100	100
Guinness Mahon & Co Limited	Investment holding	England and Wales	100	100
Indirect subsidiaries of Investec Bank plc				
Investec Experien Pty Limited	Financial Services	Australia	100	100
Investec Bank (Australia) Limited	Banking Institution	Australia	100	100
Investec Trust Holdings AG (formely Investec Investment Holdings AG)	Investment holding	Switzerland	100	100
Investec Bank (Channel Islands) Limited	Banking institution	Guernsey	100	100
Investec Trust (Guernsey) Limited	Trust Company	Guernsey	100	100
Investec Trust (Switzerland) S.A.	Trust Company	Switzerland	100	100
Investec Trust (Jersey) Limited	Trust Company	Jersey	100	100
Leasedirect Finance Limited	Finance broker	England and Wales	75	-
Global Ethanol Holdings Limited	Holding company	Australia	44.4	44.4
Global Ethanol LLC	Production and marketing of Ethanol	USA	26.6	26.6
Ida Tech plc	Development of fuel cell technology	USA	69.2	73.1
All of the above subsidiary undertakings are included in the consolidated accounts.				
Principal associated company				
Hargreave Hale Limited	Stockbroking and portfolio management	England and Wales	35	35

Directors' Responsibility statement

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and accounting estimates that are reasonable and prudent
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the board

David van der Walt
Joint Chief Executive Officer

21 June 2010

We have audited the parent company financial statements of Investec Bank plc for the year ended 31 March 2010 which comprise the balance sheet, the statement of total recognised gains and losses and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities statement set out on page 200, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the parent company financial statements:

- Give a true and fair view of the state of the company's affairs as at 31 March 2010;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements are not in agreement with the accounting records and returns; or
- We have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the group financial statements of Investec Bank plc for the year ended 31 March 2010.

Ernst & Young LLP

Andy Bates (Senior Statutory Auditor)

for and on behalf of Ernst &Young LLP, Statutory Auditor

London

25 June 2010

Balance sheet

At 31 March £'000	Notes	2010	2009*
Assets			
Cash and balances at central banks		1 502 887	871 518
Treasury bills and other eligible bills	7	110 349	16 051
Loans and advances to banks	6	981 115	564 043
Loans and advances to customers	6/8	6 713 279	6 506 848
Debt securities	9	642 075	571 811
Equity shares	11	88 741	38 781
Interests in associated undertakings	12	9 288	9 309
Shares in group undertakings	13	568 251	502 677
Tangible fixed assets	14	25 451	21 695
Derivative assets	22	696 627	813 050
Other assets	15	444 811	359 110
Prepayments and accrued income		11 286	12 879
		11 794 160	10 287 772
Liabilities			
Deposits by banks	6	2 112 936	4 455 199
Customer accounts	6	6 628 375	2 815 010
Debt securities in issue	6	668 639	614 214
Derivative liabilities	22	489 786	581 930
Trading liabilities - short positions		190 295	191 897
Other liabilities	16	270 983	245 308
Accruals and deferred Income		72 939	71 372
		10 433 953	8 974 930
Subordinated liabilities	6/18	473 980	609 782
		10 907 933	9 584 712
Equity			
Called up share capital	19	748 000	655 000
Share premium account		70 533	37 365
Other reserves		(4 689)	(6 498)
Profit and loss account		72 383	17 193
Total shareholder's equity	2	886 227	703 060
Total liabilities and shareholder's equity		11 794 160	10 287 772
Memorandum items			
Commitments	20	332 550	357 713
Contingent liabilities	21	221 156	218 303
		553 706	576 016

The directors approved the accounts and authorised them for issue on 21 June 2010

David van der Walt
Joint Chief Executive Officer

*As restated for reclassifications detailed in the accounting policies on page 205.

Statement of total recognised gains and losses

For the year to 31 March £'000	2010	2009
Profit/(loss) for the year attributable to shareholders	60 184	(7 517)
Fair value movements on available for sale assets	7 801	4 514
Currency translation movements	(5 986)	(1 197)
Total recognised gains/(losses) relating to the year	61 999	(4 200)

There was no material difference between the results as reported and the results that would have been reported on an unmodified historical cost basis. Accordingly, no note of historical cost profits and losses has been included.

6

Basis of presentation

The company financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice and on a going concern basis. The company financial statements have been prepared under the historical cost convention except for those assets and liabilities which are held at fair value in line with accounting standard requirements.

Accounting policies applied are consistent with those of the prior year.

Restatements

The bank applies a policy of offsetting financial assets and financial liabilities when there is both an intention to settle on a net basis (or simultaneously) and a legal right to offset exists. With regard to derivative instruments, the bank identified that in certain isolated instances offsetting was applied in prior financial periods to derivative assets and liabilities where it is not market practice to settle net, whilst the legal right to settle net exists. The impact of this restatement on the balance sheet of the two prior years is noted below:

£'000	31 Mar 2009	31 Mar 2008
Restated		
Derivative financial instrument assets	813 050	517 443
Derivative financial instrument liabilities	581 930	419 328
As previously reported		
Derivative financial instrument assets	552 815	397 120
Derivative financial instrument liabilities	321 695	174 888
Change to previously reported		
Derivative financial instrument assets	260 235	120 323
Derivative financial instrument liabilities	260 235	120 323

The above restatements have no impact on equity or on the net cash position and, on the basis of materiality, a full balance sheet for 2008 has not been presented.

Share-based payments to employees

The bank engages in equity-settled share-based payments and in certain limited circumstances cash-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 over the vesting period of the grant in the income statement on a straight-line basis, based on an estimate of the amount of instruments that will eventually vest.

A liability and expense in respect of cash-settled share-based payments is recognised over the vesting period of the grant in the income statement on a straight-line basis, based on the fair value of the instrument that will eventually vest. The liability is recognised at the current fair value at each balance sheet date, based on an estimate of the number of instruments that will eventually vest. Subsequent to vesting the liability is measured at fair value, with gains and losses recognised in the profit and loss account until such time as the liability is settled.

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 bank is Pounds Sterling, being the functional currency of Investec Bank plc.

The bank has a foreign branch the activities of which are based in a functional currency other than that of the bank. The functional currency of bank is determined based on the primary economic environment in which the bank operates.

The results and financial position of the foreign operation are translated into the presentation currency of the bank 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 profit and loss on disposal of the foreign operation
- Cash flow items are translated at the exchange rates ruling at the date of the transaction.

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

- Foreign currency monetary items (other than monetary items that form part of the net investment in a foreign operation) are translated using closing rates, with gains and losses recognised in profit and loss
- 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 are recognised in 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.

Revenue recognition

Revenue consists of interest income, fee and commission income and principal transactions.

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 yield; the effective yield calculation excludes those fees earned for a separately identifiable significant act, which are recognised upon completion of the act. Fees and commissions charged in lieu of interest are recognised as income as part of the effective interest rate on the underlying loan.

The effective interest rate method is based on the estimated life of the underlying instrument, and, where this estimate is not readily available, the contractual life.

Fees and commission income includes fees earned from providing advisory services as well as portfolio management. All such fees and commissions are recognised as revenue when the related services are performed and are only recognised when they can be estimated reliably.

Principal transaction income includes trading profits, dividend income, gains and losses on financial assets and liabilities designated as held at fair value and fair value gains and losses on investment properties. Dividend income is recognised when the bank's right to receive payment is established.

Trading profits are shown net of the funding cost of the underlying positions and include the unrealised profits on trading portfolios, which are marked to market daily. Equity investments received in lieu of corporate finance fees are included in trading securities and valued accordingly.

Financial instruments

Financial instruments are initially recognised at their fair value, plus, for financial assets or financial liabilities not at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liabilities.

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 and loss

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

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

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

- It eliminates or significantly reduces an inconsistent measurement or recognition that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- A bank 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 bank is provided internally on that basis to the bank's key management personnel; and
- A contract contains one or more embedded derivatives (which significantly modify the cash flows that would be required by the contract and are not clearly prohibited from separation from the host contract) and the bank has designated the entire hybrid contract as a financial instrument at fair value through profit and loss.

Held-to-maturity financial assets

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

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

Loans and receivables

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

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

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, through 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".

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 associates, joint ventures or subsidiaries of the bank. Further, certain loans and receivables that are held at fair value due to being quoted on an active market, which are neither actively traded nor held to maturity instruments, are classified as available for sale financial assets.

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

If an available for sale instrument is determined to be impaired, the respective cumulative unrealised losses previously recognised in equity 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 and 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 and loss, are measured at fair value.

Valuation of financial instruments

All financial instruments are initially recognised at fair value. On initial recognition, the fair value of a financial instrument is the transaction price unless it is determined appropriate that the fair value of a financial instrument is more accurately determined by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. In circumstances where unobservable data has a significant impact on the valuation of a financial instrument, the entire difference between the model determined fair value and the transaction price is not recognised on initial recognition. The difference arising is recognised in the income statement over the life of the transaction, or when inputs become observable, or when the transaction is effectively closed out.

Subsequent to initial recognition the following financial instruments are measured at fair value:

- Fixed maturity securities classified as trading, held at fair value through profit or loss and available for sale
- Equity securities
- Private equity investments
- Derivative positions
- Loans and advances designated as held at fair value through profit and loss
- Loans and advances designated as available for sale
- Financial liabilities classified as trading or designated as held at fair value through profit and loss.

Subsequent to initial recognition, the fair value of financial instruments quoted in an active market is based on published price quotations. Where market prices are not available, fair value is determined by discounting the expected cash flows, using market interest rates taking into account the credit quality and duration of the investment. In certain instances model pricing may be used to determine fair values. For private equity investments that are not publicly traded, management uses comparisons to similar listed companies, relevant third party arms' length transactions and other data specific to the investment.

Impairments of financial assets held at amortised cost

Financial assets carried at amortised cost are impaired if there is objective evidence that the bank would not receive cash flows according to the original contractual terms. Financial assets are assessed for objective evidence of impairment at least at each balance sheet reporting date. The test for impairment is based either on specific financial assets or collectively on a portfolio of similar, homogeneous assets. Assets specifically identified as impaired are excluded from the collective assessment.

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

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

Derecognition of financial assets and liabilities

A financial asset or a portion thereof, is derecognised when the bank's rights to cash flows has expired; or when the bank has transferred its rights to cash flows relating to the financial assets, including the transfer of substantially all the risk and rewards associated with the financial assets or when control over the financial assets has passed.

A financial liability is derecognised when it is extinguished, that is when the obligation is discharged, cancelled or expired.

Reclassification of financial instruments

The bank may reclassify, in certain 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 bank are recorded on balance sheet at fair value. Positive and negative fair values are reported as assets and liabilities respectively and are offset when there is both an intention to settle net and a legal right to offset exists.

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

Derivative instruments transacted as economic hedges but 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.

Hedge accounting

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

- At inception of the hedge the bank 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
- The hedge is expected to be highly effective in achieving offsetting, that is within a range of 80% to 125%, changes in fair value or cash flows attributable to the hedged risk, consistent with the originally documented risk management strategy for that particular hedging relationship
- For cash flow hedges, a forecasted transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit and loss
- The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured
- The hedge effectiveness is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

Hedge accounting is discontinued when it is determined that the instrument ceases to be highly effective as a hedge; the derivative expires, or is sold, terminated or exercised; when the hedge item matures or is sold or repaid; or when a forecasted transaction is no longer deemed highly probable.

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 are attributable to the hedged risk are also recognised in the income statement.

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

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

Embedded derivatives

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

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

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 legal right to offset exists.

Issued debt and equity financial instruments

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

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

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 the shareholder.

Sale and repurchase agreements (including securities borrowing and lending)

Where securities are sold subject to a commitment to repurchase them, they 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 rate method.

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

6

Instalment credit, leases and rental agreements

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 financial lease.

Where classified as a finance lease, amounts outstanding on these contracts, net of unearned finance charges, are included in loans and advances where Investec is the lessor and included in liabilities where the Investec is the lessee. Finance charges on finance leases and instalment credit transactions are credited or debited to income in proportion to the capital balances outstanding at the rate implicit in the agreement.

Where classified as operating leases, rentals payable/receivable are charged/credited in the income statement on a straight-line basis over the lease term. Contingent rentals (if any) are accrued to the income statement when incurred.

Property and equipment

Property and equipment is 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 anticipated 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 bank would currently obtain from the disposal of an asset in similar age and condition as expected at the end of its useful life.

The current and comparative annual depreciation rates for each class of property and equipment is as follows:

- Computer and related equipment 20-33%
- Motor vehicles 20-25%
- Furniture and fittings 10-20%
- Freehold buildings 2%
- Leasehold improvements*

**Leasehold improvements depreciation rates are determined by reference to the appropriate useful life of its separate components, limited to the period of the lease.*

No depreciation is provided on freehold land, however, similar to other property related assets, it is subject to impairment testing when deemed necessary.

Routine servicing and maintenance of assets are expensed as incurred. Subsequent expenditure is only capitalised if it is probable that future economic benefits associated with the item will flow to the bank.

Dealing properties

Dealing properties are carried at the lower of cost and net realisable value.

Impairment of non-financial assets

At each balance sheet date the bank reviews the carrying value of non-financial assets, other than investment property and deferred tax assets for indication of impairment. The recoverable amount, being the higher of fair value less cost to sell 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 value.

Impairment losses are recognised as an expense in the income statement in the period in which they are identified. Reversal of impairment losses is recognised in income in the period in which the reversal is identified, to the extent that the asset is not revalued to a carrying value that would have been calculated without impairment.

Trust and fiduciary activities

The bank 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 bank, they are not reflected on the balance sheet but are included at market value as part of assets under administration.

Taxation and deferred taxation

Current tax payable is provided on taxable profits 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 profit or loss
- In respect of temporary differences associated with the investments in subsidiaries and associates, 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 by 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 comprehensive income are net of related taxation and deferred taxation.

Employee benefits

The bank operates various defined contribution schemes and two closed defined benefit schemes.

In respect of the defined contribution scheme all employer contributions are charged to income, as incurred in accordance with the rules of the scheme, and included under staff costs.

The bank has no liabilities for other post retirement benefits.

Intangible assets

Intangible assets are recorded at cost less accumulated amortisation and impairments.

For intangible assets with a finite life, amortisation is provided on the depreciable amount of each intangible asset on a straight-line basis over the anticipated useful life of the asset (currently three to eight years). The depreciable amount related to each intangible 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, which the bank would currently obtain from the disposal of an intangible asset in similar age and condition as expected at the end of its useful life.

Intangible assets with an indefinite life are not amortised, however they are tested for impairment on an annual basis.

Provisions, contingent liabilities and contingent assets

Provisions are liabilities of uncertain timing or amount, and are recognised as soon as the bank has created a legal or constructive obligation which will lead to an outflow of economic resources to settle the obligation as a result of a past event. Contingent assets and contingent liabilities are not recognised on balance sheet.

Bank's own profit and loss account

The bank has taken advantage of the exemption in section 408 of the Companies Act 2006 to not present its own profit and loss account.

Cash flow statement

The bank has taken advantage of the exemption in Financial Reporting Standard 1 to not present its own cash flow statement. A cash flow statement, prepared under International Accounting Standards, is included in the consolidated financial statements of the bank.

Financial instruments: Disclosures

The bank has taken advantage of the exemption in Financial Reporting Standard 29 to not present its own disclosures in respect of financial instruments as disclosures, prepared in accordance with International Financial Reporting Standard 7, are included in the consolidated financial statements of the bank.

2. Reconciliation of shareholders' funds and movements in reserves

At 31 March £'000	Share capital	Share premium account	Other reserves: Available for sale reserves	Other reserves: Foreign currency reserves	Profit and loss account	Total
At 31 March 2008	555 000	37 365	(16 998)	10 015	39 878	625 260
Retained loss for the year	–	–	–	–	(7 517)	(7 517)
Fair value movements on available for sale assets	–	–	4 514	–	–	4 514
Foreign currency adjustments	–	–	–	(4 029)	2 832	(1 197)
Total recognised gains/(losses) for the year	–	–	4 514	(4 029)	(4 685)	(4 200)
Issue of ordinary shares	100 000	–	–	–	–	100 000
Dividends paid to ordinary shareholders	–	–	–	–	(18 000)	(18 000)
At 31 March 2009	655 000	37 365	(12 484)	5 986	17 193	703 060
Retained profit for the year	–	–	–	–	60 184	60 184
Fair value movements on available for sale assets	–	–	7 801	–	–	7 801
Foreign currency adjustments	–	–	–	(5 992)	6	(5 986)
Total recognised gains/(losses) for the year	–	–	7 801	(5 992)	60 190	61 999
Issue of ordinary shares	93 000	33 168	–	–	–	126 168
Dividends paid to ordinary shareholders	–	–	–	–	(5 000)	(5 000)
At 31 March 2010	748 000	70 533	(4 683)	(6)	72 383	886 227

6

For the year 31 March £'000	2010	2009
3. Dividends		
Final dividend for previous year	–	10 000
Interim dividend for current year	5 000	8 000
Total dividend attributable to ordinary shareholder recognised in current financial year	5 000	18 000

For the year 31 March £'000	2010	2009
4. Directors' emoluments		
Aggregate emoluments (excluding pension contributions)	6 114	4 831
Contributions to defined contributions scheme	261	454
	6 375	5 285
Number of directors in defined contributions scheme	4	4

Emoluments of the highest paid director were £3 320 930 (2009: £1 568 631) excluding £31 222 (2009: £230 352) of pension contributions to the defined contributions scheme.

Included in aggregate emoluments for the current financial year are deferred bonuses of £1 995 000 which are payable in two equal installments on 31 January 2011 and 31 Janaury 2012. The deferred component will be equivalent to the value of 211 336 Investec plc shares at the close of business on each of 31 January 2011 and 31 January 2012.

The directors' emoluments of Messrs. Herman, Koseff, B Kantor and I Kantor have been borne by Investec plc. These directors were employed and remunerated as directors, or executives, of Investec plc and its subsidiaries in respect of their services to that group as a whole. It is considered that there is no appropriate basis on which they can apportion part of their remuneration for services to the company.

5. Classification of financial assets and financial liabilities

At 31 March £'000	At fair value through profit and loss – Trading	At fair value through profit and loss – Designated at inception	Loans and receivables
2010			
Assets			
Cash and balances at central banks	–	–	1 502 887
Treasury bills and other eligible bills	–	–	–
Loans and advances to banks	155 801	9 049	816 265
Loans and advances to customers	–	242 806	5 989 681
Debt securities	218 419	–	–
Equity shares	47 976	11 367	–
Interests in associated undertakings	–	–	–
Shares in group undertakings	–	–	–
Tangible fixed assets	–	–	–
Derivative assets	696 527	–	–
Other assets	160 559	–	161 080
Prepayments and accrued income	–	–	–
	1 279 382	263 222	8 469 913
Liabilities			
Deposits by banks	204 562	–	–
Customer accounts	–	–	–
Debt securities in issue	–	–	–
Derivative liabilities	489 786	–	–
Trading liabilities - short positions	190 295	–	–
Other liabilities	161 839	–	–
Accruals and deferred Income	–	–	–
Subordinated liabilities	–	–	–
	1 046 482	–	–

6

Available for sale	Held-to-maturity	Financial liabilities at amortised cost	Non-financial instruments	Total
–	–	–	–	1 502 887
110 349	–	–	–	110 349
–	–	–	–	981 115
–	480 792	–	–	6 713 279
423 656	–	–	–	642 075
29 398	–	–	–	88 741
–	–	–	9 288	9 288
–	–	–	568 251	568 251
–	–	–	25 451	25 451
–	–	–	–	696 627
–	–	–	123 172	444 811
–	–	11 286	–	11 286
563 403	480 792	11 286	726 162	11 794 160
–	–	1 908 374	–	2 112 936
–	–	6 628 375	–	6 628 375
–	–	668 639	–	668 639
–	–	–	–	489 786
–	–	–	–	190 295
–	–	82 357	26 787	270 983
–	–	72 939	–	72 939
–	–	473 980	–	473 980
–	–	9 834 664	26 787	10 907 933

At 31 March £'000	At fair value through profit and loss		
	Trading	Designated at inception	Loans and receivables
5. Classification of financial assets and financial liabilities (continued)			
2009			
Assets			
Cash and balances at central banks	–	–	871 518
Treasury bills and other eligible bills	–	–	–
Loans and advances to banks	180 913	15 239	367 891
Loans and advances to customers	1 443	283 498	5 572 821
Debt securities	234 108	18 559	–
Equity shares	15 631	5 192	–
Interests in associated undertakings	–	–	–
Shares in group undertakings	–	–	–
Tangible fixed assets	–	–	–
Derivative assets*	813 050	–	–
Other assets	174 191	–	92 971
Prepayments and accrued income	–	–	–
	1 419 336	322 488	6 905 201
Liabilities			
Deposits by banks	218 911	–	–
Customer accounts	5 614	–	–
Debt securities in issue	–	–	–
Derivative liabilities*	581 930	–	–
Trading liabilities - short positions	191 897	–	–
Other liabilities	142 104	–	–
Accruals and deferred Income	–	–	–
Subordinated liabilities	–	–	–
	1 140 456	–	–

**As restated for reclassifications detailed in the accounting policies on page 205.*

6

	Available for sale	Held-to-maturity	Financial liabilities at amortised cost	Non-financial instruments	Total
		–	–	–	871 518
	16 051	–	–	–	16 051
	–	–	–	–	564 043
	7 797	641 289	–	–	6 506 848
	319 144	–	–	–	571 811
	17 958	–	–	–	38 781
	–	–	–	9 309	9 309
	–	–	–	502 677	502 677
	–	–	–	21 695	21 695
	–	–	–	–	813 050
	–	–	–	91 948	359 110
	–	–	12 879	–	12 879
	360 950	641 289	12 879	625 629	10 287 772
	–	–	4 236 288	–	4 455 199
	–	–	2 809 396	–	2 815 010
	–	–	614 214	–	614 214
	–	–	–	–	581 930
	–	–	–	–	191 897
	–	–	66 102	37 102	245 308
	–	–	71 372	–	71 372
	–	–	609 782	–	609 782
	–	–	8 407 154	37 102	9 584 712

At 31 March £'000	Demand	Up to one month	1 to 3 months	3 to 6 months
6. Maturity of loans and deposits				
2010				
Assets				
Loans and advances to banks	767 577	125 944	83 749	–
Loans and advances to customers	303 907	550 935	400 838	300 527
Liabilities				
Deposits by banks	440 445	394 576	245 108	382 057
Customer accounts	605 328	984 606	1 118 105	2 519 318
Debt securities in issue		5 000	13 000	–
Subordinated liabilities	–	–	–	–
2009				
Assets				
Loans and advances to banks	524 471	782	–	10 470
Loans and advances to customers	352 435	506 377	372 442	322 575
Liabilities				
Deposits by banks	653 813	1 171 370	1 118 810	391 967
Customer accounts	594 124	126 753	918 959	800 326
Debt securities in issue	–	–	206 776	1 998
Subordinated liabilities	–	–	–	–

6

	6 months to 1 year	1 to 5 years	>5 years	Total	Balances with group companies
	–	3 845	–	981 115	28 238
	812 000	2 667 777	1 677 295	6 713 279	1 313 750
	434 669	216 081	–	2 112 936	270 312
	295 555	953 545	151 918	6 628 375	575 393
	4 000	348 702	297 937	668 639	2 012
	–	–	473 980	473 980	–
	–	14 160	14 160	564 043	46 972
	645 471	2 339 038	1 968 510	6 506 848	951 051
	685 422	331 863	101 954	4 455 199	1 364 785
	134 610	80 366	159 872	2 815 010	334 819
	–	82 910	322 530	614 214	–
	10 241	–	599 541	609 782	599 540

6

At 31 March £'000	2010	2009
7. Treasury bills and other eligible bills		
Securities designated as available for sale:		
Treasury bills	100 880	6 591
Other eligible bills - other issuers	9 469	9 460
	110 349	16 051
At beginning of year	16 051	8 118
Purchases	110 221	37 785
Maturities	(15 841)	(31 266)
Movement in fair value during the year	272	123
Exchange adjustments	(354)	1 291
Fair value at end of year	110 349	16 051

Treasury bills and other eligible bills are unlisted, mainly short term in maturity and have a book value not materially different from market value.

At 31 March £'000	2010	2009
8. Customer accounts		
Total loans and advances to customers	6 713 279	6 506 848
Less: Trading book loans and cash equivalent debtors	(7 354)	(61 319)
	6 705 925	6 445 529
Category analysis		
Private banking	3 271 186	3 025 192
Corporate and public sector	2 138 197	2 499 275
Other	1 379 483	988 332
	6 788 866	6 512 799
Specific impairment	(64 269)	(64 238)
Portfolio impairment	(18 672)	(3 032)
	6 705 925	6 445 529
Specific and portfolio impairments		
Reconciliation of movements in specific and portfolio impairments for bad and doubtful debts:		
Specific impairment		
At beginning of year	64 238	16 834
Charge to the income statement	70 753	79 940
Utilised	(69 151)	(34 361)
Exchange adjustments	(1 571)	1 825
At end of year	64 269	64 238
Portfolio impairment		
At beginning of year	3 032	2 235
Charge to the income statement	15 680	707
Exchange adjustments	(40)	90
At end of year	18 672	3 032

At 31 March £'000	2010	2009
9. Debt securities		
Trading securities and securities designated as at fair value through profit and loss		
Unlisted debt securities	218 419	252 667
	218 419	252 667
Securities designated as available for sale		
Unlisted bank and building society certificates of deposit	–	–
Other unlisted debt securities	423 656	319 144
	423 656	319 144
Total debt securities	642 075	571 811
The cost of trading securities has not been disclosed as it cannot be determined without unreasonable expense.		
Available for sale securities		
At beginning of year	319 144	681 868
Additions	413 645	468 827
Sold/matured	(313 721)	(851 701)
Exchange adjustments	6 511	21 063
Movement in fair value during the year	(1 923)	(913)
At end of year	423 656	319 144

6

At 31 March £'000	2010	2009
10. Securitisation		
Investec Bank plc has, during the year, entered into transactions, in the normal course of its business, in which it has transferred portfolios of financial assets directly to special purpose entities.		
Where the financial assets transferred do not qualify for derecognition the assets continue to be disclosed on the face of the balance sheet.		
The financial assets that have been transferred during the year but which continue to be disclosed are:		
Loans and advances to banks	–	35 520
Loans and advances to customers	83 768	1 783 689
	83 768	1 819 209

At 31 March £'000	2010	2009
11. Equity shares		
Trading securities and securities designated as at fair value through profit and loss		
Listed	52 622	15 631
Unlisted	6 721	5 192
	59 343	20 823
Securities designated as available for sale		
Listed	4 145	12 765
Unlisted	25 253	5 193
	29 398	17 958
Total equity shares	88 741	38 781
The cost of trading securities has not been disclosed as it cannot be determined without unreasonable expense.		
Available for sale securities		
At beginning of year net of provisions	17 958	18 129
Additions	20 415	7 126
Disposals	(10 231)	(4 564)
Exchange adjustments	1 024	630
Movement in fair value during the year	232	(3 363)
Fair value at end of year	29 398	17 958

6

At 31 March £'000	2010	2009
12. Interest in associated undertakings		
Analysis of the movement in investment:		
At beginning of year	11 632	11 094
Exchange adjustments	(16)	538
At end of year	11 616	11 632
Provision for impairment in value		
At beginning of year	(2 323)	(960)
Provision made	(5)	(1 363)
At end of the year	(2 328)	(2 323)
Net book value at the end of the year	9 288	9 309

The associated undertakings are unlisted.

At 31 March £'000	2010	2009
13. Shares in group undertakings		
Cost		
At beginning of year	504 696	457 660
Additions	9 245	34 982
Disposal of subsidiary	(9 245)	–
Dividend received out of pre-acquisition reserves	–	(113)
Recapitalisation of subsidiaries	10 107	–
Exchange adjustments	55 467	12 167
At end of the year	570 270	504 696
Provision for impairment in value		
At beginning of year	(2 019)	(371)
New impairments	–	(1 648)
At end of the year	(2 019)	(2 019)
Net book value at the end of the year	568 251	502 677

In March 2010 the bank acquired 75% of the issued share capital of Leasedirect Finance Limited from the bank's parent company in exchange for an issue of new shares. The investment was then immediately disposed of to a wholly owned subsidiary of the bank again in exchange for shares.

Full details of the acquisition are included in the note 27 of the consolidated accounts of the bank.

All subsidiary undertakings are unlisted.

At 31 March £'000	Leasehold improvements	Furniture and vehicles	Computer equipment	Total
14. Tangible fixed assets				
Cost or valuation				
At beginning of year	24 270	4 472	17 772	46 514
Additions	598	69	7 493	8 160
At end of year	24 868	4 541	25 265	54 674
Accumulated depreciation and amortisation				
At beginning of year	(8 902)	(3 991)	(11 926)	(24 819)
Charge for the year	(1 624)	(113)	(2 667)	(4 404)
At end of year	(10 526)	(4 104)	(14 593)	(29 223)
Net book value at 31 March 2010	14 342	437	10 672	25 451
Net book value at 31 March 2009	15 368	481	5 846	21 695

At 31 March £'000	2010	2009
15. Other assets		
Settlement debtors	320 640	247 412
Trading initial margin	19 949	18 531
Deferred tax asset (note 17)	42 235	36 031
Dealing properties	5 401	5 611
Other debtors	56 586	51 525
	444 811	359 110

Dealing properties are recorded at the lower of cost or selling price less cost to sell.

At 31 March £'000	2010	2009
16. Other liabilities		
Settlement creditors	194 465	180 588
Corporation and other taxes	26 787	41 833
Other creditors and accruals	49 731	22 887
	270 983	245 308

6

At 31 March £'000	2010	2009
17. Deferred taxation		
Deferred tax asset		
Deferred capital allowances	29 701	29 114
Arising from unexpired share options	9 757	6 801
Income and expenditure accruals	2 660	0
Other timing differences	117	116
	42 235	36 031
Deferred tax liability	–	–
Net deferred tax asset	42 235	36 031
Reconciliation of net deferred tax asset:		
At beginning of year	36 031	26 761
Movement directly in equity	–	231
Credit to profit and loss	6 204	9 039
At end of year	42 235	36 031

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 tax assets are not recognised in respect of capital losses as crystallisation of capital gains and the eligibility of potential capital losses is uncertain.

At 31 March £'000	2010	2009
18. Subordinated liabilities		
Dated subordinated debt		
Zero coupon bonds	–	10 241
Subordinated loans	473 980	599 541
	473 980	609 782
Remaining maturity:		
In one year or less, or on demand	–	10 241
In more than five years	473 980	599 541
	473 980	609 782

Zero coupon bonds

The zero coupon bonds matured on 16 November 2009.

Subordinated loans

The net proceeds of two issues of step-up notes by a subsidiary of the bank, Investec Finance plc, have been onlent to the bank on a subordinated basis.

1. The term of the first loan is 2016 but it may be redeemed at any time after 1 March 2011. The interest rate on the loan is fixed at 8.1618% until 1 March 2011 and interest is paid annually. After 1 March 2011 the interest rate will be reset in line with the interest rate on the step-up notes.

2. The second loan is undated but it may be redeemed at any time after 23 January 2017. The interest rate on the loan is fixed at 6.4578% until 23 January 2017 and the interest is paid semi-annually. After 23 January 2017 the interest rate will be reset in line with the interest rate on the step-up notes.

During the year £105 209 000 of the step-up notes issued by Investec Finance plc were cancelled. An equivalent amount of the subordinated loan to the bank was early matured.

The terms of the step-up notes, which are guaranteed by the bank, are detailed in note 32 of the consolidated financial statements of the bank.

At 31 March £'000	2010	2009
19. Called up share capital		
Authorised		
The authorised share capital is £1 000 million (2009: £1 000 million) comprising		
1 000 million ordinary shares of £1 each (2009: 1 000 million shares of £1 each).		
Issued, allotted and fully paid		
Number of ordinary shares	Number	Number
At beginning of year	655 000	555 000
Issued during the year	93 000	100 000
At end of year	748 000	655 000
Nominal value of ordinary shares	£'000	£'000
At beginning of year	655 000	555 000
Issued during the year	93 000	100 000
At end of year	748 000	655 000

At 31 March £'000	2010	2009
20. Commitments		
Undrawn facilities	332 550	357 713

The bank has entered into loan commitments in the normal course of its banking business.

At 31 March £'000	2010	2009
21. Contingent liabilities		
Guarantees and irrevocable letters of credit	211 156	218 303

The amounts shown above are only intended to provide an indication of the volume of business outstanding at the balance sheet date.

Guarantees are issued by the bank on behalf of third parties and other group companies. The guarantees are issued as part of the banking business.

A subsidiary of the bank, Investec Finance plc, has issued both medium term notes and other debt securities. The proceeds of these issues have been placed on deposit with the bank. The bank has issued a guarantee to the holders of these notes. The amount of these guarantees is supported by, and limited to, the amount of the cash deposits.

Financial Services Compensation Scheme

The UK Financial Services Compensation Scheme (FSCS) 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 to meet its management expenses and compensation costs. Individual participating members make payments based on their level of participation (in the case of deposits, the proportion that their protected deposits represent of total protected deposits) at 31 December each year. If an institution is a participating member on this date it is obligated to pay a levy imposed in the immediately following levy period which runs from 1 April to 31 March. The FSCS has borrowed from HM Treasury to fund the compensation costs associated with Bradford & Bingley, Heritable Bank, Kaupthing Singer & Friedlander, Landsbanki 'Icesave' and London Scottish Bank plc. These borrowings are on an interest-only basis until September 2011.

The bank is a participating member of the FSCS and the bank has accrued £2 million for its share of levies that will be raised by the FSCS, including the interest on the loan from HM Treasury, in respect of the two levy years to 31 March 2011. 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.

If the remaining available assets of the defaulting institutions are insufficient to allow the FSCS to repay the HM Treasury loan when due, the FSCS will agree a schedule of repayments of any remaining principal outstanding with HM Treasury, which will be recouped from the industry in the form of additional 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 amounts or timing of amounts that may ultimately become payable, nor the effect that such levies may have upon operating results in any particular financial period.

Legal proceedings

The bank is party to various legal proceedings, the ultimate resolution of which are not expected to have a material adverse effect on the financial position of the bank.

22. Derivative financial instruments

The bank 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 below, 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 balance sheet date.

At 31 March £'000	2010 Notional principal amounts	2010 Positive fair value	2010 Negative fair value	2009* Notional principal amounts	2009* Positive fair value	2009* Negative fair value
Foreign exchange derivatives						
Forward foreign exchange	1 601 771	20 464	(20 322)	2 744 765	67 052	(63 766)
Currency swaps	1 947 792	69 701	(26 637)	938 419	68 794	(27 703)
OTC options bought and sold	185 228	1 943	(2 386)	41 060	433	(265)
Other foreign exchange contracts	149 441	6 756	–	15 325	15 325	–
	3 884 232	98 864	(49 345)	3 739 569	151 604	(91 734)
Interest rate derivatives						
Caps and floors	444 062	1 209	(1 537)	236 325	87	(518)
Swaps	8 102 152	151 145	(100 954)	10 586 172	158 092	(101 942)
Forward rate agreements	220 655	–	(61)	200 000	37	(58)
OTC options bought and sold	–	–	–	1 702	27	(27)
Other interest rate contracts	–	–	–	12 153	2 224	–
OTC derivatives	8 766 869	152 354	(102 552)	11 036 352	160 467	(102 545)
Exchange traded futures	–	–	–	28 719 755	–	–
Exchange traded options	281 736	253	(141)	720 391 308	2 107	(3 384)
	9 048 605	152 607	(102 693)	760 147 415	162 574	(105 929)
Equity and stock index derivatives						
OTC options bought and sold	1 371 977	41 403	(659)	372 817	15 881	(39 097)
Equity swaps and forwards	30 647	635	(982)	1	165	(135)
OTC derivatives	1 402 624	42 038	(1 641)	372 818	16 046	(39 232)
Exchange traded futures	7 123	1 237	(1 237)	13	–	–
Exchange traded options	693 728	35 990	(42 239)	141 767	11 060	(22 402)
Warrants	–	200	–	–	201	–
	2 103 475	79 465	(45 117)	514 598	27 307	(61 634)
Commodity derivatives						
OTC options bought and sold	98 029	1 313	(1 313)	85 105	4 721	(18 037)
Commodity swaps and forwards	1 672 164	276 382	(316 371)	3 025 852	398 739	(443 638)
OTC derivatives	1 770 193	277 695	(317 684)	3 110 957	403 460	(461 675)
Exchange traded futures	848 954	227 808	(150 935)	2 079 213	291 199	(170 053)
Exchange traded options	–	–	–	37 200	9 110	–
	2 619 147	505 503	(468 619)	5 227 370	703 769	(631 728)
Credit derivatives						
Credit swaps bought and sold	66 629	13 029	(3 850)	83 456	26 237	(4 107)
	66 629	13 029	(3 850)	83 456	26 237	(4 107)
Embedded derivatives		26 997	–		54 759	–
Gross fair values		876 465	(669 624)		1 126 252	(895 132)
Effect of on balance sheet netting		(179 838)	179 838		(313 202)	313 202
Derivatives per balance sheet		696 627	(489 786)		813 050	(581 930)

**As restated for reclassifications detailed in the accounting policies on page 205.*

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 items	Current year gains or (losses) on hedged items
23. Hedges						
2010						
Assets	Interest rate swap	6 918	6 896	1 085	(8 108)	(1 507)
	Cross currency swap	(18 245)	(18 245)	(9 150)	18 245	9 150
Liabilities	Interest rate swap	(23 610)	(23 610)	(11 975)	23 645	11 911
	Fx contracts	(16 488)	(16 488)	1 483	16 173	(1 502)
		(51 425)	(51 447)	(18 557)	49 955	18 052
2009						
Assets	Interest rate swap	(23 695)	(23 718)	(19 204)	22 408	19 389
	Cross currency swap	(9 095)	(9 095)	(9 095)	9 095	9 095
Liabilities	Cross currency swap	9 878	14 177	11 620	(13 218)	(10 614)
	Interest rate swap	11 639	11 639	9 891	(11 832)	(10 026)
		(11 273)	(6 997)	(6 788)	6 453	7 844

6

For the year ended 31 March £'000	

24. Related party transactions

Transactions, arrangements and agreements involving directors, key management and connected persons and companies controlled by them

Loans	
Balance at 1 April 2009	14 249
Increase in loans	4 955
Repayment of loans	(11 133)
Balance at 31 March 2010	**8 071**
Guarantees	
Guarantees in issue at 1 April 2009	1 993
Additional guarantees granted	495
Guarantees cancelled	(1 993)
Guarantees in issue at 31 March 2010	**495**
Deposits	
Balance at 1 April 2009	18 361
Increase in deposits	20 287
Decrease in deposits	(11 888)
Balance at 31 March 2010	**26 760**

The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security as for comparable transactions with persons of a similar standing or where applicable, with other employees. The transactions did not involve more than the normal risk of repayment. None of these loans have been impaired.

Transactions with other related parties of the group
As the bank is a 100% subsidiary undertaking, and consolidated financial statements for its ultimate parent, Investec plc, are publicly available, group transactions have not been disclosed pursuant to exemptions permitted in Financial Reporting Standard No 8.

25. Reclassification

During the prior year the bank reclassified certain financial instruments out of fair value through profit and loss. These assets were originally classified as held for trading but the bank's intentions in regard to these assets changed and the bank 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 bank did not undertake any further reclassifications in the current year.

26. Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent

At 31 March £'000	2010	2009
Assets		
Reverse repurchase agreements	277 279	169 392
Cash collateral on securities borrowed	213 215	83 855
	490 494	**253 247**
As part of the reverse repurchase and securities borrowing agreements, the bank has received securities that it is allowed to sell or pledge. £425 million (2009: £266 million) of securities has been resold or re-pledged to third parties in connection with financing activities or to comply with commitments under short sale transactions.		
Liabilities		
Repurchase agreements	528 905	740 434
Cash collateral on securities lent	16 182	6 743
	545 087	**747 177**

27. Ultimate parent undertaking

The bank's immediate parent undertaking is Investec 1 Limited.

The bank's ultimate parent undertaking and controlling party is Investec plc, a company incorporated in the UK and registered in England and Wales, which is the smallest and largest company into which the bank is consolidated.

The consolidated financial statements of Investec plc are available to the public and may be obtained from Investec plc at 2 Gresham Street, London, EC2V 7QP.

	Principal activity	Country of incorporation	Interest % 2010	Interest % 2009
28. Principal subsidiary and associated companies				
Direct subsidiary undertakings of Investec Bank plc				
Guinness Mahon & Co Limited	Investment holding	England and Wales	100	100
Investec Asset Finance PLC	Leasing company	England and Wales	100	100
Investec Bank (Switzerland) AG	Banking institution	Switzerland	100	100
Investec Finance plc	Debt issuer	England and Wales	100	100
Investec Group Investments (UK) Limited	Investment holding	England and Wales	100	100
Indirect subsidiaries of Investec Bank plc				
Investec Experien Pty Limited	Financial Services	Australia	100	100
Investec Bank (Australia) Limited	Banking Institution	Australia	100	100
Investec Bank (Channel Islands) Limited	Banking institution	Guernsey	100	100
Investec Trust Holdings AG (formerly Investec Investment Holdings AG)	Investment holding	Switzerland	100	100
Investec Trust (Guernsey) Limited	Trust Company	Guernsey	100	100
Investec Trust (Jersey) Limited	Trust Company	Jersey	100	100
Investec Trust (Switzerland) S.A.	Trust Company	Switzerland	100	100
Leasedirect Finance Limited	Finance broker	England and Wales	75	-
Global Ethanol Holdings Limited	Holding company	Australia	44.4	44.4
Global Ethanol LLC	Production and marketing of Ethanol	USA	26.6	26.6
Ida Tech plc	Development of fuel cell technology	USA	69.2	73.1
All of the above subsidiary undertakings are included in the consolidated accounts.				
Principal associated company				
Hargreave Hale Limited	Stockbroking and portfolio management	England and Wales	35	35

Australia, Brisbane

Level 31 Riparian Plaza
71 Eagle Street Brisbane
QLD 4000 Australia
Telephone (61) 7 3018 8100
Facsimile (61) 7 3018 8108
e-mail australia@investec.com.au

Australia, Melbourne

Level 49 120 Collins Street
Melbourne
VIC 3000 Australia
Telephone (61) 3 8660 1000
Facsimile (61) 3 8660 1010
e-mail australia@investec.com.au

Australia, Perth

Suites 9 and 10
62 Ord Street West Perth
WA 6005 Australia
Telephone (61) 8 6369 0846
Facsimile (61) 8 9322 7533
e-mail australia@investec.com.au

Australia, Sydney

Level 31 The Chifley Tower
2 Chifley Square
Phillip Street Sydney
NSW 2000 Australia
Telephone (61) 2 9293 2000
Facsimile (61) 2 9293 2002
e-mail australia@investec.com.au

Canada, Toronto

T66 Wellington Street West Suite 2701
PO Box 307 Toronto-Dominion Centre
Toronto Ontario M5K 1K2
Telephone (1 416) 687 2400
Facsimile (1 416) 364 3434

Channel Islands, St Helier

1 The Esplanade St Helier
Jersey
JE2 3QA Channel Islands
Telephone (44) 1534 512 512
Facsimile (44) 1534 512 513
e-mail enquiries@investectrust.com

Channel Islands, St Peter Port

La Vieille Cour St Peter Port
Guernsey
GY1 1WP Channel Islands
Telephone (44) 1481 72 3506
Facsimile (44) 1481 741 147
e-mail enquiries@investec-ci.com

Hong Kong

Unit 4209 42/F The Gloucester Tower
The Landmark Central Hong Kong
Telephone (852) 3187 5000
Facsimile (852) 2524 3360
e-mail investec.asia@investecmail.com

Suites 2604-06 Tower 2 The Gateway
Harbour City Tsimshatsui Kowloon
Hong Kong
Telephone (852) 2861 6888
Facsimile (852) 2861 6861

Ireland, Belfast

99/101 High Street
Belfast
BT1 2AG Northern Ireland
Telephone (44 28) 9027 5367

Ireland, Dublin

The Harcourt Building
Harcourt Street
Dublin 2 Ireland
Telephone (353) 1 421 0000
Facsimile (353) 1 421 0500
e-mail info@investec.ie

Switzerland, Geneva

3 Place des Bergues
Geneva 1201 Switzerland
Telephone (41) 22 807 2000
Facsimile (41) 22 807 2005
e-mail enquiries@investectrust.ch

Switzerland, Zurich

Loewenstrasse 29
Zurich CH-8001 Switzerland
Telephone (41 44) 226 1000
Facsimile (41 44) 226 1010
e-mail info@investecbank.ch

United Kingdom, London

2 Gresham Street London
EC2V 7QP UK
Telephone (44 207) 597 4000
Facsimile (44 207) 597 4070

25 Basinghalll Street London
EC2V 5HA UK
Telephone (44 207) 597 2000
Facsimile (44 207) 597 1818

United Kingdom, Manchester

The Pinnacle
73 King Street Manchester
M24NG UK
Telephone (44 161) 819 7900
Facsimile (44 161) 819 7901
e-mail richard.heggie@investec.co.uk

United Kingdom, Abingdon

Windrush Court Blacklands Way
Abingdon Oxon
OX14 1SY UK
Telephone (44 1235) 555 577
Facsimile (44 1235) 555 577
e-mail iaf@investec.co.uk

United States, New York

666 Fifth Avenue 15th Floor New York
NY 10103 USA
Telephone (212) 259 5609
Facsimile (917) 206 5102

Taiwan

Unit B 20F Taipei 101 Tower
7 Xin Yi Rd Sec 5 Taipei 110 Taiwan
Telephone (886 2) 8101 0800
Facsimile (886 2) 8101 0900

Investec Bank plc

Secretary and Registered Office

David Miller
2 Gresham Street
London EC2V 7QP
United Kingdom
Telephone (44) 20 7597 4541
Facsimile (44) 20 7597 4491

Internet address

www.investec.com

Registration number

Reg. No. 489604

Auditors

Ernst & Young LLP

Transfer Secretaries

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
United Kingdom
Telephone (44) 870 702 0003

Directorate

Refer to page 116

Investec offices – contact details

Refer to page 232

For queries regarding information in this document:

Investor Relations

Telephone (27 11) 286 7070
(44) 20 7597 5546
e-mail: investorrelations@investec.com
Internet address:
www.investec.com/en_za/#home/investor_relations.html

Printed on: Trucard Matt Recycled, 100% ECF,
50% recycled pulp from de-inked postconsumer
waste, FSC certified