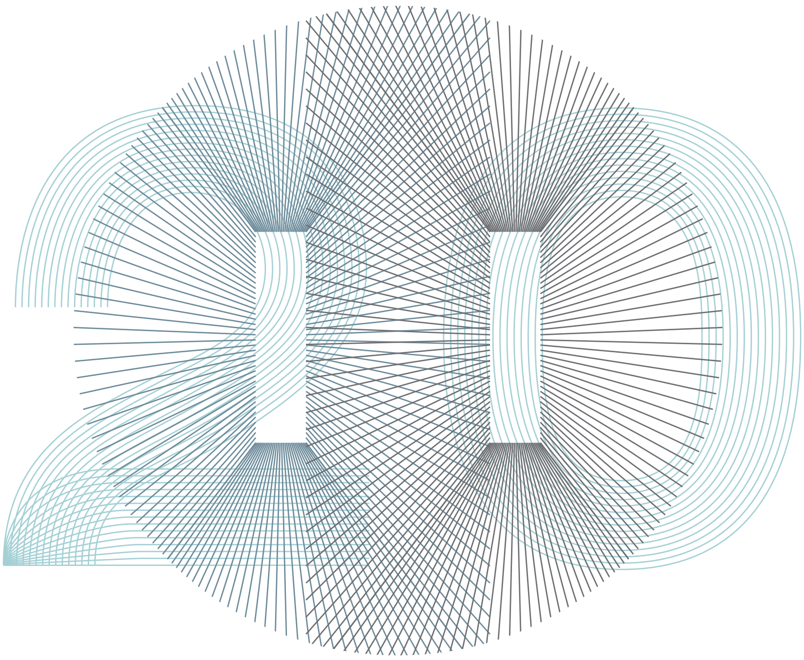
Investec Bank plc
annual financial statements **2011**



Out of the Ordinary®

Investec

Specialist Bank and
Asset Manager

Corporate information

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Registration number

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Investec directors

Refer to page 113.

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Investec in perspective

Investec in perspective

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.

Mission statement

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

What we do

We are organised as a network comprising six business divisions: Asset Management, Wealth and Investment, 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

Distinctive performance

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

Dedicated partnership

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

Client focus

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

Cast-iron integrity

- Moral strength
- Risk consciousness
- Highest ethical standards

Philosophies

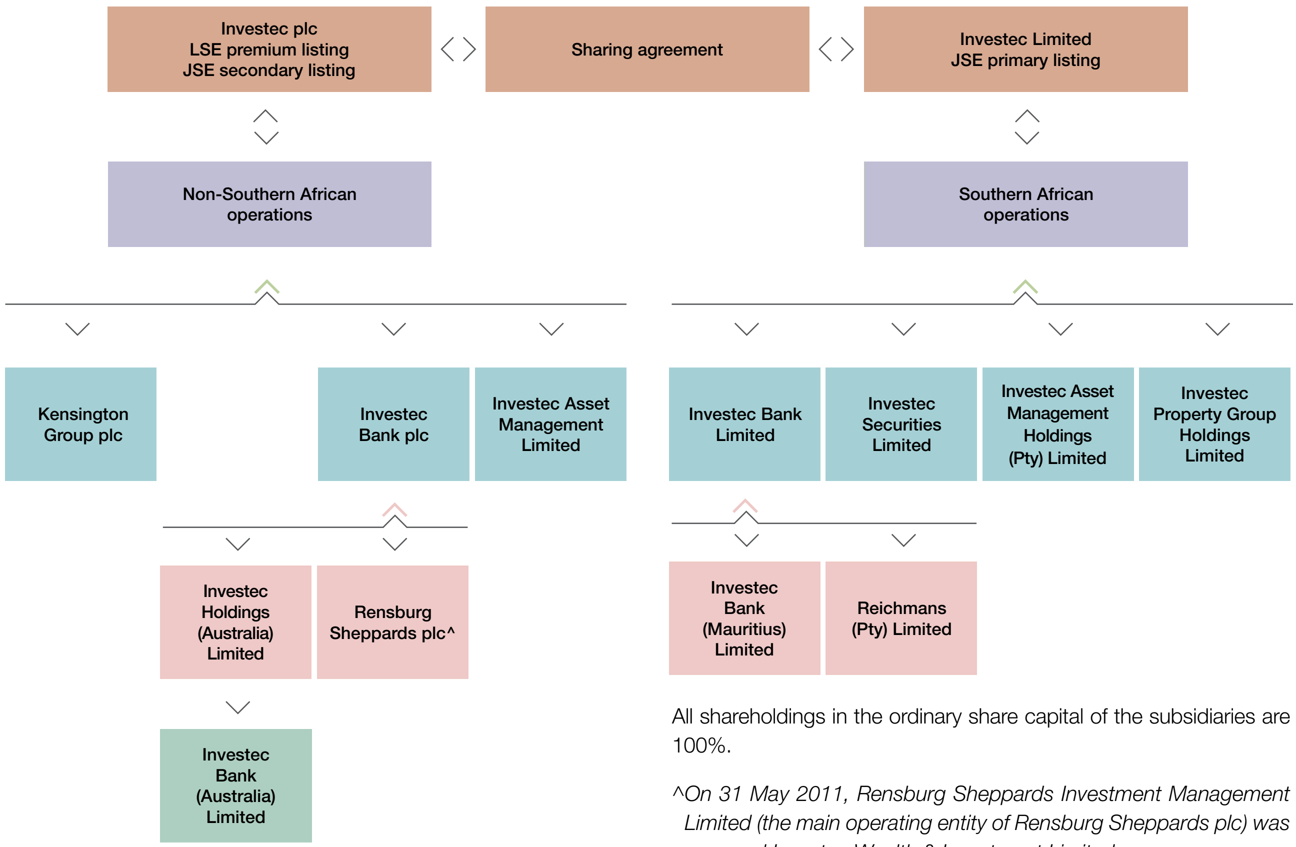
- Single organisation
- Meritocracy
- Focused businesses
- Differentiated, yet integrated
- Material employee ownership
- Creating an environment that stimulates extraordinary performance.

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

During July 2002 Investec Group Limited (since renamed Investec Limited), implemented a Dual Listed Companies (DLC) structure and listed its offshore business on the London Stock Exchange. A circular on the establishment of our DLC structure was issued on 20 June 2002 and is available on our website.

In terms of the DLC structure, Investec Limited is the controlling company of our businesses in Southern Africa and Mauritius and Investec plc is the controlling company of our non-Southern African businesses. Investec Limited is listed on the JSE Limited South Africa and Investec plc is listed on the London Stock Exchange. Investec Bank 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 2011



All shareholdings in the ordinary share capital of the subsidiaries are 100%.

^On 31 May 2011, Rensburg Sheppards Investment Management Limited (the main operating entity of Rensburg Sheppards plc) was renamed Investec Wealth & Investment Limited.

Investec plc, which houses our non-Southern African operations, has been listed in London since 2002.

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.

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Overview of the activities of Investec Bank plc

Overview of the activities of Investec Bank plc

Investec Bank plc's structure comprises five principal business units:

- Wealth and Investment (previously Rensburg Sheppards plc)
- Property Activities
- Private Banking
- Investment Banking
- Capital Markets.

Introduction

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.

Wealth and Investment (previously Rensburg Sheppards)

Rensburg Sheppards plc became a wholly owned subsidiary of Investec Bank plc on 31 March 2011. Rensburg Sheppards Investment Management Limited (the main operating entity of Rensburg Sheppards plc) was rebranded Investec Wealth & Investment on 31 May 2011.

Wealth and Investment provides investment management services for private clients, charities, pension schemes and trusts, and independent financial planning advice for private clients and businesses. Over 600 staff operate from offices across the UK. With £14.9 billion of funds under management, Investec Wealth and Investment is one of the UK's leading private client investment management businesses.

We provide the following services:

- Investments and savings
  - Discretionary and advisory portfolio management services for private clients
  - Specialist investment management services for charities, pension schemes and trusts
  - Independent financial planning advice for private clients and businesses.
- Pensions and retirement
  - Discretionary investment management for company pension and self invested personal pension (SIPP) schemes
  - Advice and guidance on pension schemes, life assurance and income protection schemes.
- Tax planning and mitigation
  - Individual and corporate tax planning services, including individual savings accounts (ISAs) and venture capital trusts
  - Inheritance tax planning.

Property Activities

Our focus is on property fund management and property investments.

Private Banking

Investec Private Bank positions itself as the 'investment bank for private clients', offering both credit and investment services to our select clientele

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

Private Banking focuses on the following activities:

Banking

We deliver a number of personal savings, transactional activities and mortgage services for individuals, as well as cash management and treasury products for businesses.

Growth and acquisition finance

We focus on providing mezzanine or composite debt funding and minority equity investment to assist entrepreneurs, management teams and private equity houses to implement acquisition and organic growth strategies in mid-market companies.

Specialised lending

We are specialists in providing structured debt solutions for high net worth individuals with complex borrowing requirements.

Structured property finance

We play an integral role in the financing of property acquisitions and development transactions for our commercial and residential clients through delivery of senior debt, mezzanine and equity funding structures.

Trust and fiduciary

Our Trust and Fiduciary business focuses on the delivery and administration of appropriate financial structures which hold financial and non-financial assets for our clients.

Investment Banking

The Investment Banking division engages in a range of investment banking activities and positions itself as an integrated business focused on local client delivery with international access. We target clients seeking a highly customised service, which we offer through a combination of domestic depth and expertise within each geography and a client centric approach.

Our activities include: corporate finance; institutional research, sales and trading and principal investments.

Our target market includes: listed and unlisted companies, fund managers, government and parastatals.

UK and Europe

The UK business offers a full service mid-market investment banking capability comprising both corporate finance and securities.

- Corporate finance activities include:
  - M&A services
  - Corporate broking
  - Strategic advice
  - IPO's and secondary fundraisings
  - Debt advisory.
- Securities activities include:
  - Equity research covering over 80% of the UK All Share Index and select European equities
  - Distribution in the UK, USA and Europe
  - Market making in UK and European equities.

Australia

The business in Australia offers an integrated service including advisory, private equity and direct investment activities.

Hong Kong

- Investec Asia Limited was formed in Hong Kong in 2005 and focuses on making direct equity-related investments in greater China on behalf of the Investec group. Investec Asia Limited opened a representative office in Beijing in 2010 to facilitate relationships with its growing client base in China
- Investec finalised the acquisition of Access Capital Limited in April 2011, and changed its name to Investec Capital Asia Limited. Investec Capital Asia Limited is a licensed entity regulated by the Hong Kong Securities and Futures Commission that has been providing investment banking services to clients based in Greater China since 2000.

Overview of the activities of Investec Bank plc (continued)

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. The division undertakes the bulk of Investec's wholesale debt, structuring, proprietary trading, capital markets and derivatives business.

We focus on the following activities:

Asset and liability management (Treasury)

Central treasury provides funding to the group and manages liquidity and interest rate risk for the group.

Treasury products and distribution

We offer a broad range of treasury products and services to the corporate, institutional and public sector markets which are primarily aimed at money market and foreign exchange risk management. We offer medium to small corporate entities deposit product, spot, forward exchange, currency swaps and currency options, principally in G7 currencies.

Interest rates

We are involved with interest rate products, money market instruments, government and public sector bonds, and repurchase agreements aimed at solutions for corporate, institutional and public sector clients.

Structured equity

The desks undertake structuring, finance, product issuance, market making, arbitrage and principal trading in equities and equity derivatives. The team manufactures and delivers a comprehensive suite of solutions to the retail and wholesale markets.

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, securitisation, structuring and trading of residential mortgages, commercial mortgages, collateralised debt obligations and leveraged loans.

Structured and asset finance

We focus on small and large ticket asset leasing and finance. The large ticket asset finance business focuses on aircraft and shipping. We also manage the Investec Global Aircraft fund.

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.

The Project Infrastructure and Investment team applies an investment banking paradigm to the investment of equity in infrastructure projects. The team originates and executes investments for Investec and for the bank's private and institutional clients. The team's primary focus is on environmentally-sustainable infrastructure, notably clean and renewable energy, waste management and water supply.

The Social Infrastructure Investment business originates, finances and develops facilities with long-term sovereign or semi sovereign rent streams, for all levels of government, their agencies and universities. It also employs the same disciplines to originate high quality institutional property.

Commodities and resource finance

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

Debt capital markets

The Debt Capital Markets business focuses on bond origination, distribution and trading.

Corporate and leveraged debt

Corporate and leveraged debt targets event-driven borrowing such as that for acquisitions, expansions, property, plant and equipment, project developments and refinancings by mid-tier and larger corporate borrowers. The primary focus of this business is senior secured debt, although due consideration is also given to secured facilities, second lien and subordinated or mezzanine debt in select transactions.

Group Services and Other Activities

Group Services includes the central services and central funding functions.

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.

Our principal central services, relating to the operations and control of our business, are Risk Management, Information Technology, Finance, Investor Relations, Marketing and Organisation Development. Other group support services include: head office, internal audit and compliance, legal, company secretarial, tax, information and business intelligence centre, regulatory and facilities. There are certain costs that are strategic in nature and which have not been allocated to the operating 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

Established in Australia in 1997, Investec Bank (Australia) Limited (IBAL) has grown through a combination of organic growth and strategic acquisitions. In 2001 we acquired Wentworth Associates, one of Australia's leading corporate finance boutiques. This acquisition provided a platform to expand activities into the investment banking arena in Australia. IBAL obtained a banking license in 2002 to become a fully registered Australian bank (under Australia's Group Banking Act of 1959).

IBAL complemented its organic growth with the acquisition of the Australian banking operations of N.M. Rothschild and Sons (Australia) Limited in July 2006. This created the opportunity to further its market presence in commodities and resource finance and treasury activities.

Our acquisition of Experien Finance in 2007, (later named Investec Professional Finance) enabled us to build relationships with specialists in the medical and accounting fields, further establishing the banking platform and increasing the brand footprint to a wider target audience.

The creation of the Investec Property Opportunity fund in 2007 enhanced the platform for property investments in Australia. The Investec Global Aircraft fund successfully launched in early 2008, and in early 2009 commenced a second capital raising. In early 2011 the fund's portfolio of aircraft had grown to a value of over A$1 billion.

Growth in servicing the corporate and institutional market followed in early 2010 with the acquisition of the Austock Resources capability to form Investec Securities, which acquired an ASX trading licence to provide institutional equities research, sales and trading, and equity capital markets solutions focusing on resources. In 2011 Investec expanded its capability in structured transactions across the energy, aircraft and resources industries, hiring a new team of infrastructure experts from Alba Capital Partners.

The bank's long-term strategy remains focused on developing a foothold in select niche industries and building the Investec brand in Australia as a specialist investment bank to both private clients and the corporate and institutional market.

Investec has offices in Sydney, Melbourne, Brisbane, Perth and Adelaide.

Financial review

Snapshot of the year and strategic focus

Highlights

2011: Focused on reshaping the business…

- Investec Bank plc recorded a 41.0% increase in operating profit after non-controlling interests to £70.2 million. Overall results were constrained by the slow recovery of non-performing loans
- Positioned the business as a specialist bank and asset manager
  - Acquisition of Rensburg Sheppards plc which became a subsidiary of the bank on 31 March 2011
- Realigned the business model to focus on building non-banking revenue streams
- Activity levels in Specialist Banking showed improvement; the Capital Markets business recorded a significant increase in operating profit and the Corporate Finance and Hong Kong Principal Investments businesses performed well
- The bank has maintained a strong capital and liquidity position:
  - Tier 1 ratio of 11.3%
  - Cash and near cash balances of £4.3 billion
  - Customer deposits increased 11.5% to £10.3 billion
  - The ratio of core loans (excluding own originated securitised assets) to deposits improved from 72.4% to 69.2%
  - Low gearing ratios; core loans and advances to equity fell to 4.6 times (2010: 6.1 times)
- The credit loss ratio was higher than the prior year at 1.98%; the bank expects this ratio to decrease during the forthcoming financial year
- Investment in the Investec brand continues.

Momentum in realigning our business model continues…

- Consolidation of Wealth Management businesses
- Acquisition of Rensburg Sheppards plc.

2012: Foundation for growth in place

Financial features

	31 March 2011	31 March 2010	% change
Operating profit before non-operating items, taxation and after non-controlling interests (£'000)	70 151	49 747	41.0%
Earnings attributable to ordinary shareholders (£'000)	46 830	52 712	(11.2%)
Cost to income ratio	68.2%	69.7%	
Total capital resources (including subordinated liabilities) (£'000)	2 251 387	1 720 020	30.9%
Total shareholders' equity (£'000)	1 648 254	1 181 699	39.5%
Total assets (£'000)	18 488 534	16 980 726	8.9%
Net core loans and advances (£'000)	7 629 145	7 224 552	5.6%
Customer accounts (deposits) (£'000)	10 329 009	9 264 474	11.5%
Cash and near cash balances (£'000)	4 270 813	4 605 196	(7.3%)
Capital adequacy ratio	16.1%	16.9%	
Tier 1 ratio	11.3%	12.3%	

Sound capital and liquidity position maintained… achieved capital targets

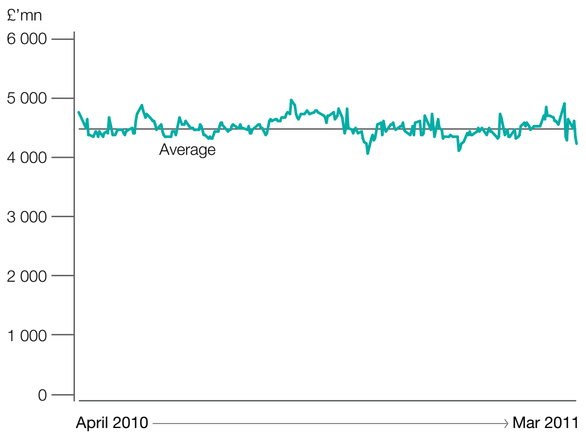
- The intimate involvement of senior management ensures stringent management of risk and liquidity
- Our policy has always been to hold capital in excess of regulatory requirements and we intend to perpetuate this philosophy
- Investec has maintained a strong capital base and has met its targets in this period
- 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
- Benefited from growing retail franchise and recorded an increase in customer deposits
- Advances as a percentage of customer deposits is at 69.2% (2010: 72.4%).

Capital adequacy and Tier 1 ratios

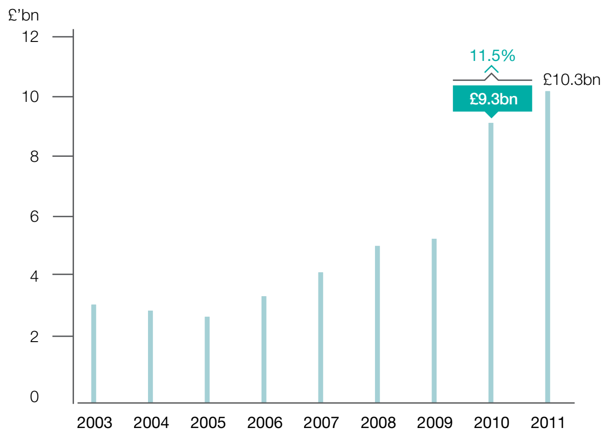
At 31 March 2011	Capital adequacy ratio	Tier 1 ratio
Investec plc	16.8%	11.6%
Investec Bank plc	16.1%	11.3%
Investec Bank (Australia) Limited	17.6%	14.7%

Sound capital and liquidity position maintained… benefited from growing retail franchise

Cash and near cash trend

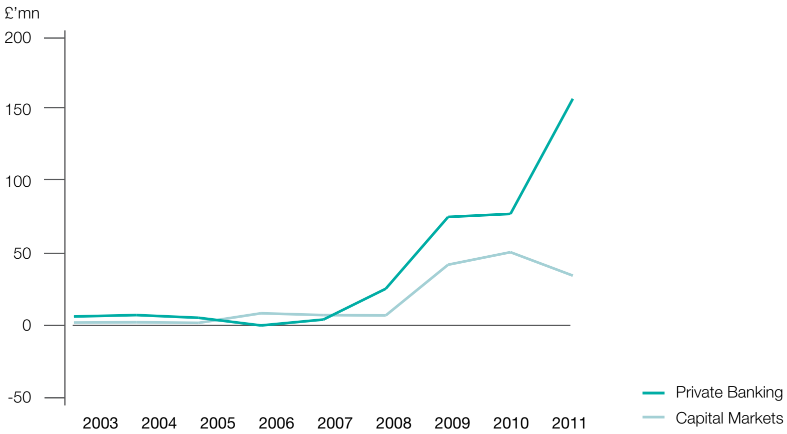


Customer accounts (deposits)



Specialist Banking impacted by an increase in impairments and defaults…

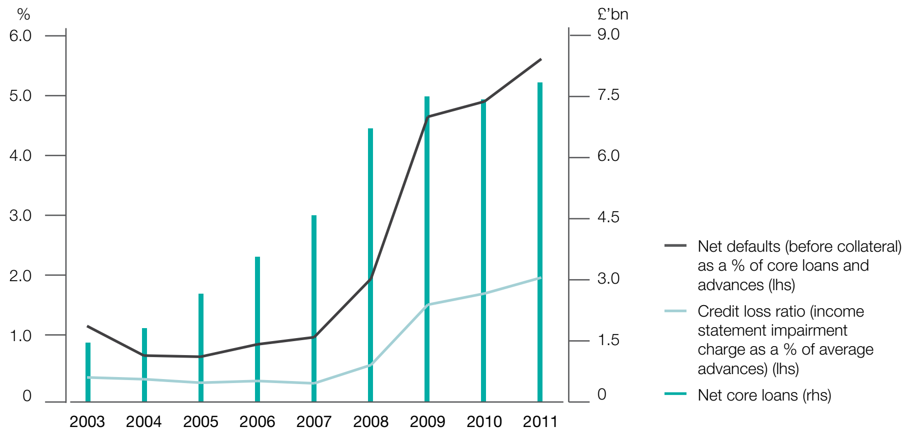
Impairments by business



Impairment analysis by geography

£'mn	31 March 2011	31 March 2010	% change
UK	73.7	80.8	(8.9%)
Ireland	66.7	24.9	>100%
Australia	30.2	27.5	10.2%
Total	170.6	133.2	28.1%

Defaults and core loans



- 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
- The uncertain pace of economic recovery has slowed the improvement in the level of non-performing loans and defaults have continued to increase
- Credit risk however, remains appropriately managed and net defaults (after collateral and impairments) are fully collateralised
- Credit loss charge increased from 1.71% to 1.98%
- We believe we are moving through the cycle and expect to see a reduction in impairments during the 2012 financial year.

Remain committed to delivering on our sustainability objectives…

Sustainability is an integral part of who we are, our culture and values, and how we go about doing things. As a distinctive specialist bank and asset manager, driven by commitment to our philosophies and values, our purpose is to create sustained long-term wealth, and to finance and foster entrepreneurs.

More sustainability developments during the period

- An extensive stakeholder engagement exercise was carried out involving a number of our stakeholders
- Investec was a finalist in the education category of the 2010 UK Lord Mayor's Dragon Awards which recognise Investec's contribution to its local community
- We maintained our presence in the Dow Jones Sustainability Index, the JSE-SRI Index and the FTSE4Good Index.

Sustainability developments during the period

- Development of the 'Investec Foundation' whose focus is to address some of the social challenges faced in Australia
- To coincide with UN World Water Day on 22 March 2011, the London office held a water awareness campaign
- Significant development in environmentally responsible technology and energy efficient fittings in a number of our buildings
- The UK business participated in the Carbon Reduction Commitment Energy Efficiency Scheme. The London office signed up for the 10:10 campaign, a UK initiative aimed at encouraging individuals and businesses to reduce carbon emissions by 10% in 2012. Investec surpassed this target by reducing electricity consumption by 14% and gas emissions by 22%.

Investec strives to be a distinctive specialist bank and asset manager, driven by commitment to its core philosophies and values.

We pursue this strategy through an emphasis on…

The Investec distinction

Client focused approach

- Clients are at the core of our business
- We strive to build business depth by deepening existing client relationships
- Distinction lies in our ability to be nimble, flexible and innovative, and to give clients a high level of service.

Specialised and focused strategy

- Not all things to all people
- Serve select market niches as a focused provider of tailored structured solutions
- Strategy is to enhance our existing position in principal businesses and geographies.

Sustainable business model

- Build a sustainable business model by balancing operational risk businesses with financial risk businesses
- Organic growth and select bolt-on acquisitions
- Contain costs and strictly manage risk, capital and liquidity
- Committed to creating value for shareholders.

Depth of leadership and entrepreneurial environment

- Passionate people are key to ensuring distinction
- Integrated international business platform with an effective global management structure demonstrating our depth of leadership
- Focus on developing and empowering people who are committed to the organisation
- Entrepreneurial environment that attracts talented people and encourages creativity and innovation.

Risk awareness entrenched in our culture

- Intimate involvement of senior management underpins effective risk management which is critical to our success

- Culture of risk awareness is embedded into our reward programmes, values and day-to-day activities
- Shareholder and employee interests are aligned, with executives and employees owning approximately 15% of our issued share capital.

Doing the right thing

- Doing the right thing for clients, employees and communities is integral to our way of doing business
- Focus on projects that are educational, entrepreneurial and sustainable.

Continue strategy of building our franchise…realigning the business model

- Broadly defined, we operate in two distinct spaces, specialist banking and asset management
- We live in a world where the market requires a high degree of transparency and the appropriate management of conflicts of interest
- Within specialist banking, we offer a broad range of services from advisory, structuring, lending, securities trading, market making and principal transactions. These services are aimed at government, institutional, corporates and high net worth and high income clients in our selected geographies
- We have created a Wealth and Investment unit which provides investment management services and independent financial planning advice to private clients, charities and trusts.

Operational risk businesses		Core advisory and core banking		Financial risk businesses
• Wealth management • Property funds • Advisory services • Transactional services	<	Overall objectives: • Containing costs • Maintaining credit quality • Strictly managing risk and liquidity	>	• Lending portfolios • Principal transactions • Structured transactions • Market making

- We seek to maintain an appropriate balance between revenue earned from operational risk businesses and revenue earned from financial risk businesses
- This ensures that we are not over reliant on any one part of our business to sustain our activities and that we have a large recurring revenue base that enables us to navigate through varying cycles and to support our long-term growth objectives
- Our current strategic objectives include increasing the proportion of our non-lending revenue base which we largely intend to achieve through the continued strengthening and development of our Wealth Management business.

Outlook

We are well positioned to benefit from future growth…

- Regulatory uncertainties remain and we will continue to maintain excess levels of liquidity and capital until there is further clarity. However, we expect earnings to benefit from continued momentum in our businesses and the normalising of impairment losses
- We have sought to align the business model and grow revenues from less capital intensive activities. This strategy is paying off and we are developing the right balance of businesses for the long term
- We have taken advantage of the dislocation that occurred in financial markets to attract people and extend brand awareness to benefit from steadily improving market activity.

Looking forward

We have made good progress in globalising our Wealth and Investment business… the focus is now on creating a single Specialist Bank

Purpose

- To create a single bank mindset and structure with client need and demand at the core of our offering
- To be more effective for our clients

How

- By creating a more appropriate business structure in order to maximise the product offering to the client
- By sharing the competencies of the organisation to achieve greater operational efficiency
- By looking for synergies and connectivity across the group
- By leveraging off our global capabilities
- We will continue to focus on our clients, remaining competitive in core businesses and developing our brand.

Financial review

This commentary and analysis of the bank's results for the year ended 31 March 2011 provides an overview of our financial performance relative to the bank's results for the year ended 31 March 2010. Further detail on the performance of our business divisions is provided on pages 25 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

The UK economy started 2010 on a recovery footing entering the 2010/11 financial year with recorded growth of 1.0% and 0.7% in the second and third quarters. A brake to that recovery was applied in the final quarter of 2010 when severe snow impacted on UK GDP, such that the economy contracted by 0.5%. Growth resumed in the first quarter of 2011, registering 0.5%, overturning the previous quarters contraction. There are a number of factors which are likely to weigh negatively on the UK 2011 growth outlook: the sizable fiscal consolidation, the impact of above 4% inflation on consumer spending, and the impact of a possible increase in UK interest rates. April 2011 marked the start of the more critical move in the government's fiscal tightening plans as the biggest discretionary consolidation of the five year programme came into effect, extracting just over 2% of GDP from the economy. Regarding inflation, CPI inflation stood at 4.0% in March 2011, twice the 2% target. With inflation forecast to remain between 4% and 5% over 2011, the Monetary Policy Committee (MPC) is weighing up the right time to begin raising the UK Bank Rate. The MPC may well begin tightening policy in Q4 this year. Consumer confidence and recent retail sector data remain subdued, implying that the capacity of UK consumers and business to withstand rising interest rates is likely to be limited. Consequently, it is likely that the economy will deliver ongoing, but gradual, expansion over 2011.

Eurozone

Despite financial turbulence in several Euro area economies, the eurozone returned to growth in 2010, recording 1.7% growth, having contracted by 4.1% in 2009. 2010 closed with quarterly growth recorded at 0.3% in Q4. The economy continued to expand in the first quarter of 2011, GDP showing an increase of 0.8%. Despite the ongoing recovery of the eurozone as a whole, growth across countries has been very different, largely reflecting differences in the state of public and private sector balance sheets and the stance of macroeconomic policies. At the top end, Germany expanded by 3.5% over 2010 whereas Greece's economy contracted by 4.5%. These very different outlooks are likely to continue through the course of 2011. The overall eurozone growth rate of 1.7% masks the tough year the eurozone has experienced. Concerns about banking sector losses and fiscal sustainability led to widening sovereign spreads in the 'peripheral' countries, in some cases reaching highs not seen since the launch of the Economic and Monetary Union. During the last financial year, Greece, Ireland and, most recently Portugal, have requested financial assistance from the EU and IMF. Despite the severe economic risks posed by the sovereign debt crises in 'peripheral' countries, the spread of the crises from these countries has so far been relatively contained. The containment of risks, market nerves and market losses has been aided by the creation of a package of stabilisation measures which included the European Financial Stabilisation mechanism and the European Financial Stability Facility, to support the joint EU/IMF programme. However, the downside risks to eurozone growth prospects from the continued peripheral debt crisis are ongoing, particularly given the remaining political hurdles that need to be overcome before an expansion to the existing support package can be signed off. Throughout the last financial year the European Central Bank (ECB) held the refinancing rate at 1%, where it has been since June 2009, although the ECB increased the refinancing rate by 25 basis points to 1.25% in early April 2011. The ECB has also provided enhanced credit support measures, including enhanced liquidity support. The accommodative monetary policy stance looks to have assisted the overall eurozone growth rate over the last year.

Australia

Australia escaped the global recession of recent years, recording only one quarter of contraction in 2008 and growing by 1.3% in 2009 and 2.7% in 2010. On a quarterly basis, the economy expanded by 1.2%, 0.1% and 0.7% in the first three quarters of the 2010/11 financial year. Flooding in key mining and agricultural regions resulted in the economy contracting by 1.2% in Q1 2011. However, this is likely to be offset by stronger private investment in mining and commodity exports, beyond the end of the financial year. Australian growth over the last year has continued to be based on emerging market demand for Australia's commodity exports – nearly 50% of Australia's exports go to the economies of China, Japan and India, all which recorded firm growth in 2010. Over 2010 as a whole Australian exports were up 5.3% on 2009 levels. In Q2 2010 the CPI inflation rate reached 3.1%, just outside the Reserve Bank of Australia's (RBA) 2-3% target range. This led to the RBA tightening monetary policy, raising the headline cash rate from 4.25% in Spring 2010 to 4.75%, the current rate. Despite the RBA tightening, domestic demand has held up firmly, having risen by 4.1% over 2010.

United States

Having contracted by 2.6% in 2009, the US economy bounced back to boast growth of 2.9% in 2010. Following the strong inventory restocking-driven growth in early 2010, economic growth slowed in the mid part of 2010 but strengthened again in the second half of the year, supported by rising consumer spending. In Q4 2010, the economy expanded at a robust 3.1% annualised rate but this slowed to 1.8% in Q1 2011. The unemployment rate has gradually fallen over the year, from 9.8% in April 2010 to 8.8% in March 2011, but at 8.8% the unemployment rate remains elevated. Price pressures remained subdued over the course of the year, with headline inflation having declined to a low of 1.1% during the year, from the 2.2% rate recorded in April 2010. Throughout the financial year the Federal Reserve maintained the Federal Funds target interest rate at the 0-0.25% range, where it has been since the start of 2009. Furthermore, the Federal Reserve embarked on 'QE2' in November 2010, announcing its intention to purchase a further $600 billion of longer term treasury securities by the end of the second quarter of 2011. These added to existing purchases of mortgage-backed securities (RMBS), agency debt and $300 billion of longer term treasuries. This accommodative monetary policy stance has clearly been supportive for US growth over the year. Unlike much of Western Europe, the US has not yet embarked on a programme of fiscal austerity measures, despite the fiscal deficit now projected to reach 10¾% in 2011 and with general government gross debt expected to exceed 110% of GDP by 2016, according to the IMF.

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

	Period ended 31 March 2011	Period ended 31 March 2010	% change	Average over the period: 1 April 2010 to 31 March 2011
Market indicators				
FTSE All share	3 068	2 910	5.4%	3 067
Australia All ords	4 929	4 893	0.7%	4 698
S&P 500	1 326	1 169	13.4%	1 184
Nikkei	9 755	11 090	(12.0%)	9 956
Dow Jones	12 320	10 857	13.5%	11 048
Exchange rates				
US Dollar/Euro	1.42	1.35	5.2%	1.32
Euro/Pounds Sterling	1.13	1.12	0.9%	1.17
Australian Dollar/Pounds Sterling	1.55	1.66	(6.6%)	1.65
US Dollar/Pounds Sterling	1.60	1.52	5.3%	1.55
Rates				
UK overnight	0.45%	0.40%		0.49%
UK 10 year	3.69%	3.94%		3.44%
UK clearing banks base rate	0.50%	0.50%		0.50%
LIBOR – 3 month	0.82%	0.65%		0.74%
Reserve Bank of Australia cash target rate	4.75%	4.00%		4.58%
US 10 year	3.47%	3.83%		3.13%
Commodities				
Gold	USD1 432/oz	USD1 113/oz	28.7%	USD1 295/oz
Gas Oil	USD993/mt	USD684/mt	45.2%	USD736/mt
Platinum	USD1 768/oz	USD1 644/oz	7.5%	USD1 669/oz
Macro-economic				
UK GDP (% change over the period)	1.80%	(3.70%)		–
UK per capita GDP	23 362	22 575	3.5%	–
Australia GDP (% change over the period)	2.40%	1.70%		–
Per capita GDP (A$)	60 178	56 872	4.5%	–

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 five principal business divisions: Wealth and Investment, 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
Wealth and Investment			
	• Investment management fees levied as a percentage of assets under management • Commissions earned for executing transactions for clients	• Movement in the value of assets underlying client portfolios • The level of investment activity undertaken on behalf of clients, which, in turn, is affected by, among other things, the performance of the global stock markets (which drives investment opportunities), the equity investment risk appetite of our clients, tax considerations and market liquidity	• Fees and commissions
Property Activities			
	• Fees levied as a percentage of assets under management • Performance fees • Capital and debt raising fees • Asset acquisition fees • Property development fees	• Movements in the value of assets underlying client portfolios • Movements in the value of property assets	• Fees and commissions
	• Trading and development activities	• 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 and funding activities	• Size of loan portfolio • Interest rate environment	• Net interest income
	• Fees earned for banking and lending services	• Levels of activity	• 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

An overview of our key income drivers (continued)

Business activity	Key income drivers	Income impacted primarily by	Income statement – reflected as
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
Capital Markets			
	• Asset creation	• Rate environment • Size of loan portfolio • Credit spreads • Clients' capital and infrastructural investments • Client activity	• Net interest income • Principal transactions • Other operating income
	• Structuring, management and distribution	• Rate environment • Ability to originate appropriate assets • Credit spreads • Clients' capital and infrastructural investments • Market conditions in the relevant exit markets	• Net interest income • Fees and commissions • Principal transactions
	• Derivative, sales, trading and hedging	• Client activity • Market conditions • Asset and liability creation • Product innovation • Market risk factors, primarily volatility and liquidity	• Principal transactions • Fees and commissions

An overview of our key income drivers (continued)

Business activity	Key income drivers	Income impacted primarily by	Income statement - reflected as
Capital Markets (continued)			
	• Deposit and 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 • Regulatory requirements	• Net interest income • Principal transactions • Fees and commissions
	• 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			
International Trade Finance Central Funding	• These businesses earn a variety of management and banking fees, brokerage commissions • As this division holds the group's capital resources, income generated from these net assets is offset by the cost of group funding	• A variety of factors including: Interest rate environment • Exchange rates in the case of the International Trade Finance operations • Level of client activity	• All categories of income

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 36 to 70
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 72 to 79
We may be unable to recruit, retain and motivate key personnel	See the Investec group's 2011 annual report
Employee misconduct could cause harm that is difficult to detect	See pages 91 to 95
Operational risk may disrupt our business or result in regulatory action	See pages 91 to 95
We may be vulnerable to the failure of our systems and breaches of our security systems	See pages 91 to 95
We may have insufficient capital in the future and may be unable to secure additional financing when it is required	See pages 96 to 100
The financial services industry in which we operate is intensely competitive	See pages 16 and 17
Legal and regulatory risks are substantial in our businesses	See pages 95 and 96
Reputational, strategic and business risk	See page 95
We may be exposed to pension risk in our UK operations	See page 95

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.

Overview

The bank posted an increase in operating profit after non-controlling interests of 41.0% to £70.2 million (2010: £49.7 million). The balance sheet remains strong with a capital adequacy ratio of 16.1% (2010: 16.9%).

Unless the context indicates otherwise, all income statement comparatives in the review below, relate to the results of the year ended 31 March 2010.

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

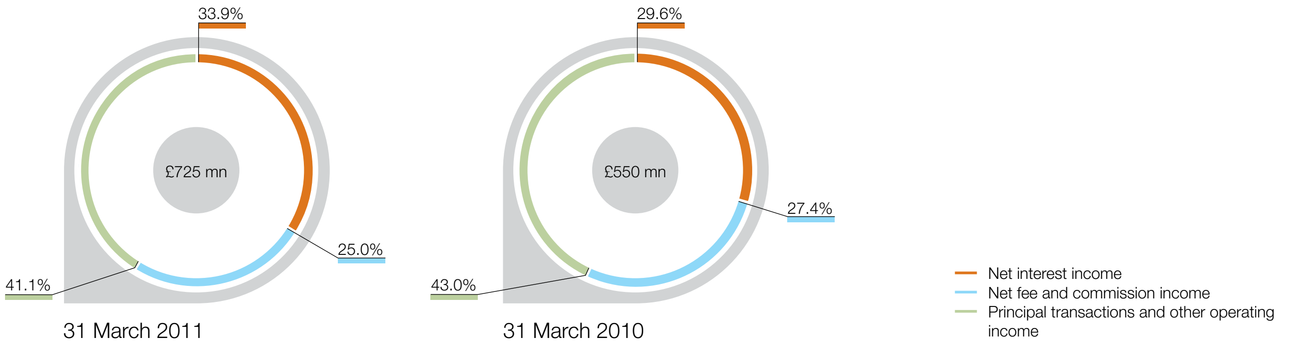
Total operating income before impairment losses on loans and advances of £725.5 million is 31.8% higher than the prior year. The various components of total operating income are analysed below.

£'000	31 March 2011	% of total income	31 March 2010	% of total income	% change
Net interest income	245 722	33.9%	163 060	29.6%	50.7%
Other income	479 766	66.1%	387 284	70.4%	23.9%
Net fee and commission income	181 076	25.0%	150 870	27.4%	20.0%
Principal transactions	253 100	34.9%	218 724	39.8%	15.7%
Other operating income	45 590	6.2%	17 690	3.2%	>100.0%
Total operating income before impairment losses on loans and advances	725 488	100.0%	550 344	100.0%	31.8%

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

£'000	31 March 2011	% of total income	31 March 2010	% of total income	% change
Wealth and Investment	11 143	1.5%	433	0.1%	>100.0%
Property Activities	12 881	1.8%	5 709	1.0%	>100.0%
Private Banking	171 979	23.7%	204 560	37.2%	(15.9%)
Investment Banking	86 589	11.9%	74 945	13.6%	15.5%
Capital Markets	387 918	53.5%	234 674	42.6%	65.3%
Group Services and Other Activities	54 978	7.6%	30 023	5.5%	83.1%
Total operating income before impairment losses on loans and advances	725 488	100.0%	550 344	100.0%	31.8%

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



Net interest income

Net interest income increased by 50.7% to £245.7 million (2010: £163.1 million) largely as a result of a sound performance from the bank's fixed income portfolio and an increase in lending activity in the Capital Markets division.

Net fee and commission income

Net fee and commission income increased by 20.0% to £181.1 million (2010: £150.9 million). Transactional activity remains mixed in the banking businesses although the Capital Markets and Investment Banking businesses recorded an increase in net fees and commissions.

Principal transactions

Income from principal transactions increased by 15.7% to £253.1 million (2010: £218.7 million). The bank has benefited from a solid performance from its fixed income and direct investments portfolios.

Other operating income

Other operating income includes the operating results of certain investments which were consolidated; associate income, and income earned on operating leases acquired during the year.

Impairment losses on loans and advances

The uncertain pace of economic recovery has slowed the improvement in the level of non-performing loans and defaults have continued to increase. Impairment losses on loans and advances have increased from £133.2 million to £170.6 million. The credit loss charge as a percentage of average gross loans and advances has increased from 1.71% to 1.98%. The bank expects this ratio to decrease during the forthcoming financial year. The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances has increased from 4.96% to 5.68%. The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.25 times (2010: 1.13 times). Further information on asset quality is provided on pages 57 to 65.

Total expenses

The ratio of total operating expenses to total operating income improved from 69.7% to 68.2%.

Total expenses grew by 28.9% to £494.5 million (2010: £383.7 million) largely as a result of the appreciation of the Australian Dollar; the acquisitions of the assets of Masterlease UK and Leasedirect Finance Limited; an increase in variable remuneration in certain divisions given improved profitability; an increase in headcount in certain divisions; and increased spending on brand development. Total staff compensation costs increased by 34.5% to £323.7 million (2010: £240.8 million), resulting in a compensation ratio of 44.6% (2010: 43.7%). Other operating expenses increased by 19.5% to £170.8 million.

The various components of total expenses are analysed below.

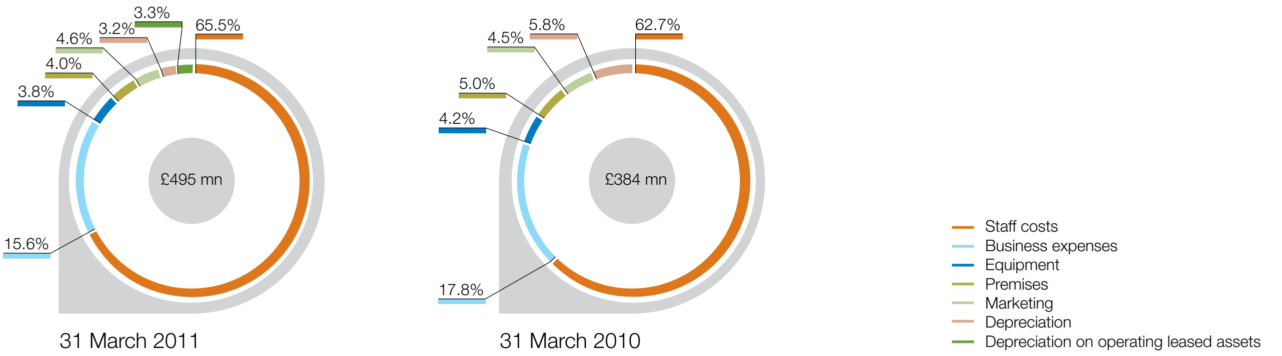
£'000	31 March 2011	% of total expenses	31 March 2010	% of total expenses	% change
Staff costs (including directors' remuneration)	(323 746)	65.5%	(240 755)	62.7%	34.5%
Business expenses	(77 363)	15.6%	(68 421)	17.8%	13.1%
Equipment (excluding depreciation)	(18 725)	3.8%	(15 954)	4.2%	17.4%
Premises (excluding depreciation)	(19 568)	4.0%	(19 012)	5.0%	2.9%
Marketing expenses	(22 966)	4.6%	(17 189)	4.5%	33.6%
Depreciation	(15 719)	3.2%	(22 377)	5.8%	(29.8%)
Depreciation on operating leased assets	(16 447)	3.3%	–	–	100.0%
Total expenses	(494 534)	100.0%	(383 708)	100.0%	28.9%

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

£'000	31 March 2011	% of total expenses	31 March 2010	% of total expenses	% change
Wealth and Investment	(13 873)	2.8%	–	–	100.0%
Property Activities	(5 350)	1.1%	(3 812)	1.0%	40.3%
Private Banking	(114 982)	23.3%	(121 397)	31.6%	(5.3%)
Investment Banking	(97 805)	19.8%	(96 001)	25.0%	1.9%
Capital Markets	(216 007)*	43.6%	(128 815)	33.6%	67.7%
Group Services and Other Activities	(46 517)	9.4%	(33 683)	8.8%	38.1%
Total expenses	(494 534)	100.0%	(383 708)	100.0%	28.9%

* *Includes £16.4 million of depreciation on operating leased assets relating to the Masterlease UK portfolio acquired.*

% of total expenses



Balance sheet analysis

Since 31 March 2010:

- Total shareholders' equity (including non-controlling interests) increased by 39.5% to £1.6 billion largely as a result of the issue of shares
- Total assets increased by 8.9% to £18.5 billion largely as a result of an increase in loans and advances and our fixed income portfolio.

Business unit review

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

Segmental information

For the year to 31 March £'000	WI	PA	PB	IB	CM	GSO	Total group
2011							
Total operating income	11 143	12 881	171 979	86 589	387 918	54 978	725 488
Impairment losses on loans and advances	–	–	(150 502)	–	(31 756)	11 704	(170 554)
Net operating income	11 143	12 881	21 477	86 589	356 162	66 682	554 934
Operating expenses	(13 873)	(5 350)	(114 982)	(97 805)	(199 560)	(46 517)	(478 087)
Depreciation on operating leased assets	–	–	–	–	(16 447)	–	(16 447)
Operating (loss)/profit	(2 730)	7 531	(93 505)	(11 216)	140 155	20 165	60 400
Operating loss/(profit) attributable to non-controlling interests	–	–	–	12 915	16	(3 180)	9 751
Operating (loss)/profit after non-controlling interests	(2 730)	7 531	(93 505)	1 699	140 171	16 985	70 151
Cost to income ratio	>100.0%	41.5%	66.9%	>100.0%	55.7%	84.6%	68.2%
2010							
Total operating income	433	5 709	204 560	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	433	5 709	131 359	74 945	187 189	17 523	417 158
Operating expenses	–	(3 812)	(121 397)	(96 001)	(128 815)	(33 683)	(383 708)
Operating loss/(profit)	433	1 897	9 962	(21 056)	58 374	(16 160)	33 450
Operating loss/(profit) attributable to non-controlling interests	–	–	–	16 863	(59)	(507)	16 297
Operating profit/(loss) after non-controlling interests	433	1 897	9 962	(4 193)	58 315	(16 667)	49 747
Cost to income ratio	n/a	66.8%	59.2%	>100.0%	54.9%	>100.0%	69.7%

Where: WI = Wealth and Investment; PA = Property Activities; PB = Private Banking; IB = Investment Banking; CM = Capital Markets; GSO = Group Services and Other Activities.

Wealth and Investment

Overview of performance and developments

On 30 March 2010, it was announced that Investec and Rensburg Sheppards plc had reached agreement on the terms of a recommended all share offer under which Investec would acquire the entire issued and to be issued ordinary share capital of Rensburg Sheppards plc not already owned by it. Following shareholder and regulatory approvals the acquisition became effective on 25 June 2010.

Rensburg Sheppards plc became a subsidiary of Investec Bank plc on 31 March 2011. Operating income of the Rensburg Sheppards business is therefore not reflected in the operating profit for the year.

The Private Bank Wealth and Investment specialisation was moved to the Wealth and Investment division with effect from 1 July 2010. The result reflected in the table above relate to this business only.

Total third party assets under management for the division amount to £14.9 billion of which £9.6 billion are discretionary accounts.

Outlook

- While equity markets have improved during the year, the economic outlook remains uncertain. Future performance will be influenced significantly by the level of the equity markets
- We will continue to seek to achieve net organic growth in funds under management of 5% per annum
- Market expectations are for an increase in the UK base rate during the first half of the financial year from its historic low level. This would have a positive impact on performance as it will increase the margin on interest earned on client money deposits
- Conversely, the Individual Liquidity Adequacy Standards (ILAS) regulations, which are beginning to affect the way that banks categorise certain deposits, including those made by Investec Wealth and Investment, may put downward pressure on the rates which can be negotiated on deposits in the future. The full effect of these regulations is yet to emerge and the company is continuing to monitor developments and seek to mitigate the risk that the margin earned on clients' and firm's deposits going forward may reduce

- The conclusions and proposals of the retail distribution review (RDR) continue to be debated. This review is seeking to change professional qualification requirements, increase the transparency of charging structures, and tighten the rules governing firms' rights to promote themselves as independent advisers. A significant recommendation of the review is that unit trust trail commission be phased out. The full impact that the RDR will have on the industry remains unclear and the progress of the review and its potential consequences are being monitored by a specific committee within Wealth and Investment.

Property Activities

Overview of performance

The Property division posted a strong increase in operating profit to £7.5 million (2010: £1.9 million). The Australian business benefited from a successful equity raising, a discounted distressed debt acquisition and the sale of investments.

Developments

Australia

- The Investec Property Opportunity fund enters its final year, with some of its major assets fully completed and others anticipated to complete construction by mid 2011
- A second opportunity fund, Investec Property Opportunity fund no. 2 (IPOF2) was raised during the year, with A$38.6 million of committed equity
- The Toga Accommodation fund resumed distributions and reached the end of its initial five year life, subsequently moving into the anticipated two year liquidity period during which we will facilitate an exit for investors
- We acquired a portfolio of distressed loans which we aim to realise over the next two years.

Outlook

Australia

- With property fundamentals stabilising, we are well positioned in current market conditions to take advantage of opportunities for property and development acquisitions through principal investment and partnering with investors through joint ventures or syndicates
- We intend to fully invest IPOF2 by 2012. Thereafter we will continue to source and manage value adding property opportunities for both the balance sheet and investors while actively managing investments currently underway through to maturity.

Private Banking

Overview of performance

The Private Banking division reported an operating loss of £93.5 million (2010: operating profit of £10.0 million) as a result of low activity levels, increased impairments and write offs. The private client core lending book is in line with the prior year at £5.2 billion and the deposit book grew by 2.1% to £7.3 billion (2010: £7.2 billion).

Developments

UK and Europe

- Private Bank UK and Europe can be analysed in three distinct sub-sets for the year to March 2011: the UK banking business, Ireland and the Trust business
- The UK banking business has experienced:
  - Continued moderate increases in activity levels across all lending specialisations
  - Increased impairments as a result of the limited improvement in the economic situation, notably in Ireland
  - A stable cost of funds and opportunities to reprice loans to reflect the new market conditions
  - Low deposit raising activities as the group focuses on managing the cost of funds and levels of surplus liquidity
  - A series of new product launches aimed at diversifying our portfolio of deposit products
  - A focused team in place to explore and develop transactional banking capabilities.

- The Private Bank Wealth Management business was migrated into Investec Wealth and Investment with effect from 1 July 2010
- The Irish operating environment has continued to be very difficult resulting in increased impairments over the period. No new business is being written within this geography
- The Trust business has been subject to an extensive strategic review over the period resulting in the closure of the Guernsey based Trust business and a significant reduction in headcount in the Jersey based business. The emphasis now is the development of new business opportunities.

Australia

- In order to achieve operational efficiencies within this geography, the Private Bank was rationalised into two business units; namely High Income Transactional Banking and Private Client Investment Banking. All divisional operational support and treasury activities were centralised
- The Private Client Investment Banking business has three key areas of focus; that is, structured property finance, specialised lending and growth and acquisition finance
- The structured property finance book continued to experience elevated levels of impairments
- The Private Wealth Management business unit, lacking a stockbroking platform, will be divested early in the new financial year.

Outlook

The Private Bank is cautiously optimistic as we anticipate a gradual economic recovery. The past six months have shown an increase in activity as our entrepreneurial private clients' risk appetite returns. This is supported by a healthy pipeline and an improvement in the impairment outlook.

UK and Europe

- The key objectives remain broadly consistent with those stated in September 2010. These are to:
  - Entrench our positioning with the entrepreneurial class
  - Drive down our cost of funds and diversify our funding channels
  - Diversify the loan portfolio away from property
  - Achieve an appropriate risk reward ratio on all assets
  - Balance cost containment with investment for the future
  - Diversify revenue streams through the development of non-interest income
  - Provide a fresh alternative to our selected clients within transactional banking.

Australia

High Income Transactional Banking

- The business has grown substantially over the past year and the investment in infrastructure ensures a base for solid growth
- Critical objectives are to:
  - Continue to focus on dominating the medical markets
  - Maintain losses and arrears at current low levels
  - Maintain current margins
- New products launched through the year will grow the business through broadening relationships
- Profitability to grow substantially through control of expenses and benefits of scale.

Private Client Investment Banking

- An increasing interest rate environment and relatively subdued economic activity in non-mining sectors will continue to exert pressure on the non-performing loan portfolio. We therefore expect impairments to remain at elevated levels over the short term
- The critical objective of the Private Client Investment Banking business is to generate non lending, advisory fee income.

The Investment Banking division recorded an operating profit of £1.7 million (2010: operating loss of £4.2 million).

Investment Banking

Overview of performance

Certain of the investments within the Private Equity and Direct Investments portfolio reported an improved performance when compared to the prior year. Corporate Finance benefited from a good deal pipeline and recorded an increase in net fees and commissions. The Institutional Stockbroking business was however, impacted by challenging market conditions.

Developments

Corporate Finance

UK and Europe

- The year was characterised by good M&A activity, an increase in debt advisory mandates and increased fundraising activity over the last six months
- We completed 17 M&A transactions with a value of £2.1 billion (2010: 15 transactions with a value of £0.6 billion). Most notable was the sale of Chloride group to Emerson Electric
- We were involved in eight fundraisings during the period raising in aggregate £472 million (2010: 13 fundraisings raising in aggregate £599 million). This included three IPO's
- We continue to build the quality and size of the corporate client list, gaining 12 new brokerships during the period. We now have 87 quoted clients with an average market cap of £333 million, of which 26 are FTSE 250 companies.

Australia

- We have a significant pipeline with a number of advisory mandates won
- A strengthened and reorganised Sydney based team is well positioned to drive the business going forward
- The outlook for M&A is improving with transaction volume increasing and lending markets re-opening
- We have executed a number of equity raisings over the last 12 months and have secured first rights of refusal over several upcoming raisings.

Institutional Research, Sales and Trading

UK and Europe

- Against a backdrop of weak volumes and continuing pressure on brokerage rates we have managed to grow secondary commissions
- The trading books have performed strongly
- We have continued to strengthen our business with additional hires in research, sales and trading. New sector coverage includes banks, insurance, oil and utilities
- We continue to expand our international distribution capability.

Australia

- New accounts have been opened and the trading activities are going well
- We are publishing quarterly research which is receiving very positive investor feedback.

Principal Investments

Australia and Hong Kong

- During the year two additional assets were added to the Direct Investments portfolio in Australia which co-invests with the private equity funds. These are both listed equities. The Direct Investments portfolio increased in value by A$5.1 million during the year. The increase in value was primarily due to revaluations of listed equities
- The Hong Kong business is scalable and is benefiting from a well diversified portfolio which amounts to £54 million (2010: £68 million).

Outlook

Corporate Finance

- While market conditions remain uncertain, the pipeline in the UK business is looking positive and includes a number of potential fundraisings
- The Australian M&A and capital markets remain challenging but are showing signs of improvement. Continuing economic uncertainty suggests M&A and capital markets will recover slowly.

Institutional Research, Sales and Trading

- Considering the UK business's investment in sales, trading and research we believe that we are well positioned to gain further market share
- The Australian business has significant potential but is not without a measure of risk. The team members who have been hired to grow this business have a considerable amount of high quality experience and an extensive client network, however, as this is a new business for Investec Bank Australia the coming 12 months will be critical to ensuring its success.

Principal Investments

- All of the companies in the Australian Direct Investments portfolio are trading well and are on target to execute their growth plans. The outlook remains positive for future increases in the value of these investments. We remain active in seeking new investment opportunities
- We will look to continue to grow our portfolio in Hong Kong while continuing to unlock further value from the portfolio.

Capital Markets

Overview of performance

The Capital Markets division posted a significant increase in operating profit to £140.2 million (2010: £58.3 million). The division benefited from a solid performance from its fixed income portfolio and increased activity levels across its advisory and structuring businesses, notably within the Principal Finance, Structured Finance and Structured Equity Finance teams. The core lending book grew by 18.7% to £2.3 billion (2010: £1.9 billion).

Developments

UK and Europe

- The Project Finance team continues to be a leader in the UK PFI advisory business, and the office in Canada, set up to service the North American PFI market, is performing very well
- The Principal Finance business has continued to take advantage of the condition of the credit markets through its fixed income investments and trading operations. The desk recently closed a residential mortgage securitisation (RMS 25)
- We successfully established a debt capital markets business as well as an export credit agency finance capability
- The Acquisition Finance book has performed above expectations and defaults were lower than expected
- We successfully integrated Leasedirect Finance Limited and acquired the Masterlease UK book (December 2010)
- The Asset Finance business was awarded 'Best SME Champion' award at the Asset Finance awards 2010
- The trading desks showed varied but overall improved performance benefiting from market volatility, the introduction of new products and increased staff
- The Structured Equity retail distribution platforms are now established and we have recently marketed launch 23 in the UK market. We are currently one of the top two retail structured product issuers in the UK market and have recently won a number of awards for our efforts in this area.

Australia

- The Financial Markets sales team recorded a strong performance for the first year since they have been in operation
- We have started hiring people to build an equity derivatives sales and structuring capability, and have also acquired a social infrastructure development team that is a good fit with our existing Project and Infrastructure Investments team.

Outlook

UK and Europe

- We continue to build a balanced business model, where we can easily switch between primary and secondary markets and have natural hedges
- The business is well positioned to grow significantly from current levels as market conditions improve.

Australia

- The Resources division has strengthened key strategic business ties and continues 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
- The Aviation team is working closely with the 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 Investec Global Aircraft fund
- In renewable energy, we continue to work on a number of development assets and will seek to profitably exit some of these during the course of the year.
- A new team focused on social infrastructure opportunities has been acquired and an exciting pipeline of prospects has been assembled
- Our recently established Corporate and Leveraged Debt business will continue to target event-driven borrowing by mid-tier and larger corporate borrowers
- The new Financial Markets business is starting to gather momentum. We have added to the trading and sales teams and expect a significant improvement in revenues. A significant amount of work is taking place to integrate the private client treasury with the wholesale treasury. This work is expected to be completed in the second quarter of 2012
- Equity Derivatives is a new business for the bank and we are busy hiring the team and implementing systems.

Group Services and Other Activities

Overview of performance

Group Services and Other Activities posted an operating profit of £17.0 million (2010: operating loss of £16.7 million) mainly as a result of improved returns in the Central Funding portfolio and a decrease in portfolio impairments.

4 Risk and governance

Risk management

Group Risk Management objectives are to:

- Be the custodian of our risk management culture
- Ensure the business operates within the board stated appetite
- Support the long-term sustainability of the group by providing an established, independent framework for identifying, evaluating, monitoring and mitigating risk
- Set, approve and monitor adherence to risk parameters and limits across the group and ensure they are implemented and adhered to consistently
- Aggregate and monitor our exposure across risk classes
- 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 32 to 105) with further disclosures provided within the financial statements section (pages 130 to 228). 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 the sustainability of 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.

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 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 16 and 17.

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 from 1.71% to 1.98%. The group expects this ratio to decrease during the forthcoming financial year.

- Limited exposure to rated and unrated structured credit investments; representing approximately 3.3% of total assets
- A low leverage (gearing) ratio of 11.2 times
- A low level of net assets and liabilities exposed to the volatility of IFRS fair value accounting; with "level 3" assets amounting to 2.2% of total assets
- Low equity (investment) risk exposure; within total investments comprising 1.4% 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 (i.e per extreme value theory) amount to approximately 0.5% of total operating income
- A high level of readily available, high quality liquid assets; average cash and near cash of approximately £4.5 billion, representing 25% to 35% of our liability base. We continue to maintain a low reliance on interbank wholesale funding to fund core lending asset growth
- Continued increase in retail customer deposits and a growing retail franchise
- 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 year
- Geographical and operational diversity with a high level of recurring income which continues to support sustainability of operating profit.

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 42 and 43, page 79 and pages 89 to 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 the severe deterioration in economic conditions globally continued to impact on clients' activities and underlying asset values. Impairments and defaults have as a result continued to increase. The Irish market was particularly affected by economic difficulties and the local banking crisis. Core loans and advances increased marginally by 2.7% to £5.6 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 increased from 3.17% to 4.24% of core loans and advances and the credit loss ratio has increased from 1.72% to 2.13%, largely as a result of an increase in impairments in our Private Banking division, notably against our Irish loan portfolio.

Traded market risk

In the UK the Structured Equity desk has continued to experience growth in their retail product sales and they continue to expand their product range. The Interest Rate and Forex desks have also performed well in a challenging environment, whilst the Equity Trading business had a strong year. The remaining UK commodities book was sold during the course of the year.

Balance sheet risk

The bank maintained high cash and near cash balances throughout the year but did curtail its inflow of deposits given that it had significant surplus liquidity. Total customer deposits increased by 9.8% from 1 April 2010 to £8.8 billion at 31 March 2011. Good growth was experienced in the bank's corporate and structured equity deposit book, whilst the Private Bank slowed its intake of deposits. Average cash and near cash balances amounted to £3.6 billion during the year.

Australia

Credit risk

During the year core loans and advances to customers increased by 6.3% to A$3.2 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 limited change in credit quality throughout the year under review. Defaults (net of impairments) have fallen to 9.54% of core loans and advances and the credit loss ratio has decreased from 1.67% to 1.53%. A continued focus on asset quality remains fundamental to our approach to the credit environment, which is likely to remain challenging for some time.

Investec has continued to maintain a sound balance sheet with low leverage.

Traded market risk

Australian trading activity remains modest, but has begun to increase. The historical focus on commodity hedging has been expanded to include foreign exchange and interest rate activity.

Balance sheet risk

Investec Australia maintained a strong liquidity position well in excess of regulatory and internal policy requirements throughout the year, with average cash and near cash balances amounting to A$1.7 billion. Total customer deposits increased by 28.5% from 1 April 2010 to A$2.2 billion at 31 March 2011.

Salient features

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

	31 March 2011	31 March 2010
Net core loans and advances (£'million)	7 629	7 255
Gross defaults as a % of gross core loans and advances	7.90%	6.68%
Defaults (net of impairments) as a % of net core loans and advances	5.68%	4.96%
Net defaults (after collateral and impairments) as a % of net core loans and advances	–	–
Credit loss ratio*	1.98%	1.71%
Structured credit investments as a % of total assets	3.29%	2.63%
Banking book investment and equity risk exposures as a % of total assets	1.39%	1.27%
Traded market risk: one-day value at risk (£'million)	1.1	1.8
Cash and near cash (£'million)	4 271	4 605
Customer accounts (deposits) (£'million)	10 329	9 264
Core loans to equity ratio	4.6x	6.1x
Total gearing/leverage ratio**	11.2x	14.4x
Core loans (excluding own originated assets which have been securitised) to customer deposits	69.2%	72.4%
Capital adequacy ratio	16.1%	16.9%
Tier 1 ratio	11.3%	12.3%

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

** *Total assets to total equity.*

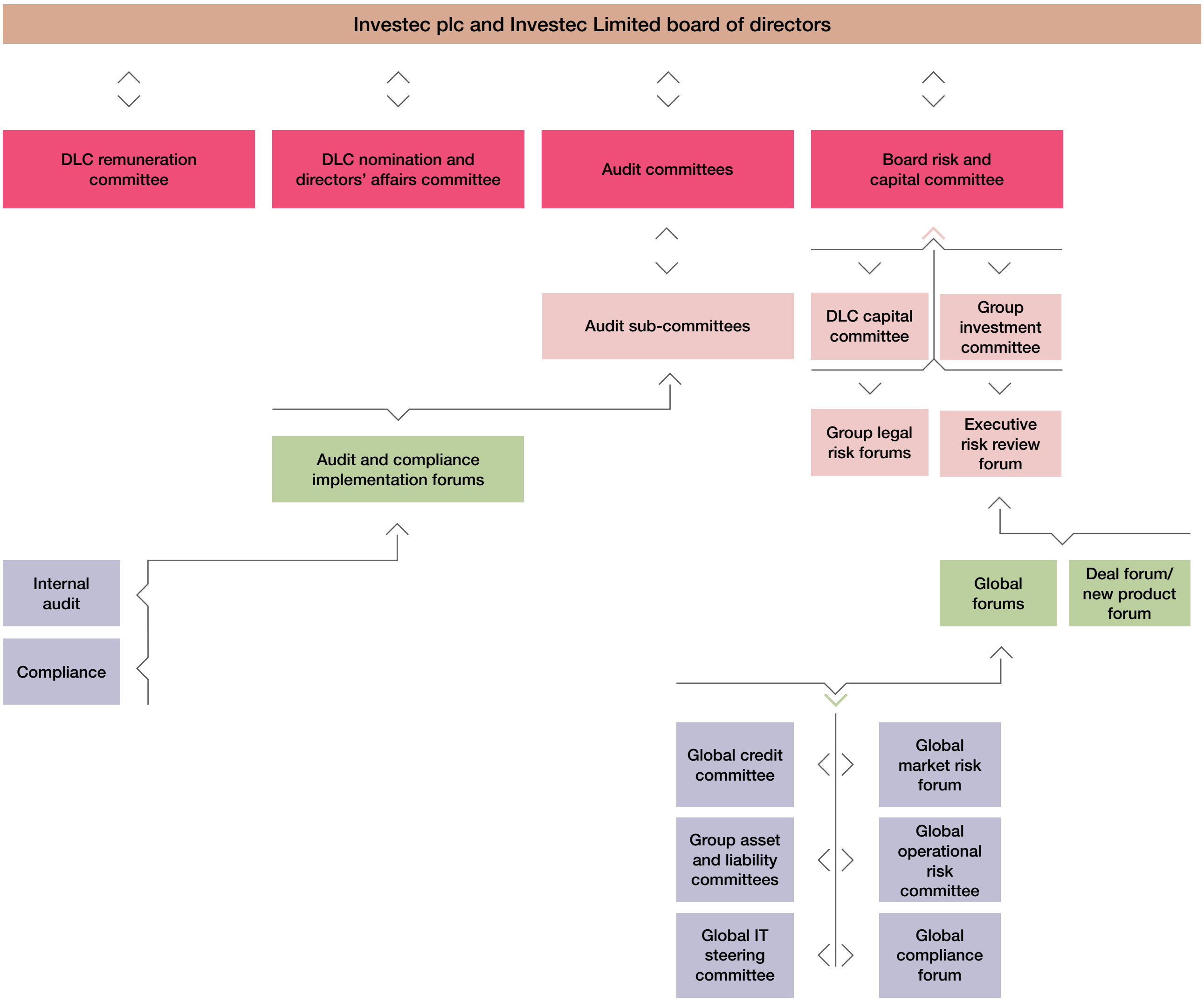
An overview of key risks

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 21. 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 board. A diagram of our governance and risk framework is provided below.



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 our 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 local and global credit committees will consider, analyse, and assess the appropriate limits to be recorded when required, to extend the loans to foreign jurisdictions. The local group credit committee has the authority to approve country limits within mandate. The global credit committee is responsible for approving country limits not within the mandate of local group credit committees.

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 manage 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 pages 66 to 70 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 securitise them (refer to pages 71 and 72 for further information).

Sustainability considerations

Credit risk committees engage in quantitative and qualitative risk assessments as part of the responsible lending approach to doing business. Sustainability aspects form the cornerstone of the evaluation conducted by the credit committees. In addition to the traditional financial review, evaluations encompass a review of a client's business model, governance, environmental practices and the social impact of the business.

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.

Group Risk Management strives to maintain independence and objectivity in risk assessment and to give proactive input to lending transactions on a sustainable basis. For example with respect to mining transactions, Group Risk Management not only routinely requires environmental impact assessments or rehabilitation plans, but also relies on support from leading specialist mining consultants to ensure the highest level of international compliance. We focus on ensuring ongoing compliance with standards as they evolve. We acknowledge that waste management and recycling transactions (i.e. 'green' investment) is increasing and requires a specialised understanding of the risk factors, both due to their technical nature and the lack of a single, recognised standard. This does present a new challenge to Group Risk Management, as a sophisticated understanding of the more complex technical aspects of environmental compliance is necessary. We do support key provisions of the Equator principles but we are not a signatory.

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 and weak economic conditions.

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

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, and corporate lending through specialists teams in growth and acquisition finance, and asset based lending.

The Structured Property Finance area provides senior debt and secondary funding for property transactions covering the residential and commercial markets. Client quality and expertise are at the core of our credit philosophy. Our exposure to the property market is well diversified with strong bias towards prime locations for residential exposure and tenant quality for commercial assets. Debt service cover ratios are a key consideration in the lending process supported by reasonable loan to security values. Most assets are located in the UK, however our exposure to Irish domiciled assets has been under intensive management during the past two years. Irish property exposure is appropriately impaired and significant additional specific impairments were taken during the financial year following concerns with respect to the weakening of economic conditions in Ireland. 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. 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 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 structured credit facilities to high net worth individuals in the fund management, media/music, sports, and professional services sector. Risk is mitigated through sector expertise, client quality and certainty of serviceability.

Specialised Banking provides bespoke 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 2011 was £191 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 continued to show little stress during the financial year in review.

An analysis of the Private Banking loan portfolio and asset quality information is provided on pages 64 and 65.

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 and the European Central Bank) 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, 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 themselves with a high degree of due diligence around both the delivery risks and the cash flow to repay any facilities
- 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: origination of assets for securitisation (including the Kensington platform), broking and trading, investing as principal, and management of CLO's. Included within Principal Finance is the specialist corporate capital team, which originates and participates in senior debt facilities in the leveraged buy-out market relating to medium to large corporates. Specialist corporate capital's average counterparty exposure is approximately £9 million per entity, giving portfolio diversity

An analysis of the Capital Markets loan portfolio and asset quality information is provided on pages 64 and 65.

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, certain professionally qualified individuals and high income individuals, 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 pages 64 and 65.

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 51 and 52). 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.

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. Management however is not concerned and there is confidence in the counterparty's ability to repay the past due obligations.
		Special mention	The counterparty is placed in special mention when that counterparty is considered to be experiencing difficulties that may threaten the counterparty's ability to 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.

Regulatory and economic capital classification	IFRS impairment treatment	Arrears, default and recoveries classification category	Description
Assets in default	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.	Sub-standard	The counterparty is placed in substandard when the credit exposure reflects an underlying, well defined weakness that may lead to probable loss if not corrected. • The risk that such credit exposure may become an impaired asset is probable; • The bank is relying, to a large extent, on available collateral; or • The primary sources of repayment are insufficient to service the remaining contractual principal and interest amounts, and the bank has to rely on secondary sources for repayment. These secondary sources may include collateral, the sale of a fixed asset, refinancing and further capital. Credit exposures overdue for more than 90 days will at a minimum be included in "sub-standard" (or a lower quality category).
		Doubtful	• The counterparty is placed in doubtful when the credit exposure is considered to be impaired but not yet considered a final loss due to some pending factors such as a merger, new financing or capital injection which may strengthen the quality of the relevant exposure.
		Loss	• A counterparty is placed in the loss category when the credit exposure is considered to be uncollectible once all efforts, such as realisation of collateral and institution of legal proceedings, have been exhausted; or • Assets in this category are expected to be written off in the short-term since the likelihood of future economic benefits resulting from such assets is remote.

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 easily identified and appropriately valued.

The bulk of collateral taken by the Private Bank, 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 the value of residential and commercial real estate remained under pressure with low/static growth in all our key operating jurisdictions (UK, Ireland and Australia). In particular certain property assets remained under considerable pressure. Planning and development transactions in the Irish market were significantly impaired as a result of ongoing economic difficulties in that country. Significant impairments were recorded against these assets. 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 and to revalue all commercial properties held as collateral on a regular basis. 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.

The majority of credit mitigation techniques linked to trading activity 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 are 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 pages 66 to 70.

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. Impairments and defaults have as a result continued to increase. The Irish market was particularly affected by economic difficulties and the local banking crisis.

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 transaction 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 increased marginally by 2.7% to £5.6 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 increased from 3.17% to 4.24% of core loans and advances and the credit loss ratio has increased from 1.72% to 2.13%, largely as a result of an increase in impairments in our Private Banking division, notably against our Irish loan portfolio. Gross default loans (before collateral and impairments) in the Private Bank have risen from 5.57% at 31 March 2010 to 9.41% at 31 March

2011. The UK and Channel Islands businesses have shown marginal deterioration in gross default loans from 3.2% to 3.9% for the year. However, our Irish branch gross defaults have deteriorated from 19.5% of the gross Irish loan portfolio to 40.8% as at 31 March 2011. These loan defaults are predominantly related to planning and development transactions in Ireland.

Within our Capital Markets division there was a marked reduction in defaults in the Specialist Corporate Capital division compared to previous financial years. Trading in the underlying leverage loan corporates has generally improved and secondary market prices have rallied.

The first quarter of 2011 appeared to reflect an improving economic environment as total arrears, defaults and impairment figures tapered off. We believe that the impairment cycle has reached its peak and the group expects a gradual improvement in defaults and impairments during the course of the new financial year. Whilst impairments and defaults have risen in the Irish portfolio due to economic difficulties during the financial year under review, all other portfolios across the business units have proven to be resilient.

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.

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.

Australia

During the year core loans and advances to customers increased by 6.3% to A$3.2 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 limited change in credit quality throughout the year under review. Defaults (net of impairments) have fallen to 9.54% of core loans and advances and the credit loss ratio has decreased from 1.67% to 1.53%. 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 risk-regulatory considerations

On 31 December 2010, Investec implemented the most recent amendments (CRD2) in respect of the Capital Requirements Directive (CRD) framework. These amendments relate, inter alia, to the calculation of risk weighted assets encompassing various exposures to securitisation vehicles and changes in the definition of financial resources relating to non-core tier 1 capital eligibility.

In addition, in enhancing risk coverage, the Basel committee expects banks to hold capital for the deterioration in credit quality of its counterparties in its over the counter (OTC) trading portfolios. This is more commonly referred to as credit valuation adjustments (CVA).

The market is still awaiting further clarity on the exact form these changes will take. It is anticipated that these further amendments will follow a phased approach with implementation beginning on the 1 January 2013. Investec will continue to engage with the regulator and seek to adopt market best practice in accordance with these regulatory amendments.

Credit and counterparty risk information

Pages 32 to 43 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

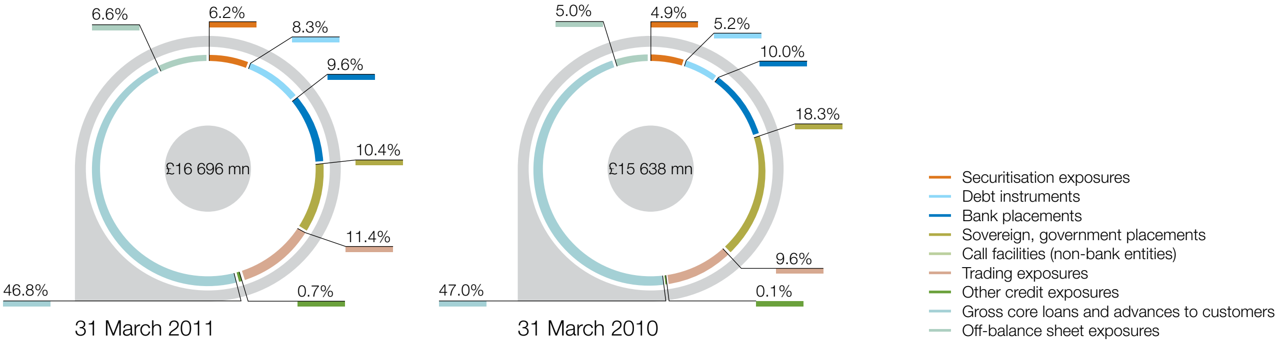
Credit and counterparty exposures increased by 6.8% to £16.7 billion largely as a result of an increase in fixed income investments and core loans and advances. Cash and near cash balances amounted to £4.3 billion and are largely reflected in the following line items in the table below: debt instruments; bank placements and sovereign, government placements.

Audited £'000	31 March 2011	31 March 2010	% change	Average*
On-balance sheet exposures	15 602 049	14 864 363	5.0%	15 233 208
Securitisation exposures arising from securitisation/principal finance activities	1 032 661	762 867	35.4%	897 765
Rated instruments	450 762	364 417	23.7%	407 590
Unrated instruments	146 084	50 424	>100%	98 254
Other	435 815	348 026	25.2%	391 921
Debt instruments – non sovereign (NCDs, bonds held, debentures)	1 390 826	807 625	72.2%	1 099 226
Bank placements	1 608 342	1 557 413	3.3%	1 582 878
Sovereign, government placements	1 740 502	2 854 100	(39.0%)	2 297 301
Trading exposures (positive fair value excluding potential future exposures)	1 897 903	1 507 367	25.9%	1 702 635
Other credit exposures	118 927	17 311	>100%	68 119
Gross core loans and advances to customers**	7 812 888	7 357 680	6.2%	7 585 284
Off-balance sheet exposures	1 094 195	774 109	41.3%	934 152
Guarantees	214 555	216 827	(1.0%)	215 691
Contingent liabilities, committed facilities, other	879 640	557 282	57.8%	718 461
Total gross credit and counterparty exposures pre collateral or other credit enhancements	16 696 244	15 638 472	6.8%	16 167 360

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

** *As calculated on page 51.*

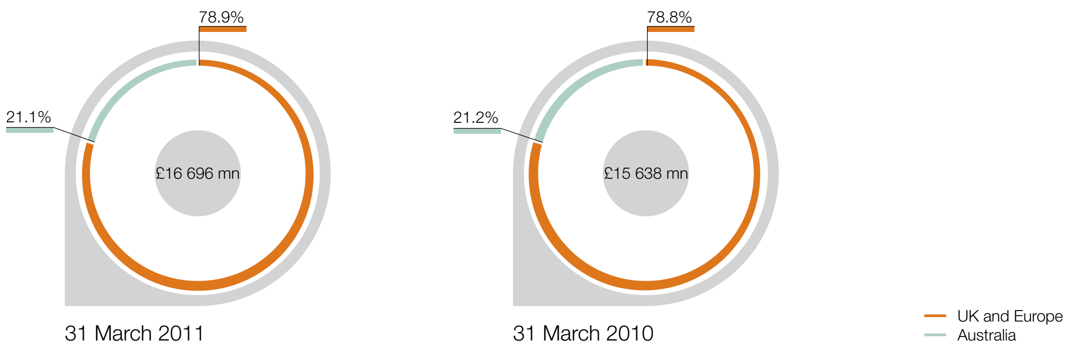
An analysis of gross credit and counterparty exposures



An analysis of gross credit and counterparty exposures by geography

Audited £'000	UK and Europe 31 March 2011	UK and Europe 31 March 2010	Australia 31 March 2011	Australia 31 March 2010	Total 31 March 2011	Total 31 March 2010
On-balance sheet exposures	**12 277 758**	**11 725 238**	**3 324 291**	**3 139 125**	**15 602 049**	**14 864 363**
Securitisation exposures arising from securitisation/principal finance activities	966 311	693 958	66 350	68 909	1 032 661	762 867
Rated instruments	384 412	295 508	66 350	68 909	450 762	364 417
Unrated instruments	146 084	50 424	–	–	146 084	50 424
Other	435 815	348 026	–	–	435 815	348 026
Debt instruments (NCDs, bonds held, debentures)	623 808	205 834	767 018	601 791	1 390 826	807 625
Bank placements	1 511 870	1 487 480	96 472	69 933	1 608 342	1 557 413
Sovereign, government placements	1 585 365	2 348 319	155 137	505 781	1 740 502	2 854 100
Trading exposures (positive fair value excluding potential future exposures)	1 816 235	1 467 111	81 668	40 256	1 897 903	1 507 367
Other credit exposures	64 950	17 311	53 977	–	118 927	17 311
Gross core loans and advances to customers	5 709 219	5 505 225	2 103 669	1 852 455	7 812 888	7 357 680
Off-balance sheet exposures	**889 449**	**605 200**	**204 746**	**168 909**	**1 094 195**	**774 109**
Guarantees	174 618	176 381	39 937	40 446	214 555	216 827
Contingent liabilities, committed facilities, other	714 831	428 819	164 809	128 463	879 640	557 282
Total gross credit and counterparty exposures pre collateral or other credit enhancements	**13 167 207**	**12 330 438**	**3 529 037**	**3 308 034**	**16 696 244**	**15 638 472**

An analysis of gross credit and counterparty exposures by geography



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
As at 31 March 2011				
Cash and balances at central banks	–	–	–	–
Loans and advances to banks	–	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–
Trading securities	33 591	19 505	14 086	–
Derivative financial instruments	7 521	–	–	7 521
Investment securities	66 365	66 365	–	–
Loans and advances to customers	877 013	352 742	99 525	424 746
Securitised assets	44 623	12 150	32 473	–
Deferred taxation assets	–	–	–	–
Other assets	3 548	–	–	3 548
Interests in associated undertakings	–	–	–	–
Property and equipment	–	–	–	–
Goodwill	–	–	–	–
Intangible assets	–	–	–	–
Total	1 032 661	450 762	146 084	435 815
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	–	–
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

1. *Largely relates to exposures that are classified as equity risk in the banking book. Further information is provided on pages 72 to 74.*
2. *Largely relates to impairments and the impact of hedge accounting offset by intercompany exposures which we deem to have no credit risk.*
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 deem to have no legal credit exposure'.*

Debt instruments non sovereign (NCDs, bonds held, debentures)	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
–	21	1 142 355	162	–	–	1 142 538	9		1 142 547
–	750 463	–	–	–	–	750 463	–		750 463
–	583 085	–	816 648	–	–	1 399 733	73 215		1 472 948
1 015	–	1 744	390 396	–	–	426 746	215 267	1	642 013
–	–	–	536 631	–	–	544 152	97 060	1	641 212
1 389 811	248 652	596 403	168	–	–	2 301 399	84 612	1	2 386 011
–	–	–	–	53 977	7 328 725	8 259 715	614 389	2	8 874 104
–	–	–	–	–	484 163	528 786	609 832	3	1 138 618
–	–	–	–	–	–	–	62 436		62 436
–	26 121	–	153 898	237	–	183 804	543 478		727 282
–	–	–	–	–	–	–	13 096		13 096
–	–	–	–	64 713	–	64 713	170 506		235 219
–	–	–	–	–	–	–	276 369		276 369
–	–	–	–	–	–	–	126 216		126 216
1 390 826	1 608 342	1 740 502	1 897 903	118 927	7 812 888	15 602 049	2 886 485		18 488 534
–	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
807 625	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
807 625	1 557 413	2 854 100	1 507 367	17 311	7 357 680	14 864 363	2 116 363		16 980 726

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
As at 31 March 2011				
On-balance sheet exposures	5 368 323	16 189	272 037	2 256 796
Securitisation exposures arising from securitisation/ principal finance activities	–	–	–	–
Rated instruments	–	–	–	–
Unrated instruments	–	–	–	–
Other	–	–	–	–
Debt instruments – non sovereign (NCDs, bonds held, debentures)	–	–	–	–
Bank placements	–	–	–	–
Sovereign, government placements	–	–	–	1 740 502
Trading exposures (positive fair value excluding potential future exposures)	–	7	3 197	367 422
Other credit exposures	–	–	–	13 535
Gross core loans and advances to customers	5 368 323*	16 182	268 840	135 337
Off-balance sheet exposures	471 587	8 648	180 060	16 009
Guarantees	28 329	–	1 489	–
Contingent liabilities, committed facilities, other	443 258	8 648	178 571	16 009
Total gross credit and counterparty exposures pre collateral or other credit enhancements	5 839 910	24 837	452 097	2 272 805
As at 31 March 2010				
On-balance sheet exposures	5 319 405	18 247	184 846	2 940 033
Securitisation exposures arising from securitisation/ principal finance activities	–	–	–	–
Rated instruments	–	–	–	–
Unrated instruments	–	–	–	–
Other	–	–	–	–
Debt instruments – non sovereign (NCDs, bonds held, debentures)	–	–	–	–
Bank placements	–		–	–
Sovereign, government placements	–	–	–	2 854 100
Trading exposures (positive fair value excluding potential future exposures)	536	–	329	–
Other credit exposures	3 037	–	–	–
Gross core loans and advances to customers	5 315 832*	18 247	184 517	85 933
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

* *A further analysis of our Private Banking loan book is provided on pages 64 and 65.*

	Business services	Finance and insurance (including central banks)	Retailers and wholesalers	Manu-facturing and commerce	Real estate	Mining and resources	Leisure, entertain-ment and tourism	Transport and communi-cation	Total
	257 610	5 174 279	179 903	444 437	1 000 390	130 312	127 147	374 626	15 602 049
	–	454 039	–	–	578 622	–	–	–	1 032 661
	–	355 773	–	–	94 989	–	–	–	450 762
	–	90 745	–	–	55 339	–	–	–	146 084
	–	7 521	–	–	428 294	–	–	–	435 815
	–	1 377 754	–	–	–	–	–	13 072	1 390 826
	–	1 608 342	–	–	–	–	–	–	1 608 342
	–	–	–	–	–	–	–	–	1 740 502
	10 803	1 465 585	4 288	7 412	26 532	8 216	1 953	2 488	1 897 903
	51 179	–	–	–	54 213	–	–	–	118 927
	195 628	268 559	175 615	437 025	341 023	122 096	125 194	359 066	7 812 888
	12 359	195 896	9 641	49 355	3 525	50 758	43 198	53 159	1 094 195
	–	162 635	3 227	104	–	18 771	–	–	214 555
	12 359	33 261	6 414	49 251	3 525	31 987	43 198	53 159	879 640
	269 969	5 370 175	189 544	493 792	1 003 915	181 070	170 345	427 785	16 696 244
	158 283	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
	–	15 971	–	–	332 055	–	–		348 026
	–	807 625	–	–	–	–	–	–	807 625
	–	1 557 413	–	–	–	–	–	–	1 557 413
	–	–	–	–	–	–	–	–	2 854 100
	13 486	1 412 076	2 537	5 078	35 609	35 240	1 156	1 320	1 507 367
	–	13 797	–	–	477	–	–	–	17 311
	144 797	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
	158 283	4 469 314	126 859	437 738	947 314	161 643	130 813	316 064	15 638 472

Summary analysis of gross credit and counterparty exposures by industry

Private Banking loans account for 68.7% 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 page 38, and a more detailed analysis of the Private Banking loan portfolio is provided on pages 64 and 65. 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 39, and a more detailed analysis of the Capital Markets loan portfolio is provided on pages 64 and 65.

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.

Breakdown of gross credit exposure by industry

£'000	Gross core loans and advances 31 March 2011	Gross core loans and advances 31 March 2010	Other credit and counterparty exposures 31 March 2011	Other credit and counterparty exposures 31 March 2010	Total 31 March 2011	Total 31 March 2010
HNW and professional individuals	5 368 323	5 315 832	471 587	409 393	5 839 910	5 725 225
Agriculture	16 182	18 247	8 655	8 977	24 837	27 224
Electricity, gas and water (utility services)	268 840	184 517	183 257	8 484	452 097	193 001
Public and non-business services	135 337	85 933	2 137 468	2 859 061	2 272 805	2 944 994
Business service	195 628	144 797	74 341	13 486	269 969	158 283
Finance and insurance (including central banks)	268 559	156 513	5 101 616	4 312 801	5 370 175	4 469 314
Retailers and wholesalers	175 615	121 463	13 929	5 396	189 544	126 859
Manufacturing and commerce	437 025	378 034	56 767	59 704	493 792	437 738
Real estate	341 023	430 885	662 892	516 429	1 003 915	947 314
Mining and resources	122 096	86 723	58 974	74 920	181 070	161 643
Leisure, entertainment and tourism	125 194	122 163	45 151	8 650	170 345	130 813
Transport and communication	359 066	312 573	68 719	3 491	427 785	316 064
Total	7 812 888	7 357 680	8 883 356	8 280 792	16 696 224	15 638 472

Gross credit and counterparty exposures by residual contractual maturity as at 31 March 2011

£'000	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	>10 years	Total
On-balance sheet exposures	6 066 035	773 131	1 464 151	4 294 449	1 222 527	1 781 756	15 602 049
Securitisation exposures arising from securitisation/principal finance activities	–	–	465	47 050	60 756	924 390	1 032 661
Rated instruments	–	–	–	41 970	53 149	355 643	450 762
Unrated instruments	–	–	–	5 080	86	140 918	146 084
Other	–	–	465	–	7 521	427 829	435 815
Debt instruments – non sovereign (NCDs, bonds held,debentures)	281 805	5 397	25 789	546 951	421 920	108 964	1 390 826
Bank placements	1 381 364	13 356	86 321	127 301	–	–	1 608 342
Sovereign, government placements	1 382 895	49 824	9 403	1 744	–	296 636	1 740 502
Trading exposures (positive fair value excluding potential future exposures)	1 420 224	1 652	10 533	146 920	19 577	298 997	1 897 903
Other credit exposures	63 507	9 372	15 503	30 545	–	–	118 927
Gross core loans and advances to customers	1 536 240	693 530	1 316 137	3 393 938	720 274	152 769	7 812 888
Off–balance sheet exposures	418 670	32 092	59 941	538 480	45 012	–	1 094 195
Guarantees	4 304	4 654	17 502	183 027	5 068	–	214 555
Contingent liabilities, committed facilities and other	414 366	27 438	42 439	355 453	39 944	–	879 640
Total gross credit and counterparty exposures pre collateral or other credit enhancements	6 484 705	805 223	1 524 092	4 832 929	1 267 539	1 781 756	16 696 244

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 2011	31 March 2010
Loans (pre-impairments and intercompany loans) as per balance sheet	8 259 715	7 392 905
Less: warehouse facilities and structured credit investments arising out of our securitisation and principal finance activities and other credit exposures (pre-impairments)	(930 990)	(554 736)
Add: own-originated securitised assets	484 163	519 511
Gross core loans and advances to customers (pre-impairments)	7 812 888	7 357 680

The following methodology has been applied:

- Warehouse facilities and structured credit investments 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.

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 42 and 43.

Audited £'000	31 March 2011	31 March 2010
Gross core loans and advances to customers	7 812 888	7 357 680
Total impairments	(183 743)	(133 128)
Portfolio impairments	(1 518)	(19 910)
Specific impairments	(182 225)	(113 218)
Net core loans and advances to customers	7 629 145	7 224 552
Average gross core loans and advances to customers	7 585 284	7 391 712
Current loans and advances to customers	6 911 792	6 561 010
Past due and default core loans and advances to customers	901 096	796 670
Past due loans and advances to customers (1 – 60 days)	256 779	200 040
Special mention loans and advances to customers	27 051	105 396
Default loans and advances to customers	617 266	491 234
Gross core loans and advances to customers	7 812 888	7 357 680
Past due and default core loans and advances to customers	901 096	796 670
Default loans that are current and not impaired	–	4 986
Gross core loans and advances to customers that are past due but not impaired	440 973	485 452
Gross core loans and advances to customers that are impaired	460 123	306 232
Total income statement charge for core loans and advances	(164 778)	(133 186)
Gross default loans and advances to customers	617 266	491 234
Specific impairments	(182 225)	(113 218)
Portfolio impairments	(1 518)	(19 910)
Defaults net of impairments	433 523	358 106
Collateral and other credit enhancements	551 279	405 645
Net default loans and advances to customers (limited to zero)	–	–
Ratios:		
Total impairments as a % of gross core loans and advances to customers	2.35%	1.81%
Total impairments as a % of gross default loans	29.77%	27.10%
Gross defaults as a % of gross core loans and advances to customers	7.90%	6.68%
Defaults (net of impairments) as a % of net core loans and advances to customers	5.68%	4.96%
Net defaults as a % of gross core loans and advances to customers	–	–
Credit loss ratio (i.e income statement impairment charge as a % of average gross loans and advances)	1.98%	1.71%

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

Audited £'000	UK and Europe 31 March 2011	 31 March 2010	Australia 31 March 2011	 31 March 2010	Total 31 March 2011	 31 March 2010
Gross core loans and advances to customers	5 709 219	5 505 225	2 103 669	1 852 455	7 812 888	7 357 680
Total impairments	(155 515)	(97 213)	(28 228)	(35 915)	(183 743)	(133 128)
Portfolio impairments	–	(18 673)	(1 518)	(1 237)	(1 518)	(19 910)
Specific impairments	(155 515)	(78 540)	(26 710)	(34 678)	(182 225)	(113 218)
Net core loans and advances to customers	5 553 704	5 408 012	2 075 441	1 816 540	7 629 145	7 224 552
% of total	72.8%	74.9%	27.2%	25.1%	100.0%	100.0%
% change since 31 March 2010	2.7%	–	14.3%	–	5.6%	–
Average gross core loans and advances to customers	5 607 222	5 753 582	1 978 062	1 638 130	7 585 284	7 391 712
Current loans and advances to customers	5 072 317	4 973 482	1 839 475	1 587 528	6 911 792	6 561 010
Past due and default core loans and advances to customers	636 902	531 743	264 194	264 927	901 096	796 670
Past due loans and advances to customers (1 – 60 days)	232 627	165 540	24 152	34 500	256 779	200 040
Special mention loans and advances to customers	13 160	97 344	13 891	8 052	27 051	105 396
Default loans and advances to customers	391 115	268 859	226 151	222 375	617 266	491 234
Gross core loans and advances to customers	5 709 219	5 505 225	2 103 669	1 852 455	7 812 888	7 357 680
Past due and default core loans and advances to customers	636 902	531 743	264 194	264 927	901 096	796 670
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	300 634	327 924	140 339	157 528	440 973	485 452
Gross core loans and advances to customers that are impaired	336 268	198 833	123 855	107 399	460 123	306 232
Total income statement charge for core loans and advances	(134 571)	(105 776)	(30 207)	(27 410)	(164 778)	(133 186)
Gross default loans and advances to customers	391 115	268 859	226 151	222 375	617 266	491 234
Specific impairments	(155 515)	(78 540)	(26 710)	(34 678)	(182 225)	(113 218)
Portfolio impairments	–	(18 673)	(1 518)	(1 237)	(1 518)	(19 910)
Gross defaults net of specific provisions	235 600	171 646	197 923	186 460	433 523	358 106
Collateral and other credit enhancements	336 739	192 491	214 540	213 154	551 279	405 645
Net default loans and advances to customers (limited to zero)	–	–	–	–	–	–
Total impairments as a % of gross core loans and advances to customers	2.72%	1.77%	1.34%	1.94%	2.35%	1.81%
Total impairments as a % of gross default loans	39.76%	36.16%	12.48%	16.15%	29.77%	27.10%
Gross defaults as a % of gross core loans and advances to customers	6.85%	4.88%	10.75%	12.00%	7.90%	6.68%
Defaults (net of impairments) as a % of net core loans and advances to customers	4.24%	3.17%	9.54%	10.26%	5.68%	4.90%
Net defaults as a % of gross core loans and advances to customers	–	–	–	–	–	–
Credit loss ratio (i.e income statement impairment charge as a % of average gross loans and advances)	2.13%	1.72%	1.53%	1.67%	1.98%	1.71%

An analysis of core loans and advances to customers and asset quality by geography and division – As at 31 March 2011

Audited £'000	Private Bank** UK and Europe	 Australia	 Total
Gross core loans and advances to customers	3 519 887	1 848 436	5 368 323
Total impairments	(141 673)	(27 987)	(169 660)
Portfolio impairments	–	(1 518)	(1 518)
Specific impairments	(141 673)	(26 469)	(168 142)
Net core loans and advances to customers	3 378 214	1 820 449	5 198 663
Average gross core loans and advances to customers	3 577 851	1 764 226	5 342 077
Current loans and advances to customers	2 971 056	1 589 649	4 560 705
Past due and default core loans and advances to customers	548 831	258 787	807 618
Past due loans and advances to customers (1 – 60)	204 866	24 152	229 018
Special mention loans and advances to customers	12 674	12 627	25 301
Default loans and advances to customers	331 291	222 008	553 299
Gross core loans and advances to customers	3 519 887	1 848 436	5 368 323
Past due and default core loans and advances to customers	548 831	258 787	807 618
Default loans that are current and not impaired	–	–	–
Gross core loans and advances to customers that are past due but not impaired	272 152	135 203	407 355
Gross core loans and advances to customers that are impaired	276 679	123 584	400 263
Total income statement charge for core loans and advances	(117 865)	(26 862)	(144 727)
Gross default loans and advances to customers	331 291	222 008	553 299
Specific impairments	(141 673)	(26 469)	(168 142)
Portfolio impairments	–	(1 518)	(1 518)
Defaults net of impairments	189 618	194 021	383 639
Collateral and other credit enhancements	290 758	210 637	501 395
Net default loans and advances to customers (limited to zero)	–	–	–
Total impairments as a % of gross core loans and advances to customers	4.02%	1.51%	3.16%
Total impairments as a % of gross default loans	42.76%	12.61%	30.66%
Gross defaults as a % of gross core loans and advances to customers	9.41%	12.01%	10.31%
Defaults (net of impairments) as a % of net core loans and advances to customers	5.61%	10.66%	7.38%
Net defaults as a % of gross core loans and advances to customers	–	–	–
Credit loss ratio (i.e income statement impairment charge as a % of average gross loans and advances)	3.29%	1.52%	2.71%

* *Largely includes lending activities within our Central Funding and International Trade Finance businesses.*

** *A further analysis of our Private Bank and Capital Markets loan portfolios, broken down by type of loan, is provided on pages 64 and 65.*

Capital Markets			Other*			
UK and Europe	Australia	Total	UK and Europe	Australia	Total	Total
2 036 660	253 366	2 290 026	152 673	1 866	154 539	7 812 888
(13 842)	(241)	(14 083)	–	–	–	(183 743)
–	–	–	–	–	–	(1 518)
(13 842)	(241)	(14 083)	–	–	–	(182 225)
2 022 818	253 125	2 275 943	152 673	1 866	154 539	7 629 145
1 907 079	212 029	2 119 108	122 291	1 808	124 099	7 585 284
1 948 588	247 960	2 196 548	152 673	1 866	154 539	6 911 792
88 072	5 406	93 478	–	–	–	901 096
27 761	–	27 761	–	–	–	256 779
487	1 263	1 750	–	–	–	27 051
59 824	4 143	63 967	–	–	–	617 266
2 036 660	253 366	2 290 026	152 673	1 866	154 539	7 812 888
88 072	5 406	93 478	–	–	–	901 096
–	–	–	–	–	–	–
28 483	5 135	33 618	–	–	–	440 973
59 589	271	59 860	–	–	–	460 123
(28 410)	(3 345)	(31 755)	11 704	–	11 704	(164 778)
59 824	4 143	63 967	–	–	–	617 266
(13 842)	(241)	(14 083)	–	–	–	(182 225)
–	–	–	–	–	–	(1 518)
45 982	3 902	49 884	–	–	–	433 523
45 982	3 902	49 884	–	–	–	551 279
–	–	–	–	–	–	–
0.68%	0.10%	0.61%	–	–	–	2.35%
23.14%	5.82%	22.02%	–	–	–	29.77%
2.94%	1.64%	2.79%	–	–	–	7.90%
2.27%	1.54%	2.19%	–	–	–	5.68%
–	–	–	–	–	–	–
1.09%	1.43%	1.12%	(9.57%)	–	(9.43%)	1.98%

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	Private Bank Australia	Private Bank 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 to customers	3 653 085	1 466 415	5 119 500
Current loans and advances to customers	3 196 223	1 426 910	4 623 133
Past due and default core loans and advances to customers	439 594	253 105	692 699
Past due loans and advances to customers (1 – 60)	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
Past due and default core 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 core loans and advances	(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)	–	–	–
Total impairments as a % of gross core loans and advances to customers	1.65%	1.85%	1.71%
Total impairments as a % of gross default loans	29.55%	14.75%	22.0%
Gross defaults as a % of gross core loans and advances to customers	5.57%	12.53%	7.77%
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 as a % of average gross loans and advances)	1.48%	1.30%	1.43%

* *Largely includes lending activities within our Central Funding and International Trade Finance businesses.*

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
–	–	–	–	–	–	–
1.40%	2.85%	1.53%	13.60%	–	13.35%	1.81%
37.51%	41.17%	38.06%	–	–	–	27.10%
3.73%	6.93%	4.01%	–	–	–	6.68%
2.36%	4.19%	2.52%	–	–	–	4.96%
–	–	–	–	–	–	–
1.62%	4.86%	1.84%	17.34%	–	16.99%	1.71%

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

Audited £'000	31 March 2011	31 March 2010
Default loans that are current	339	13 435
1 – 60 days	292 478	203 844
61 – 90 days	26 894	106 743
91 – 180 days	352 580	160 704
181 – 365 days	62 287	91 870
>365 days	166 518	220 074
Past due and default core loans and advances to customers (actual capital exposure)	901 096	796 670
1 – 60 days	5 166	7 925
61 – 90 days	11 714	4 510
91 – 180 days	36 592	6 365
181 – 365 days	44 159	84 473
>365 days	149 343	146 074
Past due and default core loans and advances to customers (actual amount in arrears)	246 974	249 347

A further age analysis of past due and default 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 2011							
Watchlist loans neither past due nor impaired							
Total capital exposure	–	–	–	–	–	–	–
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	258 443	25 388	48 498	44 281	64 363	440 973
Amount in arrears	–	4 261	10 503	8 530	33 712	48 718	105 724
Gross core loans and advances to customers that are impaired							
Total capital exposure	339	34 035	1 506	304 082	18 006	102 155	460 123
Amount in arrears		905	1 211	28 062	10 447	100 625	141 250
As at 31 March 2010							
Watchlist loans neither past due nor 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

An age analysis of past due and default core loans and advances to customers as at 31 March 2011 (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)	–	256 779	–	–	–	–	256 779
Special mention	–	1 663	25 388	–	–	–	27 051
Special mention (1 – 90 days)	–	1 663	14 210	–	–	–	15 873
Special mention (61 – 90 days and item well secured)	–	–	11 178	–	–	–	11 178
Default	339	34 036	1 506	352 580	62 287	166 518	617 266
Sub-standard	–	33 138	–	142 004	50 196	65 793	291 131
Doubtful	339	898	1 506	36 793	12 091	96 193	147 820
Loss	–	–	–	173 783	–	4 532	178 315
Total	339	292 478	26 894	352 580	62 287	166 518	901 096

An age analysis of past due and default core loans and advances to customers as at 31 March 2011 (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)	–	4 175	–	–	–	–	4 175
Special mention	–	86	10 503	–	–	–	10 589
Special mention (1 – 90 days)	–	86	10 165	–	–	–	10 251
Special mention (61 – 90 days and item well secured)	–	–	338	–	–	–	338
Default	–	905	1 211	36 592	44 159	149 343	232 210
Sub-standard	–	7	–	8 495	36 456	48 811	93 769
Doubtful	–	898	1 211	28 079	7 662	96 000	133 850
Loss	–	–	–	18	41	4 532	4 591
Total	–	5 166	11 714	36 592	44 159	149 343	246 974

An age analysis of past due and default 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 past due and default 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 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 2011								
Current core loans and advances	6 911 792	–	–	6 911 792	–	(1 518)	6 910 274	–
Past due (1 – 60 days)	–	256 779	–	256 779	–	–	256 779	4 175
Special mention	–	27 051	–	27 051	–	–	27 051	10 589
Special mention (1 – 90 days)	–	15 873	–	15 873	–	–	15 873	10 251
Special mention (61 – 90 days and item well secured)	–	11 178	–	11 178	–	–	11 178	338
Default	–	157 143	460 123	617 266	(182 225)	–	435 041	232 210
Sub-standard	–	157 143	133 988	291 131	(37 755)	–	253 376	93 769
Doubtful	–	–	147 820	147 820	(35 684)	–	112 136	133 850
Loss	–	–	178 315	178 315	(108 786)	–	69 529	4 591
Total	6 911 792	440 973	460 123	7 812 888	(182 225)	(1 518)	7 629 145	246 974
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

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 2011			
Private Banking professional and HNW individuals	4 555 298	229 019	15 873
Corporate sector	1 901 968	27 760	–
Banking, insurance, financial services (excluding sovereign)	268 230	–	–
Public and government sector (including central banks)	134 699	–	–
Trade finance and other	51 597	–	–
Total gross core loans and advances to customers	6 911 792	256 779	15 873
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 and other	65 734	–	–
Total gross core loans and advances to customers	6 561 010	200 040	2 592

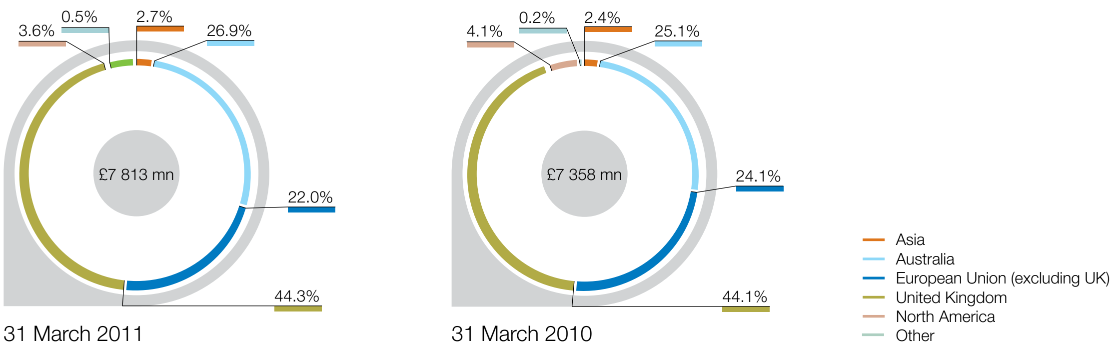
Summary analysis of gross core loans and advances to customers by counterparty type

Audited £'000	31 March 2011	31 March 2010
Private Banking professional and HNW individuals	5 368 323	5 315 832
Corporate sector	1 989 072	1 733 668
Banking, insurance, financial services (excluding sovereign)	268 559	156 513
Public and government sector (including central banks)	135 337	85 933
Trade finance and other	51 597	65 734
Total gross core loans and advances to customers	7 812 888	7 357 680

	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
	10 691	251 843	131 816	173 783	5 368 323	(1 518)	(168 383)	(169 901)
	487	39 288	15 037	4 532	1 989 072	–	(13 265)	(13 265)
	–	–	329	–	268 559	–	(198)	(198)
	–	–	638	–	135 337	–	(379)	(379)
	–	–	–	–	51 597	–	–	–
	11 178	291 131	147 820	178 315	7 812 888	(1 518)	(182 225)	(183 743)
	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)

Additional information

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

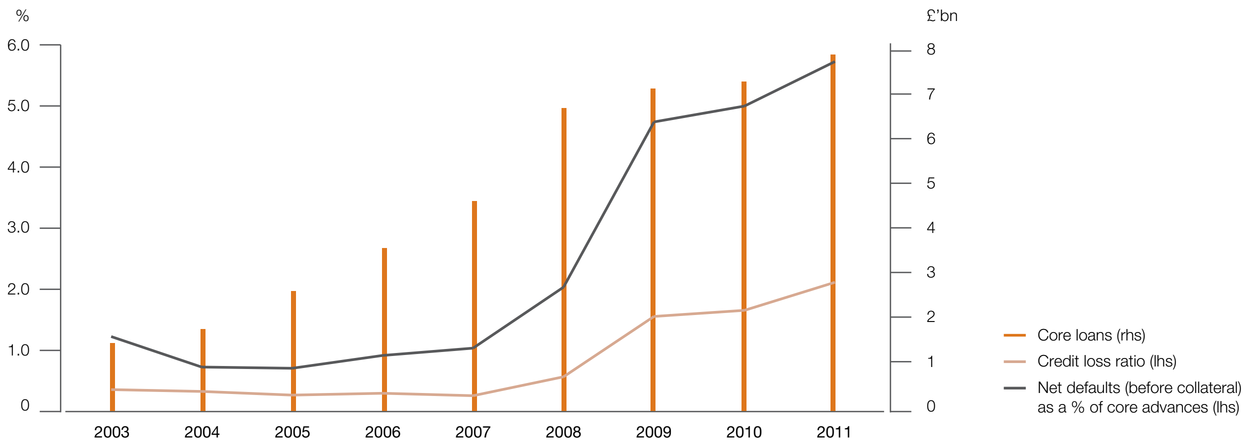


An analysis of default core loans and advances as at 31 March 2011

£'million	UK and Europe			
	Gross core loans	Gross defaults	Collateral	Impairments
Private Bank				
Residential property	1 447	194	171	73
Residential property investment	547	10	16	–
Residential mortgages (owner occupied and second homes)	191	–	–	–
Residential property development	537	86	66	32
Residential estates/land	172	98	89	41
Commericial property	1 538	103	87	52
Commercial property investment	986	29	46	12
Commercial property land	281	63	37	33
Commercial property development	271	11	4	7
Other	535	34	33	17
Asset backed lending	252	–	–	–
Unlisted securities and general corporate lending	82	12	–	12
Unsecured lending	57	16	11	5
Other	144	6	22	–
Total Private Bank	3 520	331	291	142
Capital Markets				
Preference share finance	–	–	–	–
Acquisition finance	732	–	–	–
Small ticket asset finance	341	16	7	9
Principal finance	265	–	–	–
Project finance	284	33	31	2
Structured finance	363	11	8	3
Resource finance and commodities	52	–	–	–
Total Capital Markets	2 037	60	46	14
Other*	152	–	–	–
Total group	5 709	391	337	156

* *Largely includes lending activities within our Central Funding and International Trade Finance businesses.*

United Kingdom, Europe and Australia



Australia				Total group			
Gross core loans	Gross defaults	Collateral	Impairments	Gross core loans	Gross defaults	Collateral	Impairments
424	144	129	23	1 871	338	300	96
41	14	10	4	588	24	26	4
67	–	–	–	258	–	–	–
218	95	84	17	755	181	150	49
98	35	35	2	270	133	124	43
609	71	76	3	2 147	174	163	55
555	60	65	2	1 541	89	111	14
28	10	10	1	309	73	47	34
26	1	1	–	297	12	5	7
815	7	6	2	1 350	41	39	19
530	1	–	2	782	1	–	–
117	5	6	–	199	17	6	12
66	1	–	1	123	17	11	6
102	–	–	–	246	6	22	–
1 848	222	211	28	5 368	553	502	170
–	–	–	–	–	–	–	–
22	–	–	–	754	–	–	–
10	–	–	–	351	16	7	9
71	4	4	–	336	4	4	–
72	–	–	–	356	33	31	2
28	–	–	–	391	11	8	3
50	–	–	–	102	–	–	–
253	4	4	–	2 290	64	50	14
2	–	–	–	154	–	–	–
2 103	226	214	27	7 812	617	552	184

Collateral

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

Collateral by line of business

£'000	Private Bank: Collateral held against: Core loans and advances	Private Bank: Collateral held against: Other credit and counterparty exposures*	Private Bank: Total Private Bank
31 March 2011			
Eligible financial collateral	198 645	–	198 645
Listed shares	65 178	–	65 178
Cash	133 467	–	133 467
Mortgage bonds	6 065 238	–	6 065 238
Residential mortgages	1 726 087	–	1 726 087
Residential development	1 283 378	–	1 283 378
Commercial property developments	742 857	–	742 857
Commercial property investments	2 312 916	–	2 312 916
Other collateral	1 959 886	–	1 959 886
Unlisted shares	345 609	–	345 609
Bonds other than mortgage bonds	25 279	–	25 279
Debtors, stock and other corporate assets	595 271	–	595 271
Guarantees	517 715	–	517 715
Other	476 012	–	476 012
Total collateral	8 223 769	–	8 223 769
31 March 2010			
Eligible financial collateral	284 018	21 206	305 224
Listed shares	119 853	–	119 853
Cash	164 165	21 206	185 371
Mortgage bonds	6 015 639	24 273	6 039 912
Residential mortgages	1 381 700	789	1 382 489
Residential development	1 592 869	15 580	1 608 449
Commercial property developments	846 895	7 839	854 734
Commercial property investments	2 194 175	65	2 194 240
Other collateral	2 010 460	9 884	2 020 344
Unlisted shares	364 706	4 111	368 817
Bonds other than mortgage bonds	55 516	–	55 516
Debtors, stock and other corporate assets	700 916	5 773	706 689
Guarantees	389 604	–	389 604
Other	499 718	–	499 718
Total collateral	8 310 117	55 363	8 365 480

* *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.*

** *Largely includes lending activities within our Central Funding and International Trade finance business.*

	Capital Markets			Other**			Total		
	Collateral held against			Collateral held against			Collateral held against		
	Core loans and advances	Other credit and counterparty exposures*	Total Capital Markets	Core loans and advances	Other credit and counterparty exposures*	Total Other	Core loans and advances	Other credit and counterparty exposures*	Total
	3 019	7 807	10 826	96 119	68 129	164 248	297 783	75 936	373 719
	–	–	–	86 902	47 164	134 066	152 080	47 164	199 244
	3 019	7 807	10 826	9 217	20 965	30 182	145 703	28 772	174 475
	303 938	–	303 938	65 625	136 035	201 660	6 434 801	136 035	6 570 836
	–	–	–	23 112	–	23 112	1 749 199	–	1 749 199
	–	–	–	–	–	–	1 283 378	–	1 283 378
	–	–	–	42 513	–	42 513	785 370	–	785 370
	303 938	–	303 938	–	136 035	136 035	2 616 854	136 035	2 752 889
	2 748 327	–	2 748 327	127 808	–	127 808	4 836 021	–	4 836 021
	–	–	–	59 942	–	59 942	405 551	–	405 551
	281 982	–	281 982	27 312	–	27 312	334 573	–	334 573
	2 159 994	–	2 159 994	–	–	–	2 755 265	–	2 755 265
	4 408	–	4 408	754	–	754	522 877	–	522 877
	301 943	–	301 943	39 800	–	39 800	817 755	–	817 755
	3 055 284	7 807	3 063 091	289 552	204 164	493 716	11 568 605	211 971	11 780 576
	31 490	–	31 490	–	30 498	30 498	315 508	51 704	367 212
	–	–	–	–	24 808	24 808	119 853	24 808	144 661
	31 490	–	31 490	–	5 690	5 690	195 655	26 896	222 551
	431 964	–	431 964	–	–	–	6 447 603	24 273	6 471 876
	90 505	–	90 505	–	–	–	1 472 205	789	1 472 994
	–	–	–	–	–	–	1 592 869	15 580	1 608 449
	–	–	–	–	–	–	846 895	7 839	854 734
	341 459	–	341 459	–	–	–	2 535 634	65	2 535 699
	1 579 041	–	1 579 041	–	–	–	3 589 501	9 884	3 599 385
	–	–	–	–	–	–	364 706	4 111	368 817
	–	–	–	–	–	–	55 516	–	55 516
	1 353 408	–	1 353 408	–	–	–	2 054 324	5 773	2 060 097
	1 208	–	1 208	–	–	–	390 812	–	390 812
	224 425	–	224 425	–	–	–	724 143	–	724 143
	2 042 495	–	2 042 495	–	30 498	30 498	10 352 612	85 861	10 438 473

Collateral by line of business and geography

Further breakdown of collateral on core loans and advances by geography and division.

£'000	Private Bank UK and Europe	Private Bank Australia	Private Bank Total
As at 31 March 2011			
Eligible financial collateral	181 233	17 412	198 645
Listed shares	65 178	–	65 178
Cash	116 055	17 412	133 467
Mortgage bonds	4 613 264	1 451 974	6 065 238
Residential mortgages	1 661 558	64 529	1 726 087
Residential development	726 869	556 509	1 283 378
Commercial property developments	213 416	529 441	742 857
Commercial property investments	2 011 421	301 495	2 312 916
Other collateral	975 632	984 254	1 959 886
Unlisted shares	91 157	254 452	345 609
Bonds other than mortgage bonds	25 279	–	25 279
Debtors, stock and other corporate assets	181 542	413 729	595 271
Guarantees	512 817	4 898	517 715
Other	164 837	311 175	476 012
Total collateral	5 770 129	2 453 640	8 223 769
As at 31 March 2010			
Eligible financial collateral	273 096	10 922	284 018
Listed shares	119 854	–	119 853
Cash	153 243	10 922	164 165
Mortgage bonds	4 673 764	1 341 875	6 015 639
Residential mortgages	1 341 723	39 976	1 381 700
Residential development	1 055 367	537 502	1 592 869
Commercial property developments	311 986	534 909	846 895
Commercial property investments	1 964 687	229 488	2 194 175
Other collateral	1 164 534	845 926	2 010 460
Unlisted shares	150 017	214 689	364 706
Bonds other than mortgage bonds	55 516	–	55 516
Debtors, stock and other corporate assets	331 612	369 304	700 916
Guarantees	388 396	1 208	389 604
Other	238 993	260 725	499 718
Total collateral	6 111 394	2 198 723	8 310 117

** *Largely includes lending activities within our Central Funding and International Trade finance business.*

Capital Markets			Other**			Total		
UK and Europe	Australia	Total	UK and Europe	Australia	Total	UK and Europe	Australia	Total
–	3 019	3 019	96 119	–	96 119	277 352	20 431	297 783
–	–	–	86 902	–	86 902	152 080	–	152 080
–	3 019	3 019	9 217	–	9 217	125 272	20 431	145 703
303 938	–	303 938	65 625	–	65 625	4 982 827	1 451 974	6 434 801
–	–	–	23 112	–	23 112	1 684 670	64 529	1 749 199
–	–	–	–	–	–	726 869	556 509	1 283 378
–	–	–	42 513	–	42 513	255 929	529 441	785 370
303 938	–	303 938	–	–	–	2 315 359	301 495	2 616 854
2 497 980	250 347	2 748 327	127 808	–	127 808	3 601 420	1 234 601	4 836 021
–	–	–	59 942	–	59 942	151 099	254 452	405 551
281 982	–	281 982	27 312	–	27 312	334 573	–	334 573
2 159 994	–	2 159 994	–	–	–	2 341 536	413 729	2 755 265
4 408	–	4 408	754	–	754	517 979	4 898	522 877
51 596	250 347	301 943	39 800	–	39 800	256 233	561 522	817 755
2 801 918	253 366	3 055 284	289 552	–	289 552	8 861 599	2 707 006	11 568 605
2 440	29 050	31 490	–	–	–	275 536	39 972	315 508
–	–	–	–	–	–	119 853	–	119 853
2 440	29 050	31 490	–	–	–	155 683	39 972	195 655
431 964	–	431 964	–	–	–	5 105 728	1 341 875	6 447 603
90 505	–	90 505	–	–	–	1 432 229	39 976	1 472 205
–	–	–	–	–	–	1 055 367	537 502	1 592 869
–	–	–	–	–	–	311 986	534 909	846 895
341 459	–	341 459	–	–	–	2 306 146	229 488	2 535 634
1 433 031	146 010	1 579 041	–	–	–	2 597 565	991 936	3 589 501
–	–	–	–	–	–	150 017	214 689	364 706
–	–	–	–	–	–	55 516	–	55 516
1 353 408	–	1 353 408	–	–	–	1 685 020	369 304	2 054 324
–	1 208	1 208	–	–	–	388 396	2 416	390 812
79 623	144 802	224 425	–	–	–	318 616	405 527	724 143
1 867 435	175 060	2 042 495	–	–	–	7 978 829	2 373 783	10 352 612

Collateral (continued)

A summary of total collateral

£'000	Collateral held against		
	Core loans and advances	Other credit and counterparty exposures*	Total
As at 31 March 2011			
Eligible financial collateral	297 783	75 936	373 719
Listed shares	152 080	47 164	199 244
Cash	145 703	28 772	174 475
Mortgage bonds	6 434 801	136 035	6 570 836
Residential mortgages	1 749 199	–	1 749 199
Residential development	1 283 378	–	1 283 378
Commercial property development	785 370	–	785 370
Commercial property investments	2 616 854	136 035	2 752 889
Other collateral	4 836 021	–	4 836 021
Unlisted shares	405 551	–	405 551
Bonds other than mortgage bonds	334 573	–	334 573
Debtors, stock and other corporate assets	2 755 265	–	2 755 265
Guarantees	522 877	–	522 877
Other	817 755	–	817 755
Total collateral	11 568 605	211 971	11 780 576
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
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
Other	724 143	–	724 143
Total collateral	10 352 612	85 861	10 438 473

* *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 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$751 million (31 March 2010: A$860 million).

Credit analysis

In terms of our analysis of our credit and counterparty risk, exposures arising from securitisation/principal finance activities reflect only those exposures to which we consider ourselves to be at risk notwithstanding accounting conventions. In addition, assets that have been securitised by our Private Banking division are reflected as part of our core lending exposures and not our securitisation/principal finance exposures as we believe this reflects the true nature and intent of these exposures and activities.

Accounting treatment Audited

Refer to pages 174 to 175.

Nature of exposure/ activity	Exposure as at 31 March 2011 £'mn	Exposure as at 31 March 2010 £'mn	Credit analysis internal risk classification	Asset quality – relevant comments	Capital treatment
Structured credit investments*	608	447	On-balance sheet securitisation/principal finance exposure.		Risk-weighted or supervisory deductions against primary and secondary capital.
Rated	451	364			
Unrated	146	50			
Other	11	33			
Warehouse lines provided to, and investment in third party intermediary originating platforms (mortgage and auto loans)	425	315	On-balance sheet securitisation/principal finance exposure. Classified as 'unrated'. However, only those assets to which we are at risk are reflected in this analysis with the balance reflected under 'no credit exposures'.		Risk-weighted or supervisory deductions against primary and secondary capital.
Private Banking division assets which have been securitised	484	519	On-balance sheet exposure – reclassified from "accounting securitised assets" to core loans and advances for credit analysis purposes.	Analysed as part of the group's overall asset quality on core loans and advances as reflected on page 51.	We apply securitisation rules: either risk-weighted or supervisory deductions against primary and secondary capital.

* *See note on page 72.*

*Analysis of structured rated and unrated credit investments

£'million	31 March 2011				31 March 2010			
	Rated**	Unrated	Other	Total	Rated	Unrated	Other	Total
US sub-prime	–	–	–	–	1	–	–	1
US corporate loans	19	–	–	19	34	6	–	40
European ABS	3	7	–	10	5	8	–	13
European RMBS	293	130	–	423	208	36	–	244
European CMBS	65	6	–	71	62	–	–	62
European credit cards	5	–	–	5	5	–	–	5
European corporate loans	–	3	–	3	–	–	–	–
South African RMBS	–	–	–	–	12	–	–	12
Australian RMBS	66	–	–	67	37	–	–	37
Other (credit default swaps)	–	–	11	11	–	–	33	33
Total	451	146	11	608	364	50	33	447

**Further analysis of rated structured credit investments as at 31 March 2011

£'million	AAA	AA	A	BBB	BB	B	C and below	Total
US corporate loans	–	–	–	–	6	5	8	19
European ABS	–	–	–	3	–	–	–	3
European RMBS	178	43	23	3	5	19	22	293
European CMBS	12	6	29	6	9	3	–	65
European credit cards	5	–	–	–	–	–	–	5
Australian RMBS	16	22	14	14	–	–	–	66
Total	211	71	66	26	20	27	30	451

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

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 139 to 143 and pages 166 to 170 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 2.2% of total assets (refer to page 167 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) Unrealised	 Realised	 Dividends, net interest and other	 Total	Fair value through equity
For the year ended 31 March 2011					
Unlisted investments	9 473	24 965	(2 492)	31 946	(3 526)
UK and Europe	9 473	21 978	(2 696)	28 755	(2 608)
Australia	–	2 987	204	3 191	(918)
Listed equities	3 214	3 915	(19 012)	(11 884)	7 097
UK and Europe	3 214	42	(19 262)	(16 007)	5 612
Australia	–	3 873	250	4 123	1 485
Trading properties	472	193	1 193	1 858	–
UK and Europe	472	193	614	1 279	–
Australia	–	–	579	579	–
Warrants, profit shares and other embedded derivatives	(936)	10 744	(26)	9 782	–
UK and Europe	(936)	10 744	(26)	9 782	–
Australia	–	–	–	–	–
Total	12 222	39 817	(20 337)	31 702	3 571
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
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

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 2011	Valuation change stress test* 31 March 2011	On-balance sheet value of investments 31 March 2010	Valuation change stress test* 31 March 2010
Unlisted investments	123 533	18 530	147 600	22 140
UK and Europe	116 981	17 547	135 343	20 301
Australia	6 552	983	12 257	1 839
Listed equities	65 598	17 399	23 827	5 957
UK and Europe	60 657	15 164	15 743	3 936
Australia	8 941	2 235	8 084	2 021
Trading properties	58 434	11 687	10 810	2 162
UK and Europe	30 554	6 111	10 810	2 162
Australia	27 880	5 576	–	–
Warrants, profit shares and other embedded derivatives	32 387	11 336	34 150	11 952
UK and Europe	32 387	11 336	34 150	11 952
Australia	–	–	–	–
Total	283 952	58 952	216 387	42 211

* *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%
Warrants, profit shares and other embedded derivatives	35%

Stress testing summary

Based on the information above we could have a £59.0 million reversal in revenue (which assumes a year in which there is a 'severe stress 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' and profit shares and embedded derivatives are considered in the calculation of capital required for credit risk. Refer to page 102 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 ll 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 or in the event of a significant market event (e.g. 11 September 2001) or at the discretion of senior management.

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), extreme value theory (EVT), stress testing and scenario analysis are used to simulate extreme conditions to supplement these core measures.

VaR numbers are monitored daily at the 95%, 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 hypothetical (clean) trading revenues arising from the previous day's closing positions with the one-day VaR calculated for the previous day on these same positions. If the revenue is negative and exceeds the one-day VaR, a "back testing breach" is considered to have occurred.

In the UK, all desks are currently on capital adequacy (CAD) 1 level for regulatory capital.

VaR

Audited	UK and Europe 95% (one-day)				Australia 95% (one-day)			
	Year end £'000	Average £'000	High £'000	Low £'000	Year end A$'000	Average A$'000	High A$'000	Low A$'000
31 March 2011								
Commodities	49	19	49	11	1	1	29	–
Equity derivatives	900	1 391	2 196	780	–	–	–	–
Foreign exchange	9	28	85	3	6	21	146	1
Interest rates	239	391	519	208	17	82	198	11
Consolidated*	1 129	1 592	2 260	997	20	89	202	12
31 March 2010								
Commodities	27	28	91	19	–	–	–	–
Equity derivatives	1 798	1 450	2 333	683	–	–	–	–
Foreign exchange	16	29	162	4	9	11	69	1
Interest rates	501	593	1 474	101	146	130	205	53
Consolidated*	1 791	1 607	2 598	995	154	141	230	69

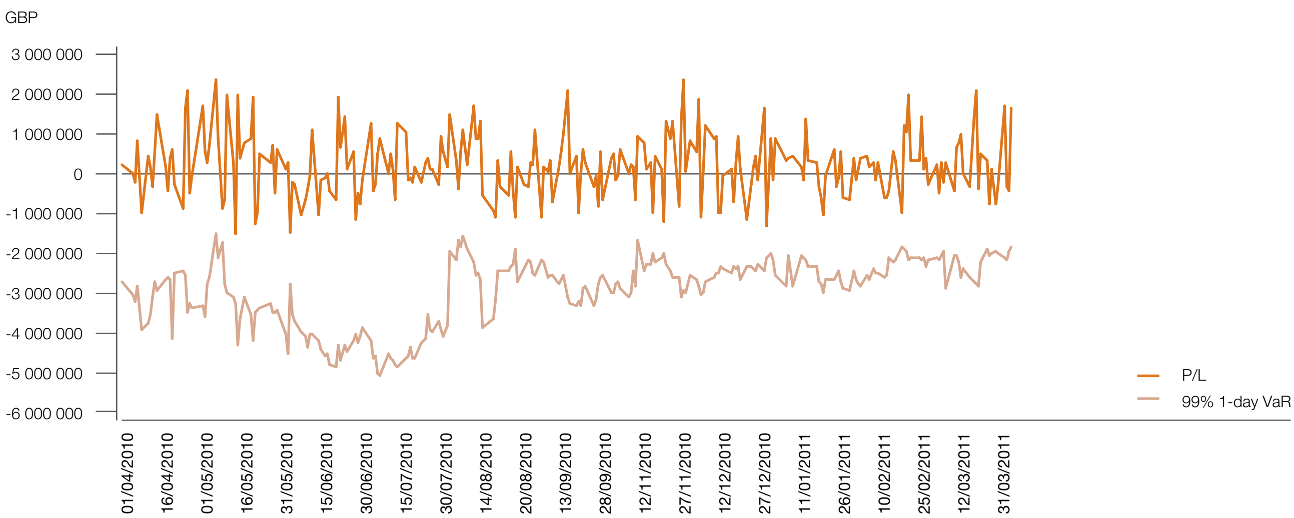
* *The consolidated VaR for each desk and each entity at year end is lower than the sum of the individual VaR's. This arises from the consolidation offset between various asset classes (diversification).*

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 to three exceptions per year at the 99% level. The reason for this is that the data set that was used for most of the year included the Lehman's crisis and hence contained some exceptionally large moves. As a result, the calculated VaR was conservative for the majority of the year. The average VaR utilisation was similar to that of 2010, although by year end, the VaR had reduced to £1.1 million, mainly as a result of a reduction in risk on the Structured Equity Derivatives desk.

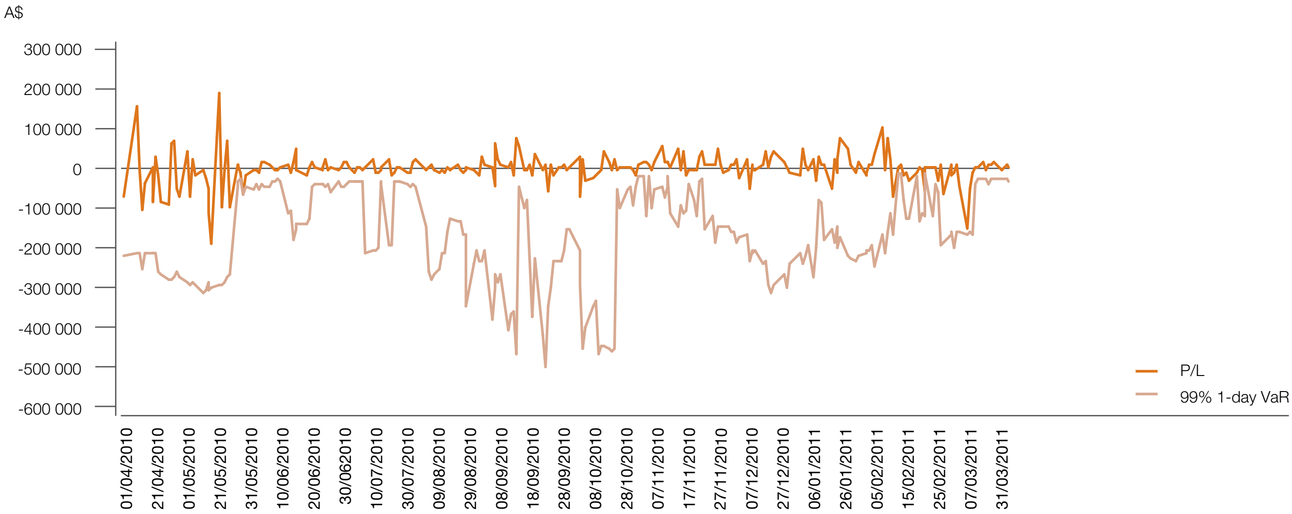
99% 1-day VaR backtesting



Australia

VaR limits increased during 2011 to accommodate the expanded forex trading activity. Average VaR utilisation for 2011 remained at the moderate levels experienced in 2010. There have been no exceptions i.e. where the loss is greater than the VaR. This is less than the expected number of exceptions at the 99% level as a result of the conservative data set used to generate the VaR.

99% 1-day VaR backtesting



ETL

Audited	UK and Europe 95% (one-day) £'000	Australia 95% (one-day) A$'000
31 March 2011		
Commodities	71	10
Equity derivatives	1 339	–
Foreign exchange	13	8
Interest rates	409	30
Consolidated*	1 636	40
31 March 2010		
Commodities	43	n/a^
Equity derivatives	2 648	n/a^
Foreign exchange	24	n/a^
Interest rates	783	n/a^
Consolidated*	2 663	n/a^

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

^ *Not previously reported.*

Stress testing

The table below indicates the potential losses that could arise if the portfolio is stress tested under extreme market conditions. The March 2010 methodology is not comparable to that used for March 2011. The March 2010 numbers assume a normal distribution of profits and losses and looked at the 15 standard deviation number. The March 2011 number does not assume normality but rather relies on fitting a distribution to the tails of the distribution. This method is known as extreme value theory (EVT), the reported stress scenario below to calculates the 99% EVT which is a 1-in-8 year possible loss event.

Audited	UK and Europe Using 99% EVT £'000	Australia Using 99% EVT A$'000
31 March 2011		
Commodities	266	–
Equity derivatives	3 782	–
Foreign exchange	33	15
Interest rates	2 087	121
Consolidated	3 915	273

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

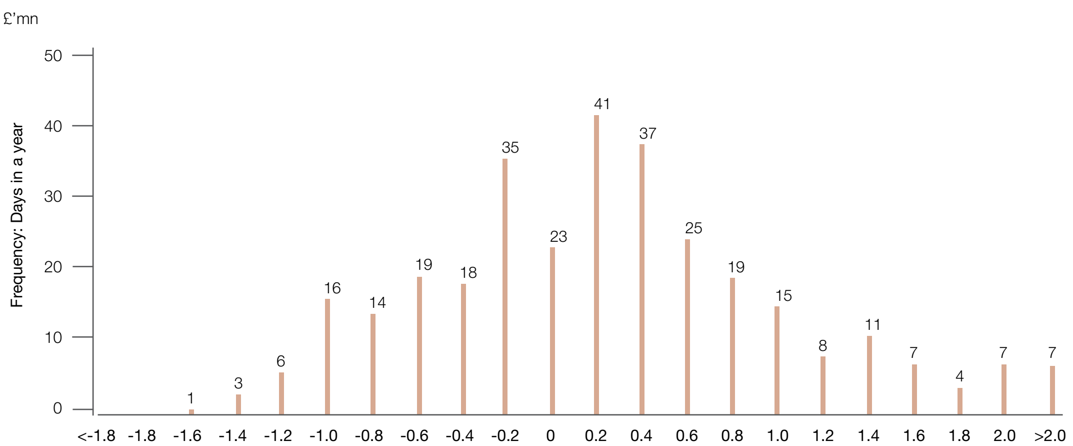
Profit and loss histograms

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 147 days out of a total of 253 days in the trading business.

The average daily trading revenue generated for the year ended 31 March 2011 was £144 616 (2010: £60 261).

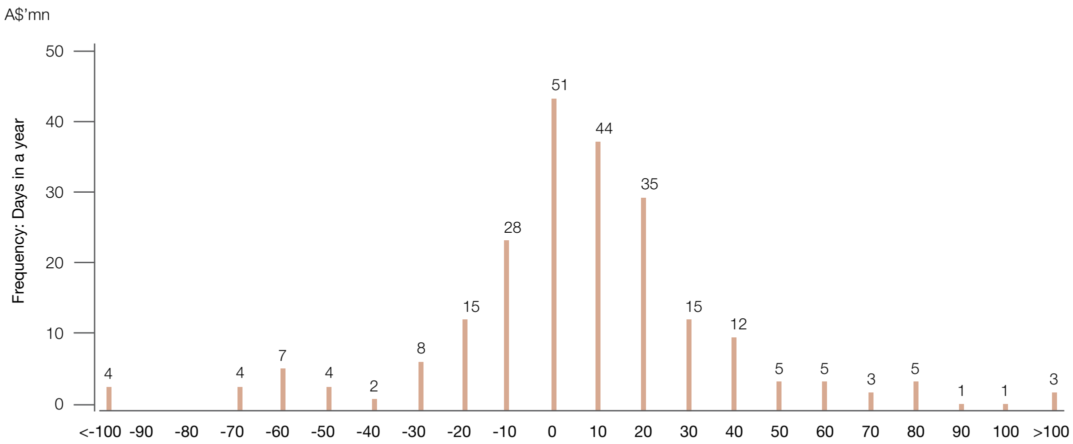
Profit and loss



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 123 days out of a total of 252 days in the trading business. The average daily trading revenue generated for the year ended 31 March 2011 was A$1 393 (2010: revenue of A$4 000).

Profit and loss



Traded market risk mitigation

The market risk management team has a reporting line that is separate from the trading function, thereby ensuring 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 growth in their retail product sales and they continue to expand their product range. The Interest Rate and Forex desks have also performed well in a challenging environment, whilst the Equity Trading business had a strong year. The remaining UK commodities book was sold during the course of the year.

Australian trading activity remains modest, but has begun to increase. The historical focus on commodity hedging has been expanded to include foreign exchange and interest rate activity.

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 172.

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 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 typically compromise 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, internally administers funds transfer pricing which ensures that the costs and risks of liquidity are clearly and transparently attributed to business lines and are understood by business line management, 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.

The Balance Sheet Risk Management team, based within group Risk Management, independently identifies, quantifies and monitors risks, providing daily independent governance and oversight of the central treasury activities and the execution of the bank's policy, continuously assessing 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 daily 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. The parameters used in the scenarios are regularly reviewed, taking into account changes in the business environments and input from business units. The objective is to have sufficient liquidity, in an acute stress, to continue to operate for a minimum period as detailed in the board approved risk appetite.

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.

Non-trading interest rate risk description

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

Sources of 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. The group considers the management of banking margin of vital importance, and our core non-trading interest rate risk philosophy is reflected in day-to-day practices which encompass the following:

- The group complies with the Basel Committee on Banking Supervision's (BCBS) framework for assessing banking book (non-trading) interest rate risk.
- The management of interest rate risk in the banking book is centralised within Central Treasury and Central Treasury is mandated by the board to actively manage the liquidity mismatch and non-trading interest rate risk arising from our asset and liability portfolios
- The treasurer is required to exercise tight control of funding, liquidity, concentration and non-trading interest rate risk within parameters defined by the risk appetite policy
- Most non-trading interest rate risk and asset funding requirements are transferred from the originating business to central treasury
- The policy dictates that long-term non-trading interest rate risk is materially eliminated
- Central Treasury directs pricing for all deposit products (including deposit products offered to the Private Clients)
- Central Treasury maintains an internal funds transfer pricing system based on prevailing market rates which charges out the price of long and short-term funding to consumers of liquidity and provide long term stable funding for our asset creation activity
- Central Treasury is the sole interface to the wholesale market for both cash and derivative transactions
- Daily management of interest rate risk by Central Treasury, subject to independent ALCO review
- Technical interest rate analysis and economic review of fundamental developments by geography and global trends
- Independent measurement and analysis of both traditional interest rate repricing mismatch and NPV sensitivity to changes in interest rate risk factors, detailing the sources of interest rate exposure.

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

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 within pre-defined guidelines 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 the 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 2011

£'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	1 368	3	–	–	–	24	1 395
Investment/trading assets	1 640	50	24	71	796	289	2 870
Securitised assets	653	–	1	–	–	1	655
Advances	5 520	365	143	313	103	2	6 446
Other assets	–	–	–	199	–	1 078	1 277
Assets	9 181	418	168	583	899	1 394	12 643
Deposits - banks	(323)	(49)	(41)	(64)	–	–	(477)
Deposits - non banks	(7 241)	(146)	(1 270)	(102)	(50)	(2)	(8 811)
Negotiable paper	(374)	(5)	(306)	(70)	(26)	–	(781)
Securitised liabilities	(217)	(7)	(23)	–	–	(110)	(357)
Investment/trading liabilities	(540)	–	–	–	–	–	(540)
Subordinated liabilities	–	–	–	(53)	(503)	(49)	(605)
Other liabilities	–	–	–	(24)	–	(732)	(756)
Liabilities	(8 695)	(207)	(1 640)	(313)	(579)	(893)	(12 327)
Intercompany loans	662	–	–	45	–	56	763
Shareholders' funds	–	–	–	–	–	(1 195)	(1 195)
Balance sheet	1 148	211	(1 472)	315	320	(638)	(116)
Off-balance sheet	(189)	(343)	1 241	(334)	(332)	304	347
Repricing gap	958	(130)	(230)	(18)	(13)	(335)	231
Cumulative repricing gap	958	827	597	579	566	231	

Australia – interest rate sensitivity as at 31 March 2011

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	391	–	–	–	–	–	391
Investment/trading assets	1 083	2	–	193	–	39	1 317
Securitised assets	183	64	103	390	9	–	749
Advances	2 162	42	67	245	8	30	2 554
Other assets	–	–	–	–	–	339	339
Assets	3 819	108	170	828	17	408	5 350
Deposits – non-banks	(1 558)	(393)	(132)	(89)	(12)	(27)	(2 211)
Negotiable paper	(658)	(4)	(231)	(650)	–	(3)	(1 546)
Securitised liabilities	(732)	–	–	–	–	–	(732)
Subordinated loans	(71)	–	–	–	–	–	(71)
Other liabilities	–	–	–	–	–	(105)	(105)
Liabilities	(3 019)	(397)	(363)	(739)	(12)	(135)	(4 665)
Intercompany loans	(20)	–	–	(1)	–	20	(1)
Shareholders' funds	–	–	–	–	–	(684)	(684)
Balance sheet	780	(289)	(193)	88	5	(391)	–
Off-balance sheet	60	(24)	138	(158)	(7)	(9)	–
Repricing gap	840	(313)	(55)	(70)	(2)	(400)	–
Cumulative repricing gap	840	527	472	402	400	–	

Economic value sensitivity as at 31 March 2011

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

	Sensitivity to the following interest rates (expressed in original currencies)				
'million	GBP	USD	EUR	Other (GBP)	All (GBP)
200bp Down	(9.1)	0.4	(1.2)	0.2	(9.7)
200bp Up	9.1	(0.4)	1.2	(0.2)	9.7

Australia

'million	AUD
200bp Down	(1.75)
200bp Up	1.75

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 marketwide events.

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 BCBS Principles for Sound Liquidity Risk Management and Supervision
- The group has committed itself to implementation of the BCBS guidelines for liquidity risk measurement standards and monitoring and the enhanced regulatory framework to be established, as published in December 2009 and updated in December 2010
- 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 (cashflow maturity mismatch) on a "liquidation", "going concern" and "stress" basis
- Daily liquidity stress tests are carried out to measure and manage the liquidity position such that payment obligations can be met under a wide range of normal and unlikely but plausible stressed scenarios, in which the rate and timing of deposit withdrawals and drawdowns on lending facilities are varied, and the ability to access funding and to generate funds from asset portfolios is restricted. The objective is to have sufficient liquidity, in an acute stress, to continue to operate for a minimum period as detailed in the board approved risk appetite
- Our liquidity risk parameters reflect a range of liquidity stress assumptions which are reviewed regularly and updated as needed. These stress factors go well beyond our experience during the height of the recent financial crisis
- The Balance Sheet Risk Management team independently monitors key daily funding metrics and liquidity ratios to assess potential risks to the liquidity position, which further act as early warning indicators
- 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 or market disruptions.

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 Private Bank customer accounts are on demand or at short notice, in practice such accounts remain a stable source of funds. Total Private Bank deposits amount to £7.3 billion (2010: £7.2 billion). Our retail deposit initiatives within our Capital Markets division continued to experience strong inflows during the financial year. Our total retail customer deposit base increased by 11.5% from 1 April 2010 to £10.3 billion at 31 March 2011. 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.

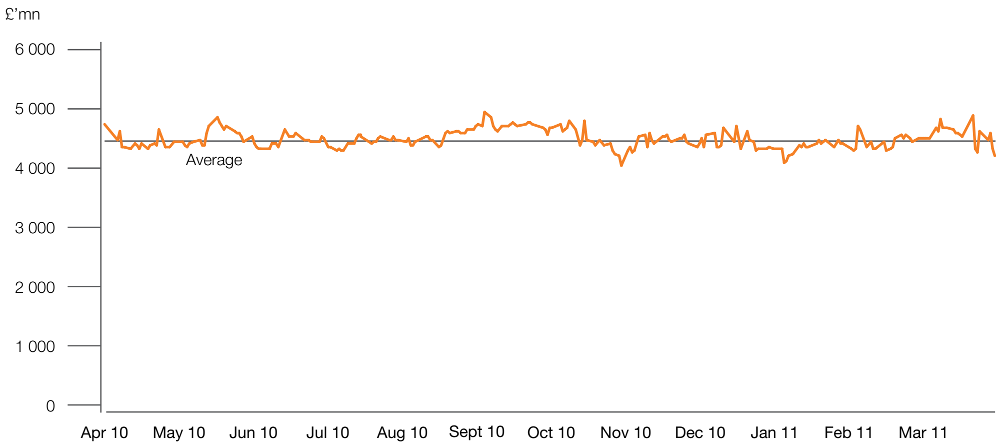
We engage in transactions that involve the use of both special purpose entities and asset securitisation structures. Securitisation represents a relatively modest proportion of our current funding profile, but provides additional flexibility and source of liquidity. These entities form part of the consolidated 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 2010 to 31 March 2011 average cash and near cash balances over the period amounted to £4.5 billion (£3.6 billion in UK and Europe and A$1.7 billion in Australia).

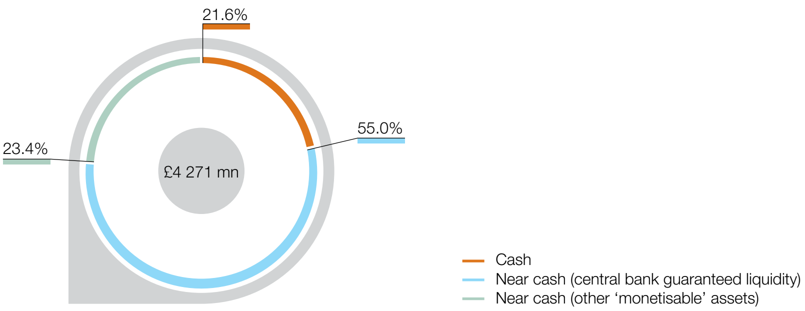
The group does not rely on committed funding lines for protection against unforeseen interruptions to cash flow. We are currently unaware of any circumstances that could significantly detract from our ability to raise funding appropriate to our needs.

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.

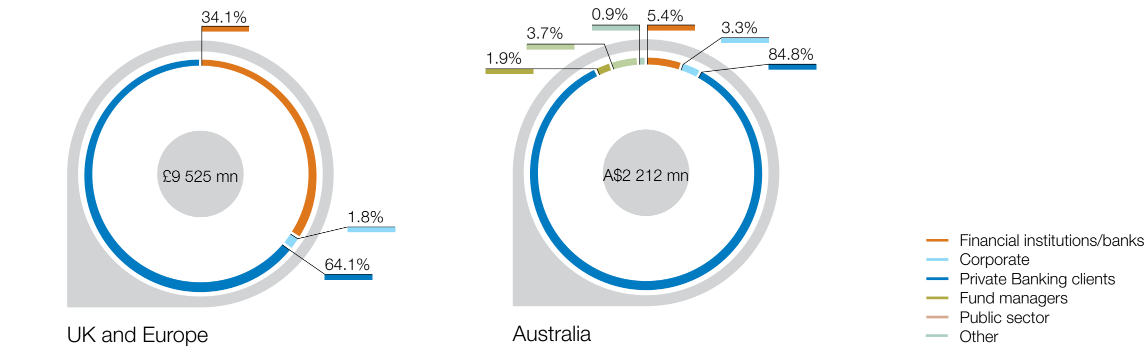
Investec Bank plc (UK, Europe and Australia) cash and near cash trend



An analysis of cash and near cash



Bank and non-bank depositor concentration by type



Liquidity mismatch

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

The tables will not agree directly to the balances disclosed in the respective balance sheets since the tables 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. 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 except as mentioned below, 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.

UK and Europe

Contractual liquidity as at 31 March 2011

£'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	1 488	123	16	2	–	–	–	1 629
Investment/trading assets	1 591	949	194	68	143	295	906	4 146
Securitised assets	54	–	1	2	2	18	578	655
Advances	29	609	431	467	821	2 371	1 718	6 446
Other assets	227	386	36	28	59	151	390	1 277
Assets	3 389	2 067	678	567	1 025	2 835	3 592	14 153
Deposits – banks	(232)^	(171)	(72)	(97)	(42)	(100)	–	(714)
Deposits – non-banks	(577)	(1 535)	(2 520)	(2 531)	(423)	(1 157)	(68)	(8 811)
Negotiable paper	(27)	(10)	(7)	(21)	(19)	(486)	(233)	(803)
Securitised liabilities	(273)	–	–	–	–	–	(268)	(541)
Investment/trading liabilities	(1 062)	(98)	(237)	(8)	(25)	(59)	–	(1 489)
Subordinated liabilities	–	(49)	–	–	–	(56)	(500)	(605)
Other liabilities	(166)	(389)	(95)	(34)	(17)	(9)	(46)	(756)
Liabilities	(2 337)	(2 252)	(2 931)	(2 691)	(526)	(1 867)	(1 115)	(13 719)
Intercompany loans	93	(4)	(1)	–	–	696	(17)	767
Shareholders' funds	–	–	–	–	–	–	(1 201)	(1 201)
Liquidity gap	1 145	(189)	(2 254)	(2 124)	499	1 664	1 259	–
Cumulative liquidity gap	1 145	956	(1 298)	(3 422)	(2 923)	(1 259)	–	–

Behavioural liquidity (as discussed above)

£'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	2 373	(16)	(660)	74	672	(2 474)	31	–
Cumulative	2 373	2 357	(1 697)	1 771	2 443	(31)	–	

^ *The deposits shown in the demand column at 31 March 2011 reflect cash margin deposits held.*

Australia

Contractual liquidity as at 31 March 2011

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	391	–	–	–	–	–	–	391
Investment/trading assets*	1 099	13	19	7	19	211	78	1 446
Securitised assets	1	25	65	87	142	419	10	749
Advances**	54	123	230	330	630	1 116	69	2 553
Other assets	–	–	–	–	–	–	210	210
External assets	1 545	161	314	424	791	1 746	368	5 349
Deposits – banks	–	(6)	–	–	–	–	–	(6)
Deposits – non-banks	(572)^	(202)	(753)	(420)	(150)	(97)	(12)	(2 206)
Negotiable paper	(2)	(88)	(68)	(37)	(244)	(1 106)	–	(1 545)
Securitised liabilities	(1)	(22)	(50)	(242)	(416)	–	–	(731)
Invest/trading liabilities	–	(1)	(10)	(5)	(8)	(46)	(6)	(76)
Subordinated liabilities	–	–	–	–	–	(72)	–	(72)
Other liabilities	–	–	–	–	–	–	(29)	(29)
Liabilities	(575)	(319)	(881)	(704)	(818)	(1 321)	(47)	(4 665)
Intercompany loans	15	4	–	–	–	(20)	2	(1)
Shareholders' funds	–	–	–	–	–	–	(685)	(685)
Contractual liquidity Gap	985	(154)	(567)	(280)	(27)	405	(362)	–
Cumulative liquidity gap	985	831	264	(16)	(43)	362	–	–

Note: contractual liquidity adjustments (as discussed on page 87)

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	–	110	276	7	48	910	95	1 446
**Advances	512	100	184	208	385	1 093	70	2 552

Behavioural liquidity (as discussed on page 87)

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	1 475	(234)	(784)	(383)	(116)	405	(363)	–
Cumulative	1 475	1 241	457	74	(42)	363	–	–

^ *Includes call deposits of A$545 million and the balance reflects term deposits which have finally reached/are reaching contractual maturity.*

Balance sheet risk year in review

UK and Europe

'Two speed' Europe shows the peripheral countries continuing to struggle. Portugal joined Ireland and Greece in taking a bailout from its fellow Europeans. Yields on 10 year Irish bonds started the year at 4.20% and, despite the bailout, are trading at all time highs of 9.82%. Greece also trades at all-time highs of 16.50% with the threat of a second round of bailout financing being required. Default by Greece in some form remains a very real threat. The Euro has remained surprisingly robust in the face of these debt concerns, especially as the European banking system remains highly exposed to holdings of peripheral sovereign paper.

Despite global turmoil on many fronts, credit spreads continue to contract, with the XOVER Index (40 most liquid sub-investment grade credits) falling from its annual peak of 628 in June 2010.

On the interest rate front, European markets are beginning to price in the start of rate rises, with EUR rates being particularly affected by comments from Trichet in early March. EUR rates are 90 basis points higher at the 2 year point of the curve, versus the beginning of April. GBP rates are 25 points higher and the UK has maintained its official Base Rate at 50 basis points, which reflects 'no change' since March 2009. The exception amongst major economies is the USA, where USD rates are 25 to 90 points lower across the curve since April last year and the curve remains very flat in the front end, reflecting market views that rates won't be going up anytime soon.

The bank maintained high cash and near cash balances throughout the year but did curtail its inflow of deposits given that it had significant surplus liquidity. Total customer deposits increased by 9.8% from 1 April 2010 to £8.8 billion at 31 March 2011 (comprising Private Bank deposits of £6.1 billion, structured equity deposits of £1.4 billion and corporate deposits of £1.3 billion). Good growth was experienced in the bank's corporate and structured equity deposit book, whilst the Private Bank slowed its intake of deposits. Average cash and near cash balances amounted to £3.6 billion during the year.

Australia

In Australia the economy has continued to see resilience, with near full employment, moderate inflation, and robust economic growth lead by Australia's commodities and resources sector and their linkage into the strong regional growth from Asia. Notwithstanding this, we have seen muted domestic credit growth particularly in the SME business and personal credit segments, and the prices and tradability of commercial property remains under some pressure. Added to this environment, environment shocks internationally and in some areas domestically, including natural 'disasters', sovereign risk concern, political upheaval, has resulted in a highly variable landscape for business and consumer confidence. In response to the evolving environment the Reserve Bank of Australia raised interest rates largely in the first half of the year with three increases of 0.25% to take the cash rate from 4.00% to 4.75%.

Investec Australia maintained a strong liquidity position well in excess of regulatory and internal policy requirements throughout the year, with average cash and near cash balances amounting to A$1.7 billion. Total customer deposits increased by 28.5% from 1 April 2010 to A$2.2 billion at 31 March 2011 (Private Bank deposits amount to A$1.9 billion and other retail deposits amount to A$0.3 billion).

Investec Bank plc

We successfully embarked on several term debt funding initiatives, taking advantage of pockets of well-priced liquidity. 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):
  - IBP did not have any wholesale term funding initiatives for this year due to the continued success within the retail funding and strong levels of liquidity
  - IBP offered investors in its £200 million lower tier II and the £350 million perpetual note the option to roll into a new £500 million, 11 year tier II capital issuance and at the same time raised £136 million of new capital.
- Investec Bank (Australia) Limited:
  - Undertook an inaugural term securitisation of $240 million Professional Finance assets from the Impala securitisation vehicle
  - IBAL bought-back $195 million of previously issued government guaranteed term debt.

Substantial progress has been made to date to reform the global regulatory framework initiated by the G20 in April 2009.

Regulatory considerations – balance sheet risk

The financial crisis has kindled increased global regulation and supervision with regulators proposing to both strengthen and harmonise global liquidity standards. More stringent and potentially costly prerequisites in the areas of capital and liquidity management, could imply significant shifts evolving into the new regulatory generation.

Substantial progress has been made to date to reform the global regulatory framework initiated by the G20 in April 2009.

In December 2010, BCBS updated its guidelines for liquidity risk measurement standards and monitoring, which supplemented the 2008 'Principles of Sound Liquidity Risk Management and Supervision'.

Two key measures were defined:

Liquidity coverage ratio (LCR)

This ratio is designed to promote short-term resilience of 1 month liquidity profile, by ensuring that banks have sufficient high quality liquid assets to meet potential outflows in a stressed environment.

Net stable funding ratio (NSFR)

This ratio is designed to capture structural issues over a longer time horizon by requiring banks have a sustainable maturity structure of assets and liabilities.

The BCBS guidelines were followed by a quantitative impact study (QIS) in an attempt to assess the impact of the new proposals on banks and the broader economy. Investec participated in the QIS study and believes it will be adequately capitalised to meet the new requirements.

The guidelines have yet to be implemented by law, therefore remain subject to refinements and change. In addition Basel has catered for areas of national discretion to be set by the local supervisors, that take into account structural issues that may exist in a financial system of a country. The impact of any unintended consequences of the new standards for funding liquidity, both on a global and national level, should become apparent during the planned observation period. Banks are expected to commence reporting on the ratios in 2012 and full implementation and compliance of the LCR and NSFR in 2015 and 2018, respectively.

Investec group has been proactively reporting on these ratios internally according to the emerging Basel definitions since February 2010. In some jurisdictions Investec already exceeds these standards, whilst in other geographies we have commenced with strategies to shape our liquidity and funding profile where necessary, as we move towards the compliance timeline.

UK

In the area of liquidity, the UK regulator, the FSA, has continued its tradition of being one of the first major regulators to introduce tighter requirements. This culminated in the release of its policy statement 'Strengthening liquidity standards' in October 2009. The intention of the policy was to be consistent with the principles of the BCBS's 'Principles for Sound Liquidity Management and Supervision', published in September 2008.

Under the new regime, one of the key requirements is that banks operating in the UK stress their balance sheets under at least three scenarios:

- a market-wide stress, a firm-specific, and a combination of the two
- and determine its corresponding 'survival horizon' for each.

The survival horizon is defined as the number of days before the banks cash position turns negative and subsequently it can no longer meet its financial obligations. Each firm is then required to set its risk appetite in terms of the number of days it wishes to survive.

In October 2010, the quantitative requirements of the new rules switched-on whereby Investec Bank plc has been required to submit a number of data items to the FSA (with varying frequencies) including amongst others a report highlighting Daily Flows (FSA047) and an Enhanced Mismatch Report (FSA048).

Another key component of the new regime is an "Individual Liquidity Adequacy Assessment" (ILAA) per the FSA, a key function of the ILAA is to inform a firm's board of the ongoing assessment and quantification of the firm's liquidity risks, how the firm intends to mitigate those risks, and how much current and future liquidity is required. The resulting document is also the mechanism for demonstrating and explaining to the FSA a firm's internal liquidity adequacy assessment process.

With respect to the BCBS guidelines highlighted above (which when finalised will be implemented through EU law), the FSA has stated it will consider how best to calibrate the UK regime once they are finalised. Having said this, the Liquidity Metric Monitor, a tool designed by the FSA to demonstrate some of the metrics they monitor, contains the BCBS ratios and some UK firms are already publicly releasing their results.

Australia

The Federal Government, reflecting Australia's membership of the G20 nations, has committed itself to implementation of the BCBS requirements, through the enhancement to the established regulatory framework which is under the control of APRA. APRA has stated its intention to adopt the BCBS standard as a minimum, and may apply metrics at a higher level. APRA has also indicated that it will progressively formulate revised local regulatory standards over 2011 and 2012 utilising its normal industry consultation approach.

With respect to the capital requirements, APRA has indicated it may implement its new standard with a shorter (or no) transition period, given the assessed strength of Australian banks' capital positions relative to the expected new BCBS minimum requirements.

With respect to the liquidity requirements, in accordance with the BCBS provisions and reflecting the lack of qualifying the liquid assets in Australia, APRA and the RBA have jointly announced there will be available a mechanism for ADI's to gain contractually committed liquidity facilities with the RBA, subject to a fee charge.

The local banking industry has been actively consulting with APRA on an informal basis, through bilateral discussions and industry working groups, which Investec Australia participates in, including the Australian Bankers' Association and the Australian Financial Markets Association.

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.

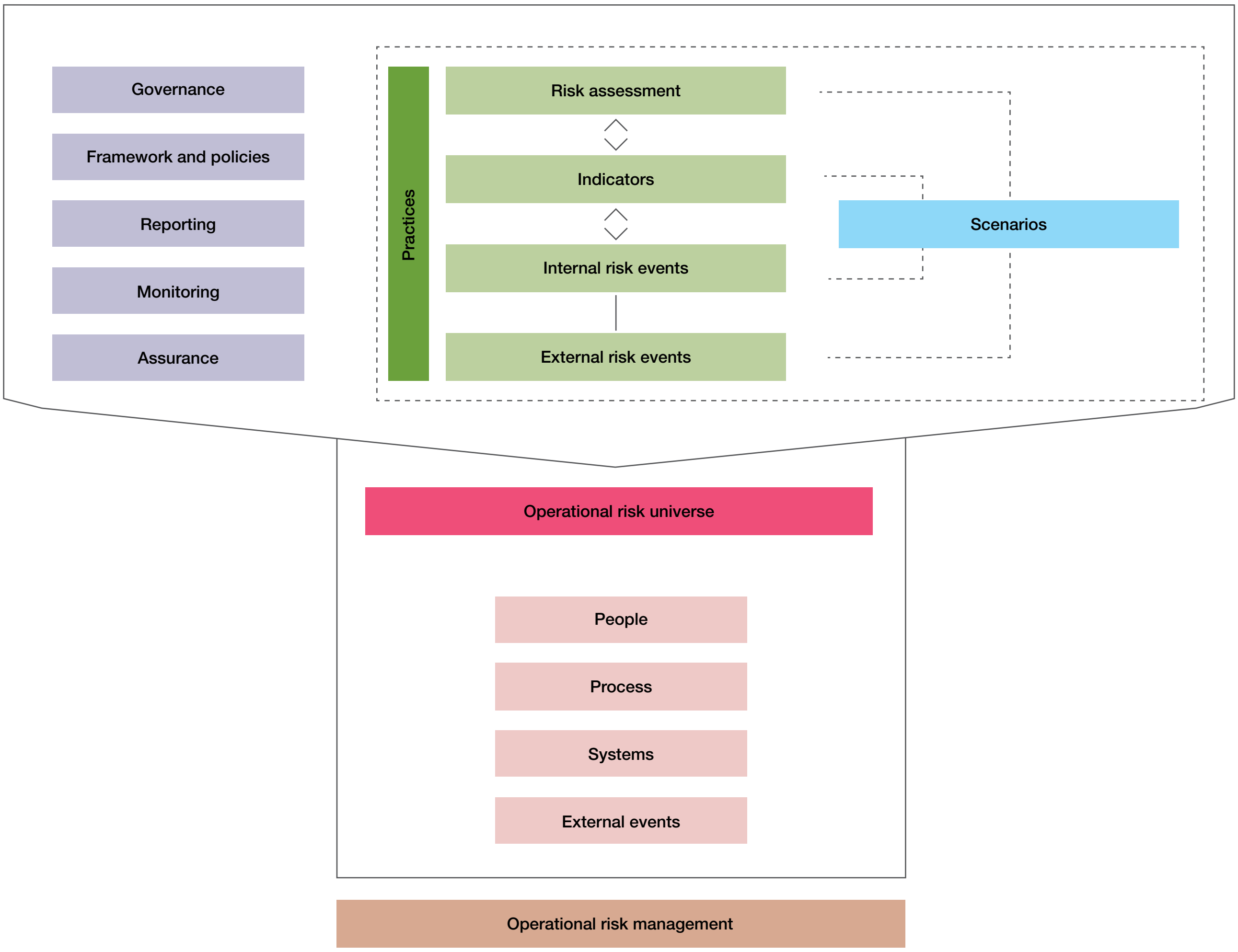
We have adopted the standardised approach to calculate the regulatory operational risk capital requirement.

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 identify and mitigate operational risk across the group.

A group-wide operational risk system is used to record and evidence the operational risk management process. 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.

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.



Governance

The governance structure adopted by the operational risk management function operates in terms of levels of defence model and provides combined assurance as described below:

Level	Function	Actvity
1	Business unit management	• Identify and mitigate operational risk • Own the operational risks arising in their business area • Establish and maintain an appropriate operational risk and control environment • Maintain an embedded operational risk management capability • Implement and execute sound operational risk management practices.
2	Group operational risk management	• Independent of operations • Maintain the group operational risk management framework and policy • Develop and promote sound operational risk management practices • Challenge and review business unit operational risk practices and data • Report on operational risk exposures, events, and emerging issues to board and board committees, and relevant business unit forums • Ensure supervisory requirements are achieved.

Level	Function	Actvity
3	Internal audit and specialist assurance	• Independent review of the operational risk framework, and the effectiveness of its implementation • Audit findings integrated into the operational risk management process • Specialist validation of key practices.
4	External audit and supervisors	• External assessment of the operational risk management environment • Regulatory onsite reviews by the FSA and APRA.
5	Board and board committees	• Monitor and review the operational risk exposures and metrics • Approve the operational risk management framework and key operational risk management policies.

Framework and policies

Policies and practices have been established by Group Operational Risk Management to ensure that operational risk is managed in an appropriate and consistent manner across the group. These are regularly reviewed through the operational risk governance structure as well as the BRCC.

Practices

Operational risk identification and 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.

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.

The assessment of risks and controls is conducted at business unit level and is subject to action 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.

Key operational risks

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

Key operational risks	Key considerations
Business continuity	• Availability of systems and processes • Ability to continue operations.
Financial crime	• Theft or misappropriation of client or company assets from internal or external sources.
Legal	• Appropriate advice, documentation and implementation.
Process failure	• Execution, delivery and process failure due to errors or omissions.
Regulatory compliance	• Adherence to laws, regulations and industry codes • Pace of new regulatory requirements and developments.

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.

Internal operational risk events

Internal operational risk events are recorded in the group-wide operational risk management system. Causal analyses are performed and actions are identified to mitigate and minimise losses and improve controls. Processes are in place for the monitoring and escalation of recorded events.

The controls in place to mitigate risks that are highlighted by execution, delivery and process management events are considered and improved continually.

External fraud includes credit card fraud. Initiatives, to improve detect, prevent and mitigate credit card fraud is ongoing.

External operational risk events

External operational risk events from selected public sources are recorded in a central database and monitored and analysed in the same manner as internal operational risk events. This allows for enhancement or improvements to the risk and control environment through the lessons learnt from these events.

Scenarios

Key operational risks and other material operational risks are subjected to a scenario analysis process. Various plausible, extreme, scenarios are developed and documented for each material operational risk. Scenario information is 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 is evaluated using a Monte Carlo simulation technique. This provides a measure of the exposure arising from the key risks and is used to determine internal operational risk capital requirements. This is reviewed by the DLC capital committee.

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 management 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 are monitored on an ongoing basis by group Operational Risk Management and the embedded risk managers (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.

Group-wide operational risk focus areas

Business continuity management

The group manages a global business continuity management capability which focuses on building an appropriate level of resilience into the bank's operations to mitigate the risk of severe operational disruptions occurring. The group conducts regular exercises to ensure that its recovery capability remains appropriate.

Information technology risk

The group continues to ensure that information technology risk is appropriately mitigated within a rapidly changing technology and threat landscape. ERMs focus on ensuring the confidentiality, integrity and availability of information. Information security remains a key area of focus.

Financial crime

In ensuring that financial crime risk is appropriately managed the group pursues a policy of mitigating this risk as follows:

- Ensuring that appropriate action is taken in respect of fraudulent activities
- Identifying criminal acts against the group, investigating and recovering losses
- Engaging with external specialists and industry forums.

Developments

Areas of focus during the year included:

- Ongoing development and enhancement of the operational risk management framework having consideration for advanced operational risk management practices
- Regular engagement with industry groups and fora enables the group to be informed of developments
- Enhancing the risk and control environment remains an area of focus, particularly in areas where trends are identified

- Using outputs from operational risk processes more effectively in proactively managing operational risk
- Continue to monitor regulatory developments and actively engage with regulators.

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

There is one such defined benefit scheme within Investec Bank plc and it 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 sources at risk include:

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

Investec Bank plc monitors the position of the funds closely and regularly assesses potential adverse movements in the scheme in close conjunction with external, independent adivisors. Further information is provided on pages 183 to 185.

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 governance of capital management is consistent across the two groups. The DLC structure requires the two groups to independently manage each group's balance sheet and hence capital is managed on this basis. This approach is overseen by the BRCC (via the Investec DLC capital committee) which is a board sub-committee with ultimate responsibility for the capital 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 local regulatory oversight of capital sufficiency by the regulators for the jurisdictions in which they operate.

Philosophy and approach

Over recent years, capital adequacy standards for banks have been raised as part of attempts to increase the stability and resilience of the global banking sector. Investec has always held capital in excess of regulatory requirements and the group intends to ensure that it continues to remain well capitalised. 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.

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

- Maintain sufficient capital to satisfy the board's risk appetite across all risks faced by the group
- Support a target level of financial strength aligned with a long-term external 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
- Informal discussions with the group's regulators to assist in setting minimum regulatory capital.

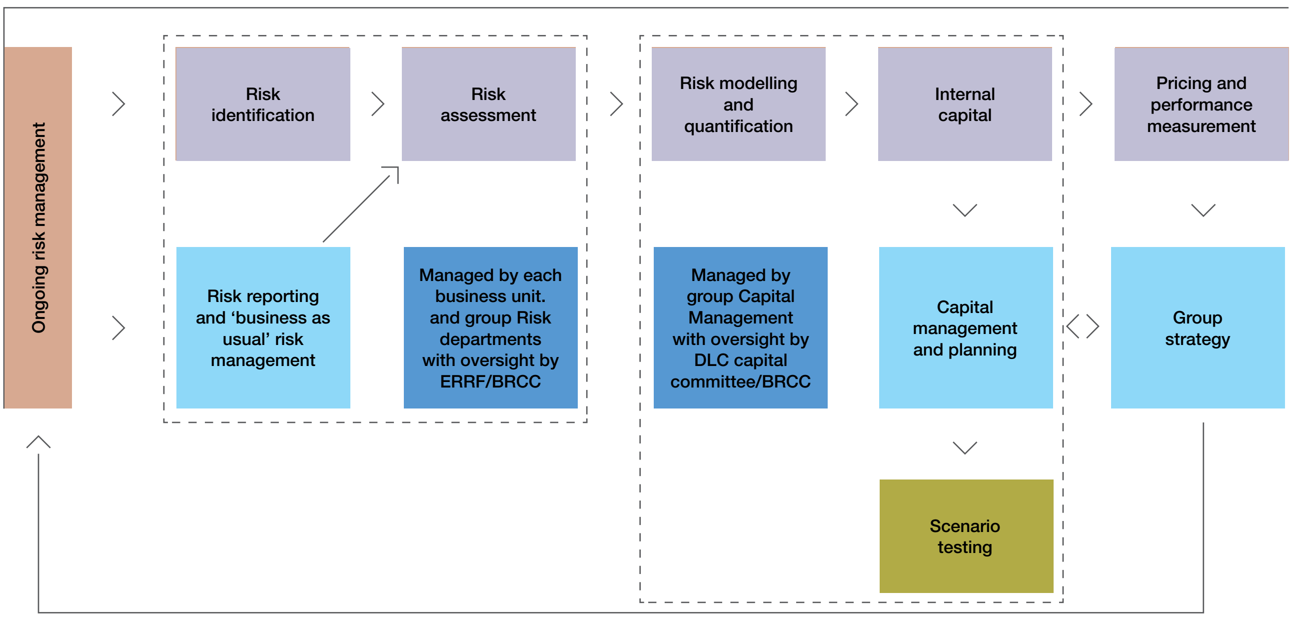
Internal capital performs a critical role in:

- Investment decision making and pricing that is commensurate with the risk being taken
- Allocating capital according to the greatest expected marginal risk-based return, and track performance on this basis
- Determining transactional risk-based returns on capital
- Rewarding performance taking into account the relative levels of risk adopted by forming a basis for the determination of economic value added at a transactional level, and hence the basis for discretionary variable remuneration
- Comparing risk-based performance across business areas.

The framework has been approved by the board and is managed by the DLC capital committee, which is responsible for oversight of the management of capital on a regulatory and an internal basis.

In order to achieve these objectives, the internal capital framework describes 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, key identified 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 regulatory minimum capital requirements.

Since the introduction of Basel II, a number of significant amendments have either been introduced or are expected to be introduced over the coming financial year and beyond. Such changes reflect regulatory objectives around financial stability and affect many areas of our approach to ensuring prudential ongoing management of our risks. With respect to capital sufficiency, rules will tend to require banks generally to hold greater amounts of higher quality capital which will have impacts on a range of processes within all banks. We have historically managed our capital to a very high standard and as such we are well placed to meet any new requirements. Because of this, even after allowing for regulatory changes, the risk appetite of the board and senior management remains unchanged.

Local management within each geography are responsible for compliance with the entity's minimum regulatory requirements, although the allocation of capital supply is controlled by the DLC capital committee.

While consideration of regulatory capital is an important component of our management of capital sufficiency, we do not use regulatory capital as the exclusive driver of capital allocation.

Therefore, while regulatory 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 internal assessment of capital requirements and is based on a conservative assessment of the underlying risk of the portfolio. This requirement has been adopted within our approach to "pillar 2", of which the internal capital framework constitutes a central role.

Risk modelling and quantification (internal capital)

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

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

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

Stressing the business plans through the capital planning process is an important tool by which the board can gain insight to potential sources of vulnerability of the capital sufficiency of the group by way of market, economic or internal events. As such, we stress the capital plans based on conditions most likely to place us under duress. The conditions themselves are agreed by the DLC capital committee after consultation with relevant internal and external experts and research. Such plans are used by management to formulate balance sheet strategy and agree management actions, trigger points and influence determination of our risk appetite.

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 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 internal 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. Using expectations of risk-based returns as the basis for pricing and deal acceptance ensures that risk management retains a key role in ensuring that the portfolio is appropriately managed for that risk.

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

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

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 manage local capital considerations, 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. The structure ensures that capital is actively managed from the lowest and most detailed reporting level and cascades up to the ultimate responsible body – the BRCC.

The following areas within the group 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 capital usage

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 internal capital.

- – Management are 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 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. This responsibility is mandated to BRCC.
  - – The BRCC has delegated management of capital to the DLC capital committee and risk management to ERRF.

Regulatory considerations – capital management

The regulation and supervision of financial institutions continues to undergo significant change in response to the global financial crisis. Changes to rules defining eligibility of qualifying capital and the risk weighting of asset classes proposed under the so-called Basel III and Capital Requirement Directive amendments pose the largest potential changes to the group's balance sheet management priorities. These guidelines have yet to be implemented into law within the group's operating jurisdictions, and therefore remain subject to refinement and change. In addition to Basel III there are a number of sources of potential regulatory change that may affect our capital sufficiency and balance sheet management functions, each of which are closely monitored.

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

Capital disclosures in terms of Basel II

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

Capital structure

Summary information on the terms and conditions of the main features of all capital instruments is provided on pages 186 and 187.

	IBP* £'mn	IBAL* A$'mn
As at 31 March 2011		
Regulatory capital		
Tier 1		
Called up share capital	1 026	292
Share premium	105	–
Retained income	314	364
Other reserves	196	(5)
Minority interests in subsidiaries	(7)	–
Goodwill and intangible assets	(381)	(90)
Total tier 1	1 253	561
Less: deductions	(22)	(63)
	1 231	498
Tier 2 capital		
Aggregate amount	577	104
Less: deductions	(22)	(6)
	555	98
Other deductions from tier 1 and tier 2	(27)	–
Total capital	1 759	596
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 and intangible assets	(96)	(89)
Total tier 1	1 123	556
Less: deductions	(14)	(76)
	1 109	480
Tier 2		
Aggregate amount	525	88
Less: deductions	(14)	(11)
	511	77
Other deductions from tier 1 and tier 2	(101)	–
Total capital	1 519	557

* *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 2011		
Capital requirements	872	442
Credit risk – prescribed standardised exposure classes	707	385
Corporates	219	295
Secured on real estate property	259	6
Counterparty risk on trading positions	17	9
Short term claims on institutions and corporates	19	3
Retail	53	11
Institutions	20	12
Other exposure classes	120	49
Securitisation exposures	23	–
Equity risk – standardised approach	21	8
Listed equities	2	3
Unlisted equities	19	5
Market risk – portfolios subject to internal models approach	50	2
Interest rate	14	1
Foreign exchange	20	–
Commodities	–	1
Equities	16	–
Operational risk – standardised approach	71	47
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

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

Capital adequacy

As at 31 March 2011	IBP* £'mn	IBAL* A$'mn
Primary capital (tier 1)	1 253	561
Less: deductions	(22)	(63)
	1 231	498
Tier 2 capital		
Aggregate amount	577	104
Less: deductions	(22)	(6)
	555	98
Other deductions from tier 1 and tier 2	(27)	–
Total capital	1 759	596
Risk-weighted assets (banking and trading)	10 911	3 387
Credit risk – prescribed standardised exposure classes	8 851	2 957
Corporates	2 743	2 266
Secured on real estate property	3 232	45
Counterparty risk on trading positions	218	66
Short term claims on institutions and corporates	236	23
Retail	668	88
Institutions	253	95
Other exposure classes	1 501	375
Securitisation exposures	284	–
Equity risk – standardised approach	264	57
Listed equities	30	20
Unlisted equities	234	37
Market risk – portfolios subject to internal models approach	626	14
Interest rate	174	8
Foreign exchange	246	1
Commodities	–	5
Equities	206	–
Operational risk – standardised approach	886	359
Capital adequacy ratio	16.1%	17.6%
Tier 1 ratio	11.3%	14.7%
Capital adequacy ratio – pre operational risk	17.5%	19.7%
Tier 1 ratio – pre operational risk	12.3%	16.4%

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

Capital adequacy

As at 31 March 2010	IBP* £'mn	IBAL* A$'mn
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
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.*

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. Our ratings as at 31 March 2011 are as follows:

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+	

Internal audit

Internal Audit provides objective and independent assurance, via the group audit committees, to the management and board of Investec about risk management, control and governance processes and systems.

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

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

The heads of Internal Audit report at each audit committee meeting and have a direct reporting line to the chairman of the audit committee. They operate independently of executive management but have access to their local chief executive officer. The head of Investec plc Internal Audit is 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 adopted functions comply with the international standards for the professional practice of internal auditing.

Annually, Internal Audit conducts a formal risk assessment of the entire business from which a comprehensive risk-based audit plan is derived. The assessment and programme are validated by executive management and approved by the responsible audit committee. 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 Investec's dependence on IT systems. Internal Audit also liaises with the external auditors and other assurance providers to enhance efficiencies in terms of combined assurance. The annual plan is reviewed regularly to ensure it remains relevant and responsive, given changes in the operating environment. The audit committee approves any changes to the plan.

Significant control weaknesses are reported, in terms of an escalation protocol, to the audit and compliance implementation forums, where remediation procedures and progress are considered and monitored in detail by management. The audit committee receives a report on significant issues and actions taken by management to enhance related controls.

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

Compliance

Compliance risk is the risk that Investec fails to comply with the letter and spirit of 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 is subject to extensive supervisory and regulatory governance in the countries in which we operate.

Under the DLC structure, Investec plc and Investec Limited maintain separate compliance structures. Each structure operates under terms of reference which are approved by its listed company board and audit committee. Each 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.

We seek to bring the highest standard of compliance best practice to all our jurisdictions.

UK and Europe – year in review

The year in review has seen further significant proposed reforms to the regulatory and supervisory framework of UK and European firms. These proposed reforms have focused on macro-prudential regulation, capital, resolution, liquidity, market infrastructure and reform of regulatory institutions.

The overall banking regulatory environment remains relatively uncertain, notwithstanding the recent announcements made by the Basel Committee on Banking Supervision, both in terms of prudential regulation and the wider reform to the UK's regulatory oversight framework. A particular concern throughout 2010 therefore continues to be the volume of regulatory pressure facing banks, including Investec. This pressure is expected to increase in 2011 due to a raft of both UK and EU led reforms coming online.

The observed trend is toward higher impact, costly and potentially transformational reforms which typically require a higher degree of co-ordination and strategic consideration by international banking groups. Despite this pressure, Investec has continued to successfully adapt to the changing landscape via dedicating significant resources to monitoring, analysing and implementing regulatory developments as they arise.

The UK government is currently in consultation on reforming the UK regulatory system.

During the period under review regulatory activity in the UK has been focused on the following initiatives:

- Reform of the UK regulatory framework
- Independent banking commission
- Capital and liquidity
- FSA Remuneration Code
- The mortgage market review

Reform of the UK regulatory framework

The UK government is currently in consultation on reforming the UK regulatory system, representing a dismantling of the 'tripartite' system and a new approach to regulation in the UK. The proposals include integration of responsibility for banking supervision into the Bank of England under a new prudential regulation authority and the creation of the financial conduct authority (FCA) which will be responsible for the non-prudential areas of regulation that currently sit with the FSA. In terms of macro-prudential regulation, the UK government is also proposing the creation of a new financial policy committee (FPC) in the Bank of England which will assume control of macro-prudential tools to make sure that systemic risks to financial stability are managed.

The UK government's aim is for the new regulatory structure to come into force by the end of 2012. The reforms will be implemented through primary legislation amending the Financial Services and Markets Act with a draft bill due to be published in Spring 2011.

Independent banking commission

The independent banking commission was established in 2010 in order to examine the structure of the banking industry, including the levels of competition in the sector. The issue of whether banks should be broken up into separate retail and investment banking functions, or somehow ring-fenced from each other, is one of the commission's main considerations.

The commission published its interim report on 11 April 2011. This sets out the provisional views of the commission on the need for reform and on possible options, and to seek views, evidence and analysis in response as part of a consultation process.

The key concepts outlined in this interim report include structural reforms to the sector, enhanced capital requirements and loss absorbency and the promotion of competition in the retail banking market. The structural reforms discussed by the commission include high level thoughts on the introduction of a UK retail ring-fence in which UK retail banking activities of universal banks can continue to be provided by universal banks but must be contained within separately capitalised subsidiaries.

The commission's full report is due to be published by the end of September 2011 and submitted to the cabinet committee on banking reform.

Capital and liquidity

The prudential regulation and supervision of financial institutions continues to undergo significant change in an attempt to address the systemic failures that caused the global financial crisis.

The Basel committee, following consultation, impact analysis and draft proposals during 2010, issued final proposals in December 2010 on the twin areas of capital and liquidity, the key aspects of which are set out below. These proposals are going through a period of consultation and are expected to be introduced by the end of 2011 and onwards, with substantial transitional arrangements.

Proposals have included:

- Increased risk weightings for the trading book, securitisations, off-balance sheet exposures and derivatives (to be implemented by the end of 2011)
- A minimum common equity ratio of 4.5% (by 1 January 2015), alongside the adoption of an additional capital conservation buffer of 2.5% in common equity, to be phased in between 1 January 2016 and 1 January 2019. Furthermore, the Basel committee has finalised its proposals for a countercyclical buffer of up to 2.5% in loss-absorbing capital, to be built up in periods during which credit growth exceeds GDP growth
- Introduction of a gross leverage ratio of 3% of total non-risk weighted assets. An observation period of parallel running will start in 2013, aiming for the adoption of a minimum standard becoming mandatory in 2018
- A new minimum standard has been proposed for liquidity, the liquidity coverage ratio, to extend, under stressed conditions, the period during which a bank can continue to operate when it is unable to dispose of assets to repay withdrawals. Proposals are also being debated for a net stable funding ratio, which will require banks to match more accurately the maturities of liabilities to assets held. It is expected that these measures will be phased in after observation periods, in 2015 and 2018 respectively.

FSA Remuneration Code

In December 2010 the FSA published an updated Remuneration Code to take into account changes required by the capital requirements directive (CRD3). The revised Code applies to an extended range of firms including all banks and investment firms. Specific requirements of the revised Code will primarily affect the remuneration of those senior employees deemed to be 'code staff' (a new concept introduced by the revised Code). Investec largely adheres to the remuneration principles as set out in the FSA Code (refer to the remuneration report on pages 115 to 123 for more detail) and will formally adopt the requirements as set out in the code in its 2012 financial year.

Mortgage market review

The FSA has made significant progress in its wide ranging review of the regulation of the UK mortgage market, with several key proposals relating to responsible lending and arrears handling now at consultation stage.

With regard to responsible lending, the FSA proposes to ensure that all mortgages are carefully assessed to make sure borrowers can afford them. Specific proposals include: imposing affordability tests for all mortgages and making lenders ultimately responsible for assessing a consumer's ability to pay; requiring verification of borrowers' income in every case to prevent over inflation of income and to prevent mortgage fraud. These proposals effectively ban self-certification and fast-track mortgages where income is not verified and provides extra protection for vulnerable customers with a credit impaired history. Final rules are expected to be published during the course of 2011.

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. From an APRA perspective the key proposals include global liquidity standards and Basel III.

The introduction of the national credit code has replaced the uniform consumer credit code and covers credit activities. This means that home loans, personal loans and consumer leases, among other products and services, are now regulated under Commonwealth legislation and administered by ASIC. Investec Australia has been granted its credit license and has implemented processes to address the requirements contained within the legislation when issuing credit to clients in their personal capacity.

ASIC have taken over the market supervision of market participants which includes Investec Securities (Australia) Pty Ltd. The Australian government's 'future of financial advice reform' is actively exploring ways to improve access to and the quality of advice.

Corporate governance

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

Introduction

While the Investec 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 bank 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 2011 annual report.

Investec's 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.

Board statement

The board, management and employees of Investec are 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.

Financial reporting and going concern

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

- Budgeting and forecasts
- Profitability
- Capital
- 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 bank, key processes in operation and specific enquiries, that there are adequate resources to support Investec Bank plc 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 96 to 104.

Furthermore, the board is of the opinion that the bank'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 113.

The board seeks to exercise leadership, integrity and judgement in pursuit of strategic goals and objectives, to achieve long-term sustainability, growth and prosperity. The board is accountable for the performance and affairs of Investec. It provides entrepreneurial leadership for the bank within a framework of prudent and effective controls which allows risks to be assessed and managed.

The board recently adopted a board charter, which provides a framework of how the boards operate as well as the type of decisions to be taken by the board and which should be delegated to management. The board framework also deals with composition and meeting procedures.

The board meets its objectives by reviewing and guiding corporate strategy, setting the bank's values and standards, promoting high standards of corporate governance, approving key policies and objectives, ensuring that obligations to its 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.

Certain matters are specifically reserved for the board. To achieve its objectives, the board may delegate certain of its duties and functions to various board committees, bank forums or the joint chief executive officers, without abdicating its own responsibilities.

Board committees

In exercising control of the bank, the directors are empowered to delegate to various board and executive committees. The committees have specific terms of reference, appropriately skilled members and access to specialist advice when necessary.

Below is an overview of the various committees' composition and responsibilities. The full terms of reference are available on our website.

The following table indicates board representation on the committees:

Investec board of directors

Nomination and directors' affairs committee	Five NEDs (three independent)	Four times per annum

Responsibilities, inter alia, include:
- Identification and nomination of board candidates
- Determining and evaluating the adequacy, efficiency and appropriateness of the bank's corporate governance
- Reviewing board composition and recommending changes
- Succession planning and management.

Audit committee	Five independent NEDs	Four times per annum

Responsibilities, inter alia, include:
- Review and oversight of combined reports, financial statements and integrated report
- External and internal audit oversight
- Compliance oversight
- Monitoring the effectiveness of the systems of internal financial control
- Reviewing any matters affecting the financial safety of the bank.

Board risk and capital committee	Three executives seven NEDs (four independent)	Six times per annum

Responsibilities, inter alia, include:
- Monitoring and implementation of risk management policies and procedures
- Review of the adequacy of the risk management structure and processes
- Ratifying exposure limits for market, counterparty and credit risk
- Monitoring of liquidity and operational risks.

Remuneration committee	Four independent NEDs	Seven times per annum

Responsibilities, inter alia, include:
- Determining, developing and agreeing the executive (directors and management) remuneration framework
- Ensuring appropriate incentives to encourage enhanced performance in contribution to the success of the group and alignment with the corporate objectives and business strategy.

Audit sub-committee	Five independent NEDs	Four times per annum

Audit and compliance implementation forums

Capital committee	Executive risk review forum
Capital planning, allocation and structuring, performance measurement, investment decisions and capital based incentivisation.	Measuring, monitoring and mitigation of enterprise wide risk.
Three executives one independent NED	Three executives and senior management
At least quarterly	Weekly

Management and succession planning

Global business unit heads, geographic management and the heads of central 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 bank's strategy and vision.

Matters of succession are considered regularly by the nominations and directors' affairs committee (NOMDAC). Decision making is spread to encourage and develop an experienced pool of talent.

Internal control

Risks and controls are reviewed and monitored regularly for relevance and effectiveness. The board risk and capital committee (BRCC) and audit committees assist the board in this regard. Sound risk management practices are promoted by the 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 bank through a combination of risk identification, evaluation and monitoring processes, appropriate decision and oversight forums, and assurance and control functions such as 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, 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 (ERRF) and by the BRCC. 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, BRCC and risk and control functions are reviewed at each board meeting.

Certain statutory duties with respect to directors' conflicts of interest are in force under the UK Companies Act 2006. In accordance with this Act and the Articles of Association, the board may authorise any matter that otherwise may involve the directors breaching their duty to avoid conflicts of interest. The board has adopted a procedure, as set out in the Articles, that includes a requirement for directors to submit, in writing, disclosures detailing any actual or potential conflict for consideration and, if considered appropriate, approval.

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

The bank'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 year 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. The purpose is to help these stakeholders make meaningful assessments and informed investment decisions about the bank.

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 the 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 durability and longetivity, across all our businesses, and an ingrained understanding of the practices that underpin sustainability. Our approach to sustainability is documented throughout the Investec group's 2011 annual report and further detail can be found on our website.

Directorate

Director		
Hugh S Herman (70)	BA LLB LLD (hc)	Non-executive chairman
David M van der Walt (46)	BCom (Hons) CA(SA)	Joint chief executive officer
Steven Heilbron (45)	BCom CA(SA)	Joint chief executive officer
George FO Alford (62)	BSc (Econ) FCIS FIPD MSI	
Bernard Kantor (61)	CTA	
Ian R Kantor (64)	BSc (Eng) MBA	
Stephen Koseff (59)	BCom CA(SA) H Dip BDP MBA	
Ian R Wohlman (56)	ACIB	
Peregrine KO Crosthwaite (62)	MA (Hon)	

5

Remuneration report

Remuneration report

Remuneration philosophy, principles and policies

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);
- Variable performance reward (linked to our EVA model as discussed on pages 117 and 118); and
- 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 bank's short and long-term success.

Remuneration policy general principles

Our remuneration policy is consistent with the following general principles:

- Remuneration policies, procedures and practices (collectively referred to as the 'remuneration policy') are consistent with, and promote, sound and effective risk management, and do not encourage risk-taking that exceeds the level of tolerated risk of the bank
- Our remuneration policy is in line with the business strategy, objectives, values and long-term interests of Investec
- The payment of variable remuneration does not limit Investec's ability to maintain or strengthen its capital base
- The structure of all employees' remuneration are consistent with and promotes effective risk management.

Other key remuneration principles

Other 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

The remuneration committee of the bank's parent, Investec plc, comprises non-executive directors and is responsible for determining the overall reward packages of the bank's 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 financial statements.

- 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 96 to 100)
- 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
- The fixed component is, however, designed to be sufficient so that employees do not become dependent on their variable compensation as we are not morally bound to award variable rewards
- In addition, we operate a fully flexible incentive policy and are not contractually bound to award variable rewards. Investec has the ability to pay no performance bonuses should the performance of the group or individual employees require this.

In addition, our remuneration policy includes the following elements:

- We do not pay remuneration through vehicles that facilitate avoidance of applicable laws and regulations
- Our policy is designed to avoid conflicts of interest between Investec and its clients. Specific internal controls and processes are in place to prevent such conflicts of interest from occurring and posing a risk to the group on prudential grounds. In addition, no individual is involved in the determination of his/her own remuneration rewards
- Employees must undertake and not use any personal hedging strategies or remuneration or liability-related contracts of insurance to undermine the risk alignment effects embedded in their remuneration arrangements. Group Compliance maintains arrangements designed to ensure that employees comply with this policy.

Determination of remuneration levels

Qualitative and quantitative issues form an integral part of the determination of reward levels. Factors considered include:

- The performance of the overall firm, the specific business unit and the individual employee
- The employee's alignment and adherence to our culture and values
- Attitude displayed towards risk consciousness, risk management and regulatory compliance
- Specific input from risk and compliance functions regarding concerns about the behaviour of individual employees or the riskiness of business undertaken
- The level of cooperation and collaboration fostered; the ability to grow and develop markets and client relationships; the development of staff; and the possible replacement cost of such employees.

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 to date
- For employees, combinations of firms from the JSE Financial 15 and the FTSE 350 General Finance sector have offered the most appropriate benchmark
- The committee also reviews on an individual basis 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 and the components for each director are detailed in tables accompanying this report.

Base salary and other 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 seek to set base salaries (including benefits) at median market levels.

The Human Resources division provides guidelines to business units on recommended salary levels for all employees within the organisation to facilitate the review. These guidelines include a strategic message on how to set salary levels that will aid Investec in meeting its objectives and corporate values and incorporates guidance on increasing levels to take account of the change in the cost of living over the year to ensure that salary levels always allow employees to afford a reasonable standard of living and don't encourage a reliance on variable remuneration.

Advisers are often engaged by either the Human Resources division or the business units to obtain general benchmark information or to benchmark specific positions to ensure that fixed pay levels are market driven and competitive so that we attract the best and most skilled talent in the market.

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.

The remuneration committee obtains industry benchmarking and specific advice around salary and performance bonus levels from its independent advisers in respect of the executive directors.

Annual performance bonus

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

Our EVA model: performance-linked and risk-adjusted remuneration

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

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

Our EVA model has been consistently applied for a period in excess of ten years and encompasses the following principals:

- Capital allocated is a function of both regulatory and internal capital requirements, the risk assumed within the business and our overall business strategy
- Investec 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 96 to 100.
- Internal capital comprises the regulatory capital requirement taking into account a number of specified risks plus a capital buffer which caters, inter alia, for any unspecified or future risks not specifically identified in the capital planning process. Investec then ensures that it actually holds capital that is in excess of this level of internal capital
- Internal capital is allocated to each business unit via a comprehensive analysis of the risks inherent within that business and an assessment of the costs of those risks

- Hurdle rates or targeted returns are determined for each business unit based on the weighted average cost of capital (plus a buffer for trading businesses to take into account additional risks not identified in the capital allocation process) applied to internal capital
- Targeted returns differ by business unit reflecting the competitive economics and shareholder expectation for the specific area of the business, and are set with reference to competitive benchmarks for each product line
- In essence varying levels of return are required for each business unit reflecting the state of market maturity, country of operation, risk, capital invested (capital intensive businesses) or expected expense base (fee-based businesses)
- Growth in profitability over time will result in an increasing 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. These targets are subject to annual review
- The group's credit and risk forums provide transaction approval independent of the business unit on a deal by deal basis adding a level of risk consciousness to the pre-determined (and risk adjusted) capital allocation and required hurdle rates and thus ensure that each transaction generates a return that is commensurate with its associated risk profile.

In terms of our EVA process, if business and individual performance goals are 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.

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

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

- A fixed predetermined percentage of any return in excess of the EVA hurdle accrues to the business units' EVA pool
- A portion of the total EVA pool is allocated towards the bonus pool for central service and head office employees
- These bonus pools are reviewed regularly by the appropriate management and non-executive committees to ensure that awards are only paid when it is appropriate to do so, considering firm-wide performance against non-financial risk (both current and future) and compliance based objectives. All users of capital operate within a strict philosophical framework that requires a balancing of risk and reward and that is designed to encourage behaviour in the interests of all stakeholders as opposed to just employees
- The EVA pools are calculated centrally by the group's finance function and subject to audit as part of the year-end audit process
- 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.

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

Deferral of performance awards

All performance awards exceeding a pre-determined hurdle level are subject to 60% deferral in respect of that portion that exceeds the hurdle level. The entire deferred amount is awarded in the form of forfeitable share awards vesting in two equal tranches at the end of 12 months and 24 months. These awards are made in terms of our existing long-term incentive plans (refer below). The entire amount that is not deferred is payable up front in cash.

Employees who leave the employment of Investec prior to vesting of these deferred awards will lose their forfeitable shares, subject to the group's normal good leaver provisions and approval process in exceptional cases The deferred share awards are subject to claw back of unpaid EVA where profits used to determine EVA bonuses are reversed in subsequent periods.

The current hurdle level is subject to review and for the 2012 financial year the deferral period will be extended to three 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.

Governance section

Compliance and governance statement

The remuneration report of the Investec group complies with the provisions of the London Combined Code 2008, the UK Corporate Governance Code 2010, section 420 of the UK Companies Act 2006 and the UK Financial Services Authority listing rules.

The remuneration committee has reviewed a vast survey of the new remuneration regulations and changing attitudes in all of our core geographies and concluded that Investec's long-standing fundamental remuneration philosophies are consistent with these requirements. Investec plc will formally adopt the requirements set out in the FSA Remuneration Code for its 2012 financial year.

Scope of our remuneration policy

The Investec group aims to apply remuneration policies to executive directors and employees that are largely consistent group-wide, but recognises that certain parts of the group are governed by local regulations that may contain more onerous requirements in certain respects. In those cases, the higher requirements are applied to that part of the group. This will be applied to Investec plc and its subsidiary companies that are subject to the FSA Remuneration Code (as a tier one organisation as defined therein), and in particular in relation to code staff. Additionally, where any aspect of our remuneration policy contravenes local laws or regulations, the local laws or regulations shall prevail.

We believe that our remuneration policy is consistent with and complies with the principals and rules of the FSA Remuneration Code in respect of Investec plc and its subsidiary companies. The following Investec plc group entities are separately regulated by the FSA and as such maintain their own remuneration policy separate from the Investec group policy and in line with such entity's own risk profile and business activities: Hargreave Hale; Rensburg Sheppards; Investec Asset Management.

Directors' interest

According to the register of directors' interests, no director holding office at 31 March 2011 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 2011

Name	Beneficial and non-beneficial interest Investec plc[2] 1 April 2010	31 March 2011	% of shares in issue[1] Investec plc 31 March 2011	Beneficial and non-beneficial interest Investec Limited[3] 1 April 2010	31 March 2011	% of shares in issue[1] Investec Limited 31 March 2011
Executive directors						
S Heilbron	–	–	–	851 990	851 990	0.3%
S Koseff[4]	4 839 133	4 839 133	0.9%	1 809 330	1 809 330	0.7%
B Kantor[5]	48 525	48 525	–	4 863 500	3 801 000	1.4%
A Tapnack[7]	–	n/a	n/a	203 192	n/a	n/a
DM van der Walt	–	–	–	690 140	690 140	0.3%
IR Wohlman	–	17 479	–	100 000	100 000	–
Total number	4 887 658	4 905 137	0.9%	8 518 152	7 252 460	2.7%
Non-executive directors						
HS Herman[6]	1 369 915	1 369 915	0.3%	760 470	760 470	0.3%
GFO Alford	3 100	10 000	–	–	–	–
PKO Crosthwaite[8]	n/a	132 905	–	n/a	–	–
IR Kantor	3 509 545	3 509 545	0.7%	325	325	–
Sir C Keswick[9]	15 750	n/a	n/a	9 250	n/a	n/a
Total number	4 898 310	5 022 368	1.0%	770 045	760 795	0.3%
Total number	9 785 968	9 927 505	1.9%	9 288 197	8 013 255	3.0%

1. *The issued share capital of Investec plc and Investec Limited at 31 March 2011 was 537.2 million shares and 272.8 million shares respectively.*
2. *The market price of an Investec plc share as at 31 March 2011 was £4.78 (2010: £5.39), ranging from a low of £4.29 to a high of £5.50 during the financial year.*
3. *The market price of an Investec Limited share as at 31 March 2011 was R52.80 (2010: R62.49), ranging from a low of R49.49 to a high of R65.50 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 139 005 (2010: 146 232) Investec Limited shares at a strike of R54.11 (2010: R51.44) per share and an expiry date of 11 June 2011. The number of shares and strike price are adjusted from time to time in terms of the dividend adjustment provision in the option agreement.*
5. *B Kantor: European call options over 454 288 (2010: 477 908) Investec Limited shares at a strike of R53.13 (2010: R50.50) per share and an expiry date of 11 June 2011. The number of shares and strike price are adjusted for both options from time to time in terms of the dividend adjustment provision in the option agreement.*
6. *HS Herman: European call options over 27 542 (2010: 28 974) Investec Limited shares at a strike of R54.11 (2010: R51.44) per share and an expiry date of 11 June 2011. The number of shares and strike price are adjusted from time to time in terms of the dividend adjustment provision in the option agreement.*
7. *Alan Tapnack retired on 15 December 2010.*
8. *Peregrine Crosthwaite was appointed to the board on 10 November 2010.*
9. *Sir Chips Keswick retired on 13 August 2010.*

Directors' interest in preference shares as at 31 March 2011

Name	Investec plc		Investec Limited		Investec Bank Limited	
	1 April 2010	31 March 2011	1 April 2010	31 March 2011	1 April 2010	31 March 2011
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 2011 was R51.31 (2010: R47.05).*
- *The market price of an Investec Limited preference share as at 31 March 2011 was R90.70 (2010: R91.00).*
- *The market price of an Investec Bank Limited preference share as at 31 March 2011 was R98.00 (2010: R98.70).*

Directors' interest in options as at 31 March 2011

Investec plc shares

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2010	Exercised during the year	Lapsed during the year	Balance at 31 March 2011	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
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

Investec Limited shares

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

No new grants were made to executive directors during the financial year. The issued share capital of Investec plc and Investec Limited at 31 March 2011 was 537.2 million shares and 272.8 million shares respectively. The market price of an Investec plc share as at 31 March 2011 was £4.78 (2010: £5.39), ranging from a low of £4.29 to a high of £5.50 during the financial year. The market price of an Investec Limited share as at 31 March 2011 was R52.80 (2010: R62.49), ranging from a low of R49.49 to a high of R65.50 during the financial year.

Directors' interest in the Share Matching Plan 2005 as at 31 March 2011

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2010	Exercised during the year	Options granted/ lapsed during the year	Balance at 31 March 2011	Market price at date of exercise	Gross gains made on date of exercise	Period exercisable
S Koseff	21 Nov 2005	Nil	187 500	187 500		–	£4.63	£866 277	
	25 Jun 2009	Nil	300 000	–	–	300 000	–	–	75% is exercisable on 25 Jun 2013 and 25% on 25 Jun 2014
	1 Jul 2010	Nil	–	–	750 000	750 000	–	–	75% is exercisable on 1 July 2014 and 25% on 1 July 2015
B Kantor	21 Nov 2005	Nil	187 500	187 500	–	–	£4.54	£851 250	
	25 Jun 2009	Nil	300 000	–	–	300 000	–	–	75% is exercisable on 25 Jun 2013 and 25% on 25 Jun 2014
	1 Jul 2010	Nil	–	–	750 000	750 000	–	–	75% is exercisable on 1 July 2014 and 25% on 1 July 2015

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.

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 2011

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2010	Exercised during the year	Options granted/ lapsed during the year	Balance at 31 March 2011	Market price at date of exercise	Gross gains made on date of exercise	Period exercisable
Executive directors									
S Heilbron	16 Mar 2005	Nil	125 000	125 000	–	–	£5.08	£635 040	
	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
	1 Jul 2010	Nil	–	–	750 000	750 000	–	–	75% is exercisable on 1 July 2014 and 25% on 1 July 2015
DM van der Walt	16 Mar 2005	Nil	106 250	106 250	–	–	£4.93	£523 890	
	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
	1 Jul 2010	Nil	–	–	750 000	750 000	–	–	75% is exercisable on 1 July 2014 and 25% on 1 July 2015
IR Wohlman	16 Mar 2005	Nil	37 500	37 500	–	–	£4.98	£186 750	
	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
	1 Jul 2010	Nil	–	–	100 000	100 000	–	–	75% is exercisable on 1 July 2014 and 25% on 1 July 2015

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.

Financial statements

Directors' report

The directors present their report and financial statements for the year ended 31 March 2011.

Business and principal activities

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

On 30 March 2010, it was announced that Investec and Rensburg Sheppards plc had reached agreement on the terms of a recommended all share offer under which Investec would acquire the entire issued and to be issued ordinary share capital of Rensburg Sheppards plc not already owned by it. Following shareholder and regulatory approvals the acquisition became effective on 25 June 2010.

Rensburg Sheppards plc became a subsidiary of Investec Bank plc on 31 March 2011. Rensburg Sheppards Investment Management Limited (the main operating entity of Rensburg Sheppards plc) was renamed Investec Wealth & Investment Limited on 31 May 2011.

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 11 to 30.

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 as adopted by the EU. These policies are set out on pages 136 to 147.

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 202 to 210.

Authorised and issued share capital

Details of the share capital as at 31 March 2011 are set out in note 33 of the bank's consolidated financial statements.

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

Date of issue	Number of ordinary shares	Price per share
24 September 2010	66 000 000	£1.52
30 September 2010	22 000 000	£1.52
31 March 2011	190 000 000	£1.54

Results and dividends

The results for the year are shown on page 131. Movements in reserves are shown in the reconciliation of equity on pages 134 and 135 of the financial statements.

An interim dividend of £15 000 000 was paid on 28 May 2010 and a further interim dividend of £8 000 000 was paid on 12 November 2010.

Directors and their interests

The directors of the bank for the year ended 31 March 2011 are shown on page 113. There have been the following changes during the year:

On 10 November 2010, Peregrine Crosthwaite was appointed to the board. Sir Chips Keswick retired on 13 August 2010 and Alan Tapnack retired on 24 February 2011.

The interests of the directors are set out in the remuneration report on pages 115 to 123.

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

Employees

The bank'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 bank's policy is to adopt an open management style, thereby encouraging informal consultation at all levels about aspects of the bank's operations, and motivating staff involvement in the bank's performance by means of employee share and option schemes.

Further information is provided in the Investec group's 2011 annual report.

Environment

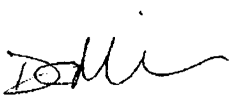
The bank is committed to pursuing sound environmental policies in all aspects of its business, and seeks to encourage and promote good environmental practice among its employees and within the communities in which it operates.

Further information is provided in the Investec group's 2011 annual 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

17 June 2011

Directors' responsibility statement

The following statement, which should be read in conjunction with the auditor's report set out on pages 128 and 129, 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 bank 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.

The bank consistently adopts appropriate and recognised accounting policies and these are supported by reasonable judgements and estimates on a consistent basis and provides additional disclosures when compliance with the specific requirements in International Financial Reporting Standards (IFRS) are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the bank's financial position and financial performance.

The financial statements of the bank 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 company, 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 bank is set out on pages 128 and 129 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 companies' auditors are aware of that information.

Approval of financial statements

The directors' report and the financial statements of the bank, which appear on pages 125 and 126 and pages 130 to 196, were approved by the board of directors on 17 June 2011.

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

Signed on behalf of the board

David van der Walt
Joint chief executive officer

Steven Heilbron
Joint chief executive officer

17 June 2011

Independent auditor's report to the member of Investec Bank plc

We have audited the group financial statements of Investec Bank plc for the year ended 31 March 2011 which comprise of the consolidated income statement, 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 (IFRSs) as adopted by the European Union.

This report is made solely to the company's member, 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 member as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibility statement set out on page 127, 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 and express an opinion on 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- Give a true and fair view of the state of the group's affairs as at 31 March 2011 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 and Article 4 of the IAS regulation.

Opinions 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 group financial statements; and
- The information given in the corporate governance statement set out on pages 110 to 113 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:

Under the Companies Act 2006 we are required 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; or
- A corporate governance statement has not been prepared by the company.

Other matters

We have reported separately on the parent company financial statements of Investec Bank plc for the year ended 31 March 2011 and on the information in the directors' remuneration report.

Michael-John Albert
Senior statutory auditor
for and on behalf of Ernst & Young LLP, Statutory Auditor

London
17 June 2011

Consolidated income statement

For the year to 31 March £'000	Notes	2011	2010
Interest income		731 895	537 082
Interest expense		(486 173)	(374 022)
Net interest income		245 722	163 060
Fee and commission income		198 362	166 966
Fee and commission expense		(17 286)	(16 096)
Principal transactions	2	253 100	218 724
Other operating income	3	45 590	17 690
Other income		479 766	387 284
Total operating income before impairment losses on loans and advances		725 488	550 344
Impairment losses on loans and advances	19	(170 554)	(133 186)
Operating income	9	554 934	417 158
Operating costs	4	(478 087)	(383 708)
Depreciation of operating leased assets	4/24	(16 447)	–
Operating profit		60 400	33 450
Net loss on sale of subsidiaries	27	(8 579)	–
Profit before taxation		51 821	33 450
Taxation	6	(17 841)	2 965
Profit after taxation		33 980	36 415
Operating losses attributable to non-controlling interests		9 751	16 297
Loss on subsidiaries attributable to non-controlling interests		3 099	–
Earnings attributable to shareholders		46 830	52 712

Consolidated statement of comprehensive income

For the year to 31 March £'000	Notes	2011	2010
Profit after taxation		33 980	36 415
Other comprehensive income:			
Fair value movements on cash flow hedges	6	2 205	13 095
Gains on realisation of available-for-sale assets recycled through the income statement	6	(4 728)	(7 902)
Fair value movements on available-for-sale assets	6	22 938	20 425
Foreign currency adjustments on translating foreign operations		21 016	9 972
Total comprehensive income		75 411	72 005
Total comprehensive loss attributable to non-controlling interests		(12 480)	(17 829)
Total comprehensive income attributable to ordinary shareholders		87 891	89 834
Total comprehensive income		75 411	72 005

Consolidated balance sheet

At 31 March £'000	Notes	2011	2010
Assets			
Cash and balances at central banks		1 142 547	2 008 743
Loans and advances to banks		750 463	1 307 254
Reverse repurchase agreements and cash collateral on securities borrowed	15	1 472 948	490 494
Trading securities	16	642 013	347 763
Derivative financial instruments	17	641 212	757 136
Investment securities	18	2 386 011	1 880 655
Loans and advances to customers	19	8 874 104	8 226 215
Securitised assets	20	1 138 618	1 121 867
Interests in associated undertakings	21	13 096	14 345
Deferred taxation assets	22	62 436	84 730
Other assets	23	727 282	488 424
Property and equipment	24	235 219	140 321
Goodwill	25	276 369	86 561
Intangible assets	26	126 216	26 218
		18 488 534	16 980 726
Liabilities			
Deposits by banks		765 912	1 445 131
Derivative financial instruments	17	529 995	539 389
Other trading liabilities	28	402 326	190 295
Repurchase agreements and cash collateral on securities lent	15	612 663	545 018
Customer accounts (deposits)		10 329 009	9 264 474
Debt securities in issue	29	1 802 932	1 772 674
Liabilities arising on securitisation	20	1 012 903	1 048 368
Current taxation liabilities		41 580	65 128
Deferred taxation liabilities	22	36 216	7 204
Other liabilities	30	703 611	383 025
		16 237 147	15 260 706
Subordinated liabilities	32	603 133	538 321
		16 840 280	15 799 027
Equity			
Ordinary share capital	33	1 026 000	748 000
Share premium		105 117	70 533
Capital reserve		114 128	–
Other reserves		97 433	56 914
Retained income		329 370	303 467
Shareholders' equity excluding non-controlling interests		1 672 048	1 178 914
Non-controlling interests in partially held subsidiaries	34	(23 794)	2 785
Total equity		1 648 254	1 181 699
Total liabilities and equity		18 488 534	16 980 726

Consolidated cash flow statement

For the year to 31 March £'000	Notes	2011	2010
Operating profit adjusted for non-cash items	36	264 424	190 071
Taxation paid		(23 089)	(6 566)
Increase in operating assets	36	(1 892 892)	(2 101 130)
Increase in operating liabilities	36	846 002	3 089 003
Net cash (outflow)/inflow from operating activities		(805 555)	1 171 378
Cash flow on acquisition of subsidiaries	27	64 823	(416)
Cash flow on disposal of group operations		40 037	–
Cash flow on net disposal of associates		1 596	1 326
Cash flow on acquisition and disposal of property, equipment and intangible assets		(229 648)	(13 836)
Net cash outflow from investing activities		(123 192)	(12 926)
Dividends paid to ordinary shareholders		(23 000)	(5 000)
Dividends paid to other equity holders		–	(136)
Proceeds on issue of shares		100 584	118 166
Proceeds from subordinated debt raised		496 586	11 277
Repayment of subordinated debt		(438 246)	(154 368)
Net cash inflow/(outflow) from financing activities		135 924	(30 061)
Effects of exchange rate changes on cash and cash equivalents		71 520	38 420
Net (decrease)/increase in cash and cash equivalents		(721 303)	1 166 811
Cash and cash equivalents at the beginning of the year		2 514 476	1 347 665
Cash and cash equivalents at the end of the year		1 793 173	2 514 476
Cash and cash equivalents is defined as including:			
Cash and balances at central banks		1 142 547	2 008 743
On demand loans and advances to banks		650 626	505 733
Cash and cash equivalents at the end of the year		1 793 173	2 514 476

Cash and cash equivalents is defined as including: cash and balances at central banks and on demand loans and advances to banks (all of which have a maturity profile of less than three months).

Consolidated statement of changes in equity

£'000	Ordinary share capital	Share premium account	Capital reserve
At 31 March 2009	655 000	37 365	–
Movement in reserves 1 April 2009 – 31 March 2010			
Profit after taxation	–	–	–
Fair value movements on cash flow hedges	–	–	–
Gains on realisation of available-for-sale assets recycled through the income statement	–	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	–
Total comprehensive income for the year	–	–	–
Share-based payments adjustments	–	–	–
Dividends paid to ordinary shareholders	–	–	–
Dividends paid to non-controlling interests	–	–	–
Issue of ordinary shares	93 000	33 168	–
Issue of equity by subsidiaries	–	–	–
Non-controlling interest arising on acquisition of subsidiaries	–	–	–
Transfer from regulatory general risk reserve	–	–	–
At 31 March 2010	748 000	70 533	–
Movement in reserves 1 April 2010 – 31 March 2011			
Profit after taxation	–	–	–
Fair value movements on cash flow hedges	–	–	–
Gains on realisation of available-for-sale assets recycled through the income statement	–	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	–
Total comprehensive income for the year	–	–	–
Share-based payments adjustments	–	–	–
Dividends paid to ordinary shareholders	–	–	–
Issue of ordinary shares	278 000	34 584	114 128
Non-controlling interest relating to disposal of subsidiary	–	–	–
Transfer from regulatory general risk reserve	–	–	–
At 31 March 2011	1 026 000	105 117	114 128

Other reserves							
Available-for-sale reserve	Regulatory general risk reserve	Cash flow hedge reserve	Foreign currency reserve	Profit and loss account	Shareholders' equity excluding non-controlling interests	Non-controlling interests	Total equity
(9 281)	16 416	(15 716)	30 781	252 623	967 188	18 981	986 169
–	–	–	–	52 712	52 712	(16 297)	36 415
–	–	13 095	–	–	13 095	–	13 095
(7 902)	–	–	–	–	(7 902)	–	(7 902)
20 425	–	–	–	–	20 425	–	20 425
(347)	4 067	(3 893)	10 514	1 163	11 504	(1 532)	9 972
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
–	–	–	–	46 830	46 830	(12 850)	33 980
–	–	2 205	–	–	2 205	–	2 205
(4 728)	–	–	–	–	(4 728)	–	(4 728)
22 938	–	–	–	–	22 938	–	22 938
434	1 295	(439)	19 618	(262)	20 646	370	21 016
18 644	1 295	1 766	19 618	46 568	87 891	(12 480)	75 411
–	–	–	–	1 531	1 531	–	1 531
–	–	–	–	(23 000)	(23 000)	–	(23 000)
–	–	–	–	–	426 712	–	426 712
–	–	–	–	–	–	(14 099)	(14 099)
–	(804)	–	–	804	–	–	–
21 539	19 729	(4 748)	60 913	329 370	1 672 048	(23 794)	1 648 254

Significant accounting policies

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 2011, 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 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.

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

Amendments resulting from improvements to IFRS to the following standards did have an impact on the accounting policies, financial position and performance of the group which is not considered to be material:

- IFRS 3 Business Combinations (revised) and IAS 27 Consolidated and Separate Financial Statements (amended), effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39.

The amended Business Combinations standard requires that acquisition costs incurred are expensed immediately. The revised standard is applicable to the group for all business combinations that occur post 1 April 2010.

Amendments resulting from improvements to IFRS to the following standards did not have any impact on the accounting policies, financial position or performance of the group:

- IFRS 2 Share-Based Payment: Group Cash-Settled Share-Based Payment Transactions, effective 1 January 2010
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items, effective 1 July 2009
- IAS 32 Financial Instruments: Presentation – Classification of Rights Issues, effective 1 February 2010
- IFRIC 17 Distributions of Non-Cash Assets to Owners, effective 1 July 2009
- Improvements to IFRSs – issued in May 2008
  - IFRS 5 Non-Current Assets Held-for-Sale and Discontinued Operations, effective 1 January 2010
- Improvements to IFRSs – issued in April 2009
  - IFRS 2 Share-Based Payment
  - IAS 1 Presentation of Financial Statements
  - IAS 7 Statement of Cash Flows
  - IAS 17 Leases
  - IAS 36 Impairments of Assets
  - IAS 38 Intangible Assets
  - IAS 39 Financial Instruments: Recognition and Measurement
  - IFRIC 9 Reassessment of Embedded Derivatives.

Presentation of information

Disclosure under IFRS 7, Financial Instruments: Disclosures and IAS 1, Presentation of Financial Statements: Capital Disclosures relating to the nature and extent of risks have been included in sections marked as audited in the risk management report on pages 101 to 104.

Certain disclosures required under IAS 24, Related Party Disclosures have been included in the section marked as audited in the remuneration report on pages 115 to 123.

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 groups' 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 six 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 6 to 9 of the divisional review section of the annual report.

Business combinations and goodwill

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

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

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

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

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units that are expected to benefit from the combination.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash generating units retained.

Share-based payments to employees

The group engages in equity-settled share-based payments 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 in the income statement over the period the service conditions of the grant are met with the amount changing according to the number of awards expected to vest. The cumulative expense recognised for equity–settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the group's best estimate of the number of equity instruments that will ultimately vest.

The liability in respect of cash-settled share-based payments 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 with the change in fair value being recognised in the income statement. 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 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 the income statement 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 the income statement
- Exchange differences arising on monetary items that form part of the net investment in a foreign operation are determined using closing rates and recognised as a separate component of equity/ (foreign currency translation reserve) upon consolidation and is 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, principal transactions and other operating income.

Revenue is recognised when it can be reliably measured and it is probable that the economic benefits will flow to the entity. Revenue is recognised at the fair value of consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognised.

Interest income is recognised in the income statement using the effective interest 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 method is based on the estimated life of the underlying instrument or 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.

Principal transaction income includes trading profits, dividend income, gains and losses on financial assets and liabilities designated as held at fair value, realised gains and losses on assets at amortised cost and fair value gains and losses on investment properties. 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 includes the unrealised profits on trading portfolios, which are marked to market daily. Equity investments received in lieu of corporate finance fees are included in trading securities and valued accordingly.

Funding costs allocated against trading profits are disclosed in note 2.

Included in other operating income is rental income, gains on revaluation of properties, operating lease income, income from associates and revenue from consolidated private equity investments. Operating costs associated with these investments are included in operating costs in the income statement.

Financial instruments

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

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

Financial assets and liabilities held at fair value through profit or loss

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

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

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

- It eliminates or significantly reduces an inconsistent measurement or recognition 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
- If a contract contains one or more embedded derivatives (which significantly modifies the cash flows that would be required by the contract and is not clearly prohibited from separation from the host contract) and the group has designated the entire hybrid contract as a financial instrument at fair value through profit and loss.

Transaction costs incurred on financial instruments held at fair value through profit or loss are recognised immediately in the income statement.

Held-to-maturity financial assets

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

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

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

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

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 other comprehensive income 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 other comprehensive income are included in the income statement in the period in which the impairment is identified.

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

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

Financial liabilities

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

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

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

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 deemed 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 or loss
- Loans and advances designated as available-for-sale
- Financial liabilities classified as trading or designated as held at fair value through profit or 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.

'Day 1' profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on the valuation technique whose variables include only data from observable markets, the difference between the transaction price and fair value is recognised immediately in the income statement. In cases where fair value is determined using the data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

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 recognises 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 which indicate incurred but not specifically identified losses across the loan portfolios (that is, exposures in all business segments). Assets specifically identified as impaired are excluded from the collective assessment.

Impairments are credited to an allowance account which is carried against the carrying value of financial assets. Interest continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or transferred to the group. An allowance for impairment is only reversed when there is objective evidence that the credit quality has improved to the extent that there is reasonable assurance of timely collection of principal and interest in terms of the original contractual agreement.

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

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

Derecognition of financial assets and liabilities

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

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

When an existing financial liability is replaced or modified with substantially different terms, such a replacement or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

Reclassification of financial instruments

The group may reclassify, in certain 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. In certain circumstances it may also reclassify financial instruments out of the available-for-sale category and into the loans and receivables category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

Derivative instruments

All derivative instruments of the group are recorded on the balance sheet at fair value. Positive and negative fair values are reported as assets and liabilities respectively 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 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 or hedge of net investments in foreign operations accounting when the transactions meet the specified hedge accounting criteria. To qualify for hedge accounting treatment, the group ensures that all of the following conditions are met:

- At inception of the hedge the group formally documents the relationship between the hedging instrument(s) and hedged item(s) including the risk management objectives and the strategy in undertaking the hedge transaction. Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%
- For cash flow hedges, a forecasted transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect 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.

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

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

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

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

Embedded derivatives

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

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract 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 deliver cash or another financial asset. Financial instruments issued by the group are classified as equity where they confer on the holder a residual interest in the group, and the group has no obligation to deliver either cash or another financial asset to the holder. The components of compound issued financial instruments are accounted for separately with the liability component separated first and any residual amount being allocated to the equity component.

Equity instruments issued by subsidiaries of Investec plc or Investec Limited are recorded as non-controlling interests on the balance sheet.

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

Treasury shares represent issued equity repurchased by the group which has not been cancelled. Treasury shares are deducted from shareholders' equity and represent the purchase consideration, including directly attributable costs. Where treasury shares are subsequently sold or reissued, net proceeds received are included in shareholders' equity.

Dividends on ordinary shares are recognised as a deduction from equity at the earlier of payment date or the date that it is approved by Investec plc shareholders.

Sale and repurchase agreements (including securities borrowing and lending)

Where securities are sold subject to a commitment to repurchase them, at a fixed price or a selling price plus a lenders return, they remain on the balance sheet. Proceeds received are recorded as a liability on the balance sheet under 'repurchase agreements and cash collateral on securities lent'. Securities that are purchased under a commitment to resell the securities at a future date are not recognised on the balance sheet. The consideration paid is recognised as an asset under 'reverse repurchase agreements and cash collateral on securities borrowed'. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method.

Securities borrowing transactions that are not cash collateralised are not included 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 guarantee contracts issued by the group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due, in accordance with the terms of the debt instrument.

Financial guarantees are initially recognised at fair value, adjusted for the transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition the liability under each guarantee is measured at the higher of the amount recognised less cumulative amortisation and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Subsequent to initial measurement all changes in the balance sheet carrying value are recognised in the income statement.

Significant accounting policies (continued)

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 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 are recorded at cost less accumulated depreciation and impairments.

Cost is the cash equivalent paid, or the fair value of the consideration given to acquire an asset and includes other expenditures that are directly attributable to the acquisition of the asset.

Depreciation is provided on the depreciable amount of each component on a straight-line basis over the 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 the income statement
- 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 other comprehensive income are net of related current and deferred taxation.

Employee benefits

The group operates various defined contribution schemes and two closed defined benefit schemes.

In respect of the defined contribution scheme all employer contributions are charged to income as incurred, in accordance with the rules of the scheme and are included under staff costs.

The assets of the defined benefit schemes are measured at their market value at the balance sheet date and the liabilities of the schemes are measured using the projected unit credit method. The discount rate used to measure the schemes' liabilities is the current rate of return on an AA corporate bond at the balance sheet date of equivalent term and currency to the liabilities. The extent to which the schemes' assets exceed or fall short of the schemes' liabilities is shown as a surplus (to the extent that it is considered recoverable) or deficit in the balance sheet.

Actuarial gains and losses related to the defined benefit asset or liability are recognised immediately directly in other comprehensive income.

The group has no liabilities for other 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 fifteen 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.

Significant accounting policies (continued)

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

IFRS 9 as issued reflects the first and second phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39, and impairment methodology. The standard is effective for annual periods beginning on or after 1 January 2013. In the subsequent and final phase, the board will address hedge accounting. The completion of this project is expected in mid 2011. The adoption of the first phase of IFRS 9 will primarily have an effect on the classification and measurement of the group's financial assets. The group is currently assessing the impact of adopting IFRS 9. However, the impact of adoption depends on the assets held by the group at the date of adoption, and it is not practical to quantify the effect.

The standard is effective for the group for the year commencing 1 April 2013.

Revised IFRS 7 – Financial Instruments: Disclosures

The main changes to the standard that affects the group's current policies is the disclosure requirements in respect of derecognition of financial assets. The revised standard requires detailed disclosure per class of financial asset including the nature, risk and rewards exposure and the carrying amount of relevant assets.

The standard will be effective for the group for the year commencing 1 April 2011 and is not expected to have a significant impact on the group.

IAS 24 – Related Parties

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The group does not expect any impact on its financial position or performance.

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

IFRIC 14 – Prepayments of a Minimum Funding Requirement (amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is not expected to have a material impact on the financial statements of the group.

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

IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case this cannot be reliably measured, they are measured at the fair value of the liability extinguished.

Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the group.

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

Improvements to IFRS (issued in May 2010)

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods beginning on or after 1 January 2011. The amendments are listed below.

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IFRIC 13 Customer Loyalty Programmes.

The group, however, expects no impact from the adoption of the amendments on its financial position or performance.

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) with further analysis contained in the risk management section on pages 72 to 74
- The determination of impairments against assets that are carried at amortised cost and impairments relating to available-for-sale financial assets involves the assessment of future cash flows which is judgemental in nature. Refer to pages 36 to 65 in the risk management section for a further analysis on impairments.
- Determination of interest income and interest expense using the effective interest method involves judgement in determining the timing and extent of future cash flows.

For the year to 31 March £'000	Wealth and Investment	Property Activities	Private Banking	Investment Banking	Capital Markets	Group Services and Other Activities	Total group
1. Consolidated segmental analysis							
Business analysis 2011							
Net interest income	1 379	6 178	123 572	(6 047)	129 892	(9 252)	245 722
Fee and commission income	11 972	4 628	33 431	57 849	83 557	6 925	198 362
Fee and commission expense	(967)	(1 758)	(5 776)	(4 139)	(4 363)	(283)	(17 286)
Principal transactions	(1 760)	3 776	20 490	31 086	142 411	57 097	253 100
Other operating income	519	57	262	7 840	36 421	491	45 590
Other income	9 764	6 703	48 407	92 636	258 026	64 230	479 766
Total operating income	11 143	12 881	171 979	86 589	387 918	54 978	725 488
Impairment losses on loans and advances	–	–	(150 502)	–	(31 756)	11 704	(170 554)
Operating income	11 143	12 881	21 477	86 589	356 162	66 682	554 934
Operating costs	(13 873)	(5 350)	(114 982)	(97 805)	(199 560)	(46 517)	(478 087)
Depreciation of operating leased assets	–	–	–	–	(16 447)	–	(16 447)
Operating profit	(2 730)	7 531	(93 505)	(11 216)	140 155	20 165	60 400
Operating losses attributable to non-controlling interests	–	–	–	12 915	16	(3 180)	9 751
Operating profit after non-controlling interests	(2 730)	7 531	(93 505)	1 699	140 171	16 985	70 151
Reconciliation to profit before taxation							
Operating profit after non-controlling interests							70 151
Operating profit attributable to non-controlling interests							(9 751)
Operating profit							60 400
Cost to income ratio	>100%	41.5%	66.9%	>100%	55.7%	84.6%	68.2%
Number of permanent employees*	663	14	514	216	809	367	2 583
Total assets (£'million)	438	24	6 622	328	6 612	4 465	18 489

* *602 Rensburg Sheppards plc permanent employees included in Wealth and Investment were transferred to Investec Bank plc on 31 March 2011.*

For the year to 31 March £'000	Wealth and Investment	Property Activities	Private Banking	Investment Banking	Capital Markets	Group Services and Other Activities	Total group
1. Consolidated segmental analysis (continued)							
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
Other operating income/(loss)	433	–	(604)	16 237	79	1 545	17 690
Other income	433	6 280	63 932	85 239	177 224	54 176	387 284
Total operating income	–	5 709	204 560	74 945	234 674	30 023	550 344
Impairment losses on loans and advances	–	–	(73 201)	–	(47 485)	(12 500)	(133 186)
Operating income	433	5 709	131 359	74 945	187 189	17 523	417 158
Operating costs	–	(3 812)	(121 397)	(96 001)	(128 815)	(33 683)	(383 708)
Depreciation of operating leased assets	–	–	–	–	–	–	–
Operating profit	433	1 897	9 962	(21 056)	58 374	(16 160)	33 450
Operating losses attributable to non-controlling interests	–	–	–	16 863	(59)	(507)	16 297
Operating profit after non-controlling interests	433	1 897	9 962	(4 193)	58 315	(16 667)	49 747
Reconciliation to profit before taxation							
Operating profit after non-controlling interests							49 747
Operating profit attributable to non-controlling interests							(16 297)
Operating profit							33 450
Cost to income ratio	n/a	66.8%	59.2%	>100%	54.9%	>100%	69.7%
Number of permanent employees	–	13	681	218	504	327	1 743
Total assets (£'million)	1	20	6 718	537	7 415	2 290	16 981

For the year to 31 March £'000	UK and Europe	Australia	Total group
1. Consolidated segmental analysis (continued)			
Geographical income statement analysis 2011			
Net interest income	173 311	72 411	245 722
Fee and commission income	158 324	40 038	198 362
Fee and commission expense	(13 397)	(3 889)	(17 286)
Principal transactions	243 121	9 979	253 100
Other operating income	47 919	(2 329)	45 590
Other income	435 967	43 799	479 766
Total operating income	609 278	116 210	725 488
Impairment losses on loans and advances	(140 347)	(30 207)	(170 554)
Operating income	468 931	86 003	554 934
Operating costs	(392 517)	(85 570)	(478 087)
Depreciation of operating leased assets	(16 447)	–	(16 447)
Operating profit	59 967	433	60 400
Operating losses attributable to non-controlling interests	9 478	273	9 751
Operating profit after non-controlling interests	69 445	706	70 151
Net loss on sale of subsidiaries	(8 579)	–	(8 579)
Profit before taxation	60 866	706	61 572
Taxation	(17 351)	(490)	(17 841)
Profit after taxation	43 515	216	43 731
Loss on disposal of subsidiaries attributable to non-controlling interests	3 099	–	3 099
Earnings attributable to shareholders	46 614	216	46 830
Cost to income ratio	67.1%	73.6%	68.2%
Number of permanent employees	2 248	335	2 583
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
Other operating income	21 983	(4 293)	17 690
Other income	328 158	59 126	387 284
Total operating income	433 662	116 682	550 344
Impairment losses on loans and advances	(105 776)	(27 410)	(133 186)
Operating income	327 886	89 272	417 158
Operating costs	(311 971)	(71 737)	(383 708)
Depreciation of operating leased assets	–	–	–
Operating profit	15 915	17 535	33 450
Operating losses attributable to non-controlling interests	15 641	656	16 297
Operating profit after non-controlling interests	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

At 31 March £'000	UK and Europe	Australia	Total group

1. Consolidated segmental analysis (continued)

Geographical analysis of assets and liabilities

At 31 March £'000	UK and Europe	Australia	Total group
2011			
Assets			
Cash and balances at central banks	987 246	155 301	1 142 547
Loans and advances to banks	653 991	96 472	750 463
Reverse repurchase agreements and cash collateral on securities borrowed	1 472 948	–	1 472 948
Trading securities	641 084	929	642 013
Derivative financial instruments	560 636	80 576	641 212
Investment securities	1 537 150	848 861	2 386 011
Loans and advances to customers	7 228 002	1 646 102	8 874 104
Securitised assets	655 302	483 316	1 138 618
Interests in associated undertakings	11 499	1 597	13 096
Deferred taxation assets	41 454	20 982	62 436
Other assets	676 209	51 073	727 282
Property, plant and equipment	230 679	4 540	235 219
Goodwill	227 098	49 271	276 369
Intangible assets	120 831	5 385	126 216
Total assets	15 044 129	3 444 405	18 488 534
Liabilities			
Deposits by banks	762 070	3 842	765 912
Derivative financial instruments	481 665	48 330	529 995
Other trading liabilities	402 326	–	402 326
Repurchase agreements and cash collateral on securities lent	612 663	–	612 663
Customer accounts (deposits)	8 907 207	1 421 802	10 329 009
Debt securities in issue	806 652	996 280	1 802 932
Liabilities arising on securitisation	540 794	472 109	1 012 903
Current taxation liabilities	41 580	–	41 580
Deferred taxation liabilities	36 216	–	36 216
Other liabilities	679 937	23 674	703 611
	13 271 110	2 966 037	16 237 147
Subordinated liabilities	571 331	31 802	603 133
Total liabilities	13 842 441	2 997 839	16 840 280

At 31 March £'000	UK and Europe	Australia	Total group
1. Consolidated 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

For the year to 31 March £'000	UK and Europe	Australia	Total group
1. Consolidated segmental analysis (continued)			
Operating profit before goodwill, non-operating items, taxation and after non-controlling interests by geography and by division			
2011			
Wealth and Investment	(2 730)	–	(2 730)
Property Activities	376	7 155	7 531
Private Banking	(83 115)	(10 390)	(93 505)
Investment Banking	8 415	(6 716)	1 699
Capital Markets	130 311	9 860	140 171
Group Services and Other Activities	16 188	797	16 985
	69 445	706	70 151
Non-controlling interest – equity			(9 751)
Operating profit			60 400
2010			
Wealth and Investment	433	–	433
Property Activities	825	1 072	1 897
Private Banking	8 785	1 177	9 962
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
Non-controlling interest – equity			(16 297)
Operating profit			33 450

A further analysis of business line operating profit before non-operating items, taxation and after non-controlling interests is shown below:

For the year to 31 March £'000	2011	2010
Wealth and Investment	(2 730)	433
Property Activities	7 531	1 897
Private Banking	(93 505)	9 962
Investment Banking		
Corporate Finance	437	(3 394)
Institutional Research, Sales and Trading	901	3 283
Direct Investment	14 108	14 218
Private Equity	(13 747)	(18 300)
	1 699	(4 193)
Capital Markets	140 171	58 315
Group Services and Other Activities		
Central Funding	55 208	13 803
Central Costs	(38 223)	(30 470)
	16 985	(16 667)
Total group	70 151	49 747

For the year to 31 March £'000	2011	2010
2. Principal transactions		
Dividend income	1 365	3 030
Income from trading assets and liabilities	82 313	97 683
Funding costs	(5 230)	(3 994)
Income from assets designated as held at fair value	44 191	30 849
Realised income on available-for-sale assets	5 328	8 563
Impairments on available-for-sale assets	(103)	(293)
Gains on loans and receivables	79 462	32 600
Gains on extinguishing financial liabilities	41 121	49 713
Other income	4 653	573
	253 100	218 724

For the year to 31 March £'000	2011	2010
3. Other operating income		
Rental income from properties	491	1 545
Operating income of non core businesses*	7 528	16 057
Rentals from operating leased assets	36 421	–
Operating income from associates	1 150	88
	45 590	17 690

* *Includes operating income of certain private equity investments that were consolidated. The net operating income includes gross income of £96.0 million (2010: £181.6 million) net of all direct cost of sales. Their other direct costs are included in operating expenses.*

For the year to 31 March £'000	2011	2010
4. Operating costs		
Staff costs	323 746	240 755
– Salaries and wages (including directors' remuneration)	258 664	189 271
– Share-based payments expense	24 233	21 466
– Social security costs	29 303	19 920
– Pensions and provident fund contributions	11 546	10 098
Premises (excluding depreciation)	19 568	19 012
Equipment (excluding depreciation)	18 725	15 954
Business expenses*	77 363	68 421
Marketing expenses	22 966	17 189
Depreciation, amortisation and impairment of property, equipment and intangibles	15 719	22 377
	478 087	383 708
Depreciation of operating leased assets	16 447	–
	494 534	383 708
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	1 344	1 082
Fees payable to the company's auditors and its associates for other services:		
Audit of the company's subsidiaries pursuant to legislation	1 644	1 400
Other services pursuant to legislation	42	140
Tax services	579	440
All other services	681	477
	4 290	3 539
Other auditors		
Audit of the company's subsidiaries pursuant to legislation	44	57
Tax services	–	88
All other services	188	92
	232	237
Total	4 522	3 776

* *Business expenses mainly comprise insurance costs, consulting and professional fees, travel expenses and subscriptions.*

Details of directors' emoluments can be found in note 3 of the unconsolidated accounts of the bank.

5. Share-based payments

The group operates share option and share purchase schemes for employees the majoriy 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 on our website.

For the year to 31 March £'000	WI*	PA*	PB*	IB*	CM*	GSO*	Total group
Expense charged to the income statement (included in operating costs):							
2011							
Equity-settled	160	398	6 009	6 387	5 213	6 066	24 233
Cash-settled	–	–	–	–	–	–	–
Total income statement charge	160	398	6 009	6 387	5 213	6 066	24 233
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

* *WI = Wealth and Investment; 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 £1.2 million (2010: £1.0 million) expensed by Idatech plc, a private equity direct investment. Full details of Idatech plc's share-based payments are given in their 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.

Included in the above income statement charge is an accelerated share-based payment charge as a result of modifications to certain options granted. This expense for the year was £ 104 670 (2010: £1 046 744).

For the year to 31 March £'000	2011	2010
Weighted average fair value of options granted in the year	51 377	27 537

	2011		2010	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of the year	27 363 809	0.14	23 520 813	0.27
Granted `during the year	15 346 668	0.04	11 432 330	0.03
Exercised during the year*	(5 199 527)	0.12	(6 267 510)	0.27
Expired during the year	(1 681 311)	0.61	(1 321 824)	0.81
Outstanding at the end of the year	35 829 639	0.08	27 363 809	0.14
Exercisable at the end of the year	148 455	0.69	211 742	1.99

* *Weighted average share price during the year was £4.94 (2010: £4.43).*

For the year to 31 March £'000	2011	2010
5. Share-based payments (continued)		
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	1.59 years	2.01 years
Long-term incentive grants with no strike price		
Exercise price range	£0	£0
Weighted average remaining contractual life	3.37 years	2.98 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	£4.29 – £4.98	£3.20 – £4.36
– Exercise price	£0, £4.29 – £4.98	£0, £3.20 – £4.36
– Expected volatility	30% – 38%	33% – 45%
– Option life	5 – 5.25 years	5 – 5.25 years
– Expected dividend yields	5.07% – 5.23%	3.97%
– Average risk-free rate	2.05% – 2.15%	2.14% – 2.58%

Expected volatility was determined based on the implied volatility levels quoted by the derivatives' trading desk. The expected volatility is based on the respective share price movement over the last six months but also includes an element of forward expectation. The expected attrition rates used were determined based on historical group data with an adjustment to actual attrition on final vesting.

Please refer to the Investec group's 2011 remuneration report and our website for details on terms and conditions of share options.

For the year to 31 March £'000	2011	2010
6. Taxation		
Income statement taxation charge:		
Current taxation		
UK		
Current taxation on income for the year	(9 476)	13 950
Adjustments in respect of prior years	1 243	(9 769)
Corporation tax before double taxation relief	(8 233)	4 181
– Double taxation relief	(57)	(17 662)
	(8 290)	(13 481)
Europe	6	1 309
Australia	–	5 682
Other	(3)	17 752
	3	24 743
Total current taxation	(8 287)	11 262
Deferred taxation		
UK	25 943	(11 317)
Europe	7	14
Australia	489	(1 807)
Other	(311)	(1 117)
Total deferred taxation	26 128	(14 227)
Total taxation charge for the year	17 841	(2 965)
Deferred taxation comprises:		
Origination and reversal of temporary differences	22 013	(18 207)
Change in deferred taxation rate*	2 598	–
Adjustment in respect of prior years	1 517	3 980
	26 128	(14 227)
The rates of corporation taxation for the relevant years are:	%	%
UK	28	28
Europe (average)	10	10
Australia	30	30
Profit on ordinary activities before taxation	51 821	33 450
Taxation on profit on ordinary activities	17 841	(2 965)
Effective tax rate	34%	(9%)
The taxation charge on activities for the year is different to the standard rate as detailed below:		
Taxation on profit on ordinary activities before taxation at UK rate of 28% (2010: 28%)	14 510	9 366
Taxation adjustments relating to foreign earnings	(13 924)	5 255
Taxation relating to prior years	2 760	(5 789)
Share options accounting expense	10 038	6 575
Share options exercised during the year	(6 566)	(10 651)
Unexpired share options future taxation deduction	(5 313)	(6 588)
Non-taxable income	(1 793)	(10 941)
Utilisation of brought forward capital losses	(1 469)	–
Net other permanent differences	1 618	7 402
Unrealised capital losses	15 382	2 406
Change in deferred taxation rate*	2 598	–
Total taxation charge as per income statement	17 841	(2 965)

* *Corporation taxation rates in the UK will be 26% for the 2012 financial year.*

For the year to 31 March £'000	2011	2010
6. Taxation (continued)		
Other comprehensive income taxation effects:		
Cash flow hedge movements taken directly to other comprehensive income		
– Pre-taxation	3 151	19 864
– Taxation effect	(946)	(5 959)
Gains on realisation or impairment of available-for-sale assets recycled through the income statement		
– Pre-taxation	(5 328)	8 563
– Taxation effect	600	(661)
Fair value movements on available-for-sale assets		
– Pre-taxation	31 382	23 305
– Taxation effect	(8 444)	(2 880)
Foreign currency adjustments on translating foreign operations		
– Pre-taxation	21 016	9 972
– Taxation effect	–	–

For the year to 31 March £'000	2011	2010
7. Dividends		
Ordinary dividend		
Final dividend for prior year	15 000	–
Interim dividend for current year	8 000	5 000
Total dividend attributable to ordinary shareholder recognised in current financial year	**23 000**	**5 000**

For the year to 31 March £'000	2011	2010
8. Miscellaneous income statement items		
Total foreign currency losses recognised in net interest income except for financial instruments measured at fair value through income	7 311	12 117
Operating lease expenses recognised in administrative expenses comprises:		
Minimum lease payments	16 932	17 203
Operating lease income recognised in other operating income comprises:		
Minimum lease payments	40 821	5 612

The majority of the leases in the group are leases on property and the majority of the operating lease income relates to leases on motor vehicles.

9. Analysis of operating income by category of financial instrument

For the year to 31 March £'000	At fair value through profit or loss Trading	 Designated at inception
2011		
Net interest income	(1 407)	(45 347)
Fee and commission income	26 768	15 661
Fee and commission expense	(1 569)	(1 369)
Principal transactions	77 083	44 578
Other operating income	–	–
Other income including net interest income	100 875	13 523
Impairment losses on loans and advances	–	–
Operating income	100 875	13 523
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
Other operating income	–	–
Other income including net interest income	119 445	40 223
Impairment losses on loans and advances	–	–
Operating income	119 445	40 223

	Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non-financial instruments	Other activities	Total
	13 378	630 085	76 712	(427 699)	–	–	245 722
	–	39 124	(38)	177	–	116 670	198 362
	–	(2 407)	–	(1 820)	(1 299)	(8 822)	(17 286)
	–	79 458	5 211	41 121	5 649	–	253 100
	–	–	–	–	37 571	8 019	45 590
	13 378	746 260	81 885	(388 221)	41 921	115 867	725 488
	(1 097)	(169 457)	–	–	–	–	(170 554)
	12 281	576 803	81 885	(388 221)	41 921	115 867	554 934
	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
	–	–	–	–	–	17 690	17 690
	19 299	528 022	50 290	(329 075)	(1 587)	123 727	550 344
	(13 296)	(119 890)	–	–	–	–	(133 186)
	6 003	408 132	50 290	(329 075)	(1 587)	123 727	417 158

At 31 March 2011 £'000	At fair value through profit or loss Trading	 Designated at inception
10. Analysis of financial assets and liabilities by measurement basis		
Assets		
Cash and balances at central banks	–	–
Loans and advances to banks	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	455 380	–
Trading securities	569 292	72 721
Derivative financial instruments*	641 212	–
Investment securities	–	710
Loans and advances to customers	–	188 371
Securitised assets	–	72 206
Interests in associated undertakings	–	–
Deferred taxation assets	–	–
Other assets	213 148	–
Property and equipment	–	–
Goodwill	–	–
Intangible assets	–	–
	1 879 032	334 008
Liabilities		
Deposits by banks	–	–
Derivative financial instruments*	529 995	–
Other trading liabilities	402 326	–
Repurchase agreements and cash collateral on securities lent	456 413	–
Customer accounts (deposits)	–	–
Debt securities in issue	–	–
Liabilities arising on securitisation	–	–
Current taxation liabilities	–	–
Deferred taxation liabilities	–	–
Other liabilities	217 262	–
	1 605 996	–
Subordinated liabilities	–	–
	1 605 996	–

* *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 40 on page 193.*

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
–	–	–	1 142 547	–	1 142 547	–	1 142 547
–	–	–	750 463	–	750 463	–	750 463
–	455 380	–	1 017 568	–	1 017 568	–	1 472 948
–	642 013	–	–	–	–	–	642 013
–	641 212	–	–	–	–	–	641 212
1 999 744	2 000 454	229 992	155 565	–	385 557	–	2 386 011
–	188 371	408 043	8 277 690	–	8 685 733	–	8 874 104
–	72 206	–	1 066 412	–	1 066 412	–	1 138 618
–	–	–	–	–	–	13 096	13 096
–	–	–	–	–	–	62 436	62 436
–	213 148	–	386 922	–	386 922	127 212	727 282
–	–	–	–	–	–	235 219	235 219
–	–	–	–	–	–	276 369	276 369
–	–	–	–	–	–	126 216	126 216
1 999 744	4 212 784	638 035	12 797 167	–	13 435 202	840 548	18 488 534
–	–	–	–	765 912	765 912	–	765 912
–	529 995	–	–	–	–	–	529 995
–	402 326	–	–	–	–	–	402 326
–	456 413	–	–	156 250	156 250	–	612 663
–	–	–	–	10 329 009	10 329 009	–	10 329 009
–	–	–	–	1 802 932	1 802 932	–	1 802 932
–	–	–	–	1 012 903	1 012 903	–	1 012 903
–	–	–	–	–	–	41 580	41 580
–	–	–	–	–	–	36 216	36 216
–	217 262	–	–	257 839	257 839	228 510	703 611
–	1 605 996	–	–	14 324 845	14 324 845	306 306	16 237 147
–	–	–	–	603 133	603 133	–	603 133
–	1 605 996	–	–	14 927 978	14 927 978	306 306	16 840 280

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

At 31 March 2010 £'000	At fair value through profit or loss Trading	 Designated at inception
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 40 on page 193.*

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
–	–	–	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

11. Reclassifications of financial instruments

During a prior year the group reclassified certain financial instruments out of fair value through profit or loss. These assets were originally classified as held-for-trading but the group's intentions in regard to these assets changed and the group reclassified £112.3 million and £7.8 million to the loans and receivables and available-for-sale classifications respectively. The amount reclassified reflected the fair value of the financial assets at the date of reclassification. At the time of the transfers, the group identified the rare circumstances permitting such reclassifications, being severe liquidity in the relevant markets.

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:

£'000	Carrying value as at 31 March 2011	Fair value as at 31 March 2011	Carrying value as at 31 March 2010	Fair value as at 31 March 2010
Trading assets reclassified to loans and receivables	32 431	22 620	89 662	79 703
	32 431	22 620	89 662	79 703

If the reclassifications had not been made, the group's income before tax in 2011 would have increased by £0.1 million (2010: a reduction of £8.1 million).

In the current year the reclassified assets have contributed £nil to expense through the margin line and a loss of £1.2 million through impairments before taxation. In the prior year the assets contributed £2.6 million to income through the margin line and a loss of £7.8 million through impairments.

As of 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 has 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).

At 31 March £'000	Total instruments at fair value	Valuation technique applied		
		Level 1	Level 2	Level 3

12. Fair value hierarchy (continued)

	Total instruments at fair value	Level 1	Level 2	Level 3
2011				
Assets				
Reverse repurchase agreements and cash collateral on securities borrowed	455 380	–	455 380	–
Trading securities	642 013	553 135	40 979	47 899
Derivative financial instruments	641 212	63 129	547 377	30 706
Investment securities	2 000 454	1 115 919	812 496	72 039
Loans and advances to customers	188 371	–	–	188 371
Securitised assets	72 205	9 377	–	62 828
Other assets	213 148	213 148	–	–
	4 212 783	1 954 708	1 856 232	401 843
Liabilities				
Derivative financial instruments	529 995	34 619	495 376	–
Other trading liabilities	402 326	402 326	–	–
Repurchase agreements and cash collateral on securities lent	456 413	–	456 413	–
Other liabilities	217 262	217 262	–	–
	1 605 996	654 207	951 789	–
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	–

Transfers between level 1 and 2

There were no transfers between level 1 and level 2 in the current year. In the prior year £7.2 million of derivative instruments were transferred from level 2 to level 1 as third party valuations were acquired in that year.

12. Fair value hierarchy (continued)

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:

£'000	Total level 3 financial instruments	Fair value movements through income statement	Fair value movements through compre-hensive income
Net balance as at 1 April 2009	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)
Net balance as at 31 March 2010	336 344	316 556	19 788
Total gains or losses	19 516	14 053	5 463
In the income statement	16 799	14 053	2 746
In the statement of comprehensive income	2 717	–	2 717
Purchases	182 999	139 198	43 801
Sales	(124 184)	(116 388)	(7 796)
Issues	128	128	–
Settlements	(21 875)	(21 875)	–
Transfers into level 3	9 337	3 676	5 661
Transfers out of level 3	(562)	–	(562)
Foreign exchange adjustments	140	(971)	1 111
Net balance as at 31 March 2011	401 843	334 377	67 466

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.

The following table quantifies the changes in fair values recognised on level 3 financial instruments:

For the year to 31 March £'000	2011	2010
Total gains or losses included in the income statement for the year		
Net interest income	11 538	–
Fee and commission income	(1 942)	2 660
Principal transactions	7 203	(1 337)
	16 799	1 323

12. Fair value hierarchy (continued)

Sensitivity of fair values to reasonably possible alternative assumptions by level 3 instrument type

The fair value of financial instruments in level 3 are measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable market data. The following table shows the sensitivity of these fair values to reasonably possible alternative assumptions.

£'000	Reflected in income statement		Reflected in comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
2011				
Trading securities	8 104	7 237	–	–
Derivative financial instruments	11 948	1 071	–	–
Investment securities	–	–	4 193	4 402
Loans and advances to customers	10 168	5 720	–	–
Securitised assets	20 256	12 689	–	–
	50 476	26 717	4 193	4 402
2010				
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

13. Fair value of financial instruments at amortised cost

At 31 March £'000	2011		2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and balances at central banks	1 142 547	1 142 547	2 008 743	2 008 743
Loans and advances to banks	750 463	738 662	1 307 199	1 307 199
Reverse repurchase agreements and cash collateral on securities borrowed	1 017 568	944 353	334 748	334 748
Investment securities	385 557	385 557	615 549	615 549
Loans and advances to customers	8 685 733	8 617 342	8 028 340	7 897 472
Securitised assets	1 066 412	1 047 958	1 055 711	1 038 730
Other assets	386 922	386 923	196 336	196 336
	13 435 202	13 263 342	13 546 626	13 398 777
Liabilities				
Deposits by banks	765 912	766 688	1 445 131	1 441 309
Repurchase agreements and cash collateral on securities lent	156 250	156 251	340 456	340 456
Customer accounts (deposits)	10 329 009	10 327 832	9 263 994	9 258 444
Debt securities in issue	1 802 932	1 799 437	1 772 674	1 554 041
Liabilities arising on securitisation	1 012 903	888 221	1 048 368	1 048 368
Other liabilities	257 839	257 940	43 811	43 811
Subordinated liabilities	603 133	586 303	538 321	567 279
	14 927 978	14 782 672	14 452 755	14 253 708

13. Fair value of financial instruments at amortised cost (continued)

The paragraphs below describe the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Financial instruments for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption also applies to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and financial liabilities carried at amortised cost are estimated by comparing spreads earned on the transactions with spreads earned on similar new transactions entered into by the group. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows, using prevailing money market interest rates for debts with similar credit risk and maturity. For quoted sub-debt issued, the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

Certain financial instruments, that would normally be carried at fair value, continue to be recognised at transaction price. This occurs when the fair value would normally be determined using valuation techniques which cannot be relied on due to insufficient external inputs. This results in gains or losses which have not been recognised on balance sheet.

14. Designated at fair value: loans and receivables and financial liabilities

At 31 March £'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
		Year to date	Cumu-lative	Year to date	Cumu-lative		
2011							
Loans and advances to customers	188 371	(1 667)	10 926	(1 582)	11 032	188 371	–
Securitised assets	27 258	(1 894)	27 258	(1 894)	27 258	27 258	–
	215 629	(3 561)	38 184	(3 476)	38 290	215 629	–
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	–

Changes in fair value due to credit risk are determined as the change in the fair value of the financial instrument that is not attributable to changes in other market inputs.

At 31 March £'000	2011	2010
15. Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent		
Assets		
Reverse repurchase agreements	1 091 465	277 279
Cash collateral on securities borrowed	381 483	213 215
	1 472 948	490 494

As part of the reverse repurchase and securities borrowing agreements the group has received securities that it is allowed to sell or re-pledge. £407 million (2010: £425 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.

At 31 March £'000	2011	2010
Liabilities		
Repurchase agreements	576 451	528 837
Cash collateral on securities lent	36 212	16 181
	612 663	545 018

	2011		2010	
At 31 March £'000	Carrying value	Cumulative unrealised gains/(losses)	Carrying value	Cumulative unrealised gains/ (losses)
16. Trading securities				
Listed equities	124 624	5 846	64 859	(3 029)
Unlisted equities	64 829	(6 014)	52 036	(6 956)
Bonds	452 560	15 527	230 868	3 881
	642 013	15 359	347 763	(6 104)

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	2011 Notional principal amounts	2011 Positive fair value	2011 Negative fair value	2010 Notional principal amounts	2010 Positive fair value	2010 Negative fair value
Foreign exchange derivatives						
Forward foreign exchange contracts	5 586 644	39 458	(84 915)	1 634 672	45 871	(33 487)
Currency swaps	2 147 333	119 657	(69 102)	1 834 630	79 037	(28 160)
OTC options bought and sold	1 998 875	26 093	(12 024)	184 437	1 929	(2 386)
Other foreign exchange contracts	126 678	2 775	–	150 951	6 762	–
OTC derivatives	9 859 530	187 983	(166 041)	3 804 690	133 599	(64 033)
	9 859 530	187 983	(166 041)	3 804 690	133 599	(64 033)
Interest rate derivatives						
Caps and floors	1 004 417	3 889	(3 703)	444 666	1 234	(1 560)
Swaps	12 269 511	175 392	(95 221)	10 446 448	168 219	(131 887)
Forward rate agreements	438 875	103	(52)	220 655	–	(61)
Other interest rate contracts	244 943	–	(197)	–	–	–
OTC derivatives	13 957 746	179 384	(99 173)	11 111 769	169 453	(133 508)
Exchange traded futures	457 955	–	(113)	140 376	181	–
Exchange traded options	–	–	–	281 736	253	(141)
	14 415 701	179 384	(99 286)	11 533 881	169 887	(133 649)
Equity and stock index derivatives						
OTC options bought and sold	2 036 849	15 623	(9 810)	1 373 158	41 403	(660)
Equity swaps and forwards	228 471	4 110	(2 626)	30 647	635	(982)
OTC derivatives	2 265 320	19 733	(12 436)	1 403 805	42 038	(1 642)
Exchange traded futures	178 333	1 471	(1 025)	7 123	1 236	(1 236)
Exchange traded options	161	35 721	(17 889)	693 728	35 990	(42 239)
Warrants	–	660	–	–	450	–
	2 443 814	57 585	(31 350)	2 104 656	79 714	(45 117)
Commodity derivatives						
OTC options bought and sold	31 845	3 101	(1 060)	115 480	2 582	(2 509)
Commodity swaps and forwards	366 611	174 920	(228 712)	1 678 547	276 655	(319 143)
OTC derivatives	398 456	178 021	(229 772)	1 794 027	279 237	(321 652)
Exchange traded futures	–	–	–	848 954	227 808	(150 935)
	398 456	178 021	(229 772)	2 642 981	507 045	(472 587)
Credit derivatives						
Credit swaps bought and sold	56 917	7 430	(3 546)	69 516	13 029	(3 841)
	56 917	7 430	(3 546)	69 516	13 029	(3 841)
Embedded derivatives*		30 809	–		33 700	–
Gross fair values		641 212	(529 995)		936 974	(719 227)
Effect of on balance sheet netting		–	–		(179 838)	179 838
Derivatives per balance sheet		641 212	(529 995)		757 136	(539 389)

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

At 31 March £'000	2011 Carrying value	2010 Carrying value
18. Investment securities		
At fair value through profit or loss		
Bonds	710	–
	710	–
Available-for-sale		
Listed equities	20 146	12 229
Unlisted equities	64 339	57 891
Bonds	101 926	278 829
Floating rate notes	769 243	619 682
Commercial paper	1 043 963	396 868
Other investments	127	128
	1 999 744	1 365 627
Held-to-maturity		
Bonds	229 992	515 028
	229 992	515 028
At amortised cost		
Commercial paper	155 565	–
	155 565	–
Total investment securities	2 386 011	1 880 655

At 31 March £'000	2011 Carrying value	2010 Carrying value
19. Loans and advances to customers		
Loans and advances to customers (post impairments)	8 874 104	8 226 215
Specific and portfolio impairments included above	211 776	142 983
Gross loans and advances to customers (pre impairments)	9 085 880	8 369 198
Less: warehouse facilities and structured credit investments arising from securitisation and principal finance activities	(973 699)	(655 493)
Less: intergroup loans	(783 456)	(875 536)
Own originated securitised assets (refer to note 20)	484 163	519 511
Gross core loans and advances to customers	7 812 888	7 357 680
For further analysis on gross core loans and advances refer to pages 51 to 65 in the risk management section.		
Specific and portfolio impairments		
Reconciliation of movements in specific and portfolio impairments:		
Loans and advances to customers		
Specific impairment		
Balance at beginning of year	123 739	88 484
Charge to the income statement	182 216	114 477
Utilised	(105 050)	(83 158)
Exchange adjustment	4 313	3 936
Balance at end of year	205 218	123 739
Portfolio impairment		
Balance at beginning of year	19 244	3 032
Charge to the income statement	(12 672)	16 244
Exchange adjustment	(14)	(32)
Balance at end of year	6 558	19 244
Interest income recognised on loans that have been impaired	10 909	12 324
Reconciliation of income statement charge:		
Loans and advances	169 544	130 721
Specific impairment charged to income statement	182 216	114 477
Portfolio impairment charged to income statement	(12 672)	16 244
Securitised assets (refer to note 20)	1 010	2 465
Specific impairment charged to income statement	1 072	1 837
Portfolio impairment charged to income statement	(62)	628
Total income statement charge	170 554	133 186

At 31 March £'000	2011	2010
20. Securitised assets and liabilities arising on securitisation		
Securitised assets are made up of the following categories of assets:		
Cash and cash equivalents	15 267	11 897
Loans and advances to customers	1 096 940	1 045 385
Other financial instruments at fair value	27 258	66 156
	1 139 465	1 123 438
Total impairment of securitised assets	(847)	(1 571)
Total securitised assets	1 138 618	1 121 867
The associated liabilities are recorded on balance sheet in 'liabilities arising on securitisation'		
Carrying value at 31 March	1 012 903	1 048 368
Analysis of securitised assets by risk exposure		
Own originated securitised assets	484 163	519 511
Securitisation exposures arising from securitisation/principal finance activities	44 623	79 378
Total credit and counterparty exposure	528 786	598 889
Securitised assets with no legal credit exposure	609 832	522 978
Gross securitised assets	610 679	524 549
Impairment of securitised assets	(847)	(1 571)
Total securitised assets	1 138 618	1 121 867
Specific and portfolio 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	906	1 012
Charge to the income statement	1 072	1 837
Utilised	(1 789)	(2 053)
Exchange adjustment	21	110
Balance at end of year	210	906
Portfolio impairment		
Balance at beginning of year	665	–
Charge to the income statement	(62)	628
Exchange adjustment	34	37
Balance at end of year	637	665
Total impairments	847	1 571

At 31 March £'000	2011	2010
21. Interests in associated undertakings		
Interests in associated undertakings consist of:		
Net asset value	6 024	7 273
Goodwill	7 072	7 072
Interests in associated undertakings	13 096	14 345
Analysis of the movement in our share of net assets:		
At beginning of year	7 273	8 125
Exchange adjustments	120	808
Acquisitions	51	245
Disposal of shareholdings in associated undertakings	(1 647)	(1 571)
Operating income from associates	1 150	88
Dividends received	(923)	(422)
At end of year	6 024	7 273
Analysis of the movement in goodwill:		
At beginning and end of year	7 072	7 072
Associated undertakings:		
Unlisted	13 096	14 345
Summarised financial information of the bank's principal associate, Hargreave Hale Limited, is as follows:		
Total assets	44 256	31 047
Total liabilities	35 146	23 494
Total revenue	20 461	17 172
Profit before tax	2 009	1 776

At 31 March £'000	2011	2010
22. Deferred taxation		
Deferred tax assets		
Accelerated capital allowances	21 152	50 967
Income and expenditure accruals	13 967	13 270
Arising from unexpired share options	14 872	14 751
Unrealised fair value adjustments on financial instruments	4 305	2 901
Losses carried forward	5 617	2 944
Other temporary differences	2 523	(103)
	62 436	84 730
Deferred tax liability		
Unrealised fair value adjustments on financial instruments	(2 046)	–
Deferred taxation on acquired intangibles	(28 921)	–
Other temporary differences	(5 249)	(7 204)
	(36 216)	(7 204)
Net deferred tax assets	26 220	77 526
Reconciliation of net deferred tax assets:		
At beginning of year	77 526	67 572
Credit/(charge) to profit and loss	(26 128)	14 227
Charge directly in equity	(2 485)	(10 758)
Arising on acquisition of subsidiary undertaking	(27 816)	–
Arising on disposals	2 610	–
Exchange adjustments	1 423	6 258
Transfer to corporation tax	–	683
Other	1 090	(456)
At end of year	26 220	77 526

At 31 March £'000	2011	2010
23. Other assets		
Settlement debtors	543 328	312 228
Trading initial margin	25 080	19 949
Dealing properties	58 434	18 557
Accruals and prepayments	39 517	23 755
Other debtors	60 923	113 935
	727 282	488 424

24. Property and equipment

As at 31 March £'000	Freehold properties	Leasehold improve-ments	Furniture and vehicles	Equipment	Motor vehicles (operating leases)*	Total
2011						
Cost						
At beginning of year	32 893	33 760	12 946	135 857	–	215 456
Exchange adjustments	(1 157)	337	577	(4 025)	–	(4 268)
Disposal of subsidiary undertakings	(30 633)	–	–	(119 480)	–	(150 113)
Acquisition of subsidiary undertakings	2 687	1 722	31	1 782	–	6 222
Additions	3 230	2 801	1 972	3 785	226 097	237 885
Disposals	–	(96)	(931)	(371)	(15 755)	(17 153)
At end of year	7 020	38 524	14 595	17 548	210 342	288 029
Accumulated depreciation						
At beginning of year	(7 089)	(14 257)	(6 760)	(47 029)	–	(75 135)
Exchange adjustments	281	(397)	(180)	1 217	–	921
Disposal of subsidiary undertakings	7 393	–	–	39 360	–	46 753
Disposals	–	95	760	329	632	1 816
Depreciation charge for year	(585)	(2 641)	(1 984)	(5 508)	(16 447)	(27 165)
At end of year	–	(17 200)	(8 164)	(11 631)	(15 815)	(52 810)
Net carrying value	7 020	21 324	6 431	5 917	194 527	235 219
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

* *In December 2010 the group acquired a portfolio of operating leased assets comprising motor vehicles. The operating lease income from this portfolio has been included in other operating income (note 3) and the depreciation of these operating leased assets has been shown separately on the face of the income statement.*

At 31 March £'000	2011	2010
25. Goodwill		
Cost		
At beginning of year	119 191	102 145
Acquisition of subsidiaries	197 809	8 502
Disposal of subsidiaries	(11 221)	–
Exchange adjustments	3 548	8 544
At end of year	309 327	119 191
Accumulated impairments		
At beginning of year	(32 630)	(32 554)
Exchange adjustments	(328)	(76)
At end of year	(32 958)	(32 630)
Net carrying value	276 369	86 561
Analysis of goodwill by line of business and geography		
UK and Europe		
Wealth and Investment	193 059	–
Private Banking	14 502	14 192
Investment Banking	–	11 865
Capital Markets	19 537	14 689
	227 098	40 746
Australia		
Private Banking	22 541	22 214
Investment Banking	26 730	23 601
	49 271	45 815
Total group	276 369	86 561

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

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

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 3 years, adjusted for expected future events.

UK and Europe

The goodwill of £193.1 million within the Wealth and Investment line of business relates to the acquisition of Rensburg Sheppards plc in the current year (refer note 27) and will be subject to impairment testing in the next financial year.

Australia

The two significant cash-generating units giving rise to goodwill have been tested for impairment.

Investment Banking – goodwill acquired through business combinations has been allocated to Investment Banking for impairments testing purposes. The recoverable amount of goodwill represents a normalised pre-tax historic average earning multiple of approximately six to seven 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 – goodwill was acquired through a business combination 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 eight times. Management are comfortable that this carrying value is supported based on discussions with Private 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 excede its recoverable amount.

25. Goodwill (continued)

The recoverable amount of goodwill represents a pre-tax historic average earnings multiple of approximately eight times. Management are comfortable that this carrying value is supported based on discussions with Private 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 excede its recoverable amount.

Movement in goodwill

2011

£193.1 million of goodwill arose in the year from the acquisition of Rensburg Sheppards plc and £4.8 million from the acquisition of Investec Holdings (Ireland) Limited. For further details see note 27.

2010

£8.5 million of goodwill arose in the prior year from the acquisition of Leasedirect Finance Limited.

Income statement movement

There were no impairments of goodwill in the current or in the prior year.

At 31 March £'000	Acquired software	Core technology	Intellectual property	Client relationships*	Total
26. Intangible assets					
2011					
Cost					
At beginning of year	27 782	6 972	14 918	–	49 672
Exchange adjustments	66	8	(612)	–	(538)
Disposal of subsidiary undertakings	–	(6 980)	(15 121)	–	(22 101)
Acquisition of subsidiary undertakings	5 334	–	–	107 168	112 502
Reclassifications	1 462	–	(1 951)	–	(489)
Additions	3 089	–	4 011	–	7 100
Disposals	(60)	–	–	–	(60)
At end of year	37 673	–	1 245	107 168	146 086
Accumulated amortisation and impairments					
At beginning of year	(15 235)	(1 083)	(7 136)	–	(23 454)
Exchange adjustments	(11)	(5)	373	–	357
Disposal of subsidiary undertakings	–	1 088	7 080	–	8 168
Disposals	60	–	–	–	60
Amortisation	(4 389)	–	(612)	–	(5 001)
At end of year	(19 575)	–	(295)	–	(19 870)
Net carrying value	18 098	–	950	107 168	126 216
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

* *Client relationships all relate to the Rensburg Sheppards acquisition.*

27. Acquisitions and disposals

Acquisitions

2011

During the year the bank made the following acquisitions as part of group reorganisations:

On 30 September 2010 the bank issued 22 million ordinary shares of £1 each at a value of 152.4 pence each to its immediate parent as consideration for the acquisition of the entire issued ordinary share capital of Investec Holdings (Ireland) Limited (IHI).

On 31 March 2011 the bank acquired the entire issued ordinary share capital of Rensburg Sheppards plc (RS) from the bank's immediate parent. The consideration was satisfied by the issue of 190 million ordinary shares at a value of 154 pence each as part consideration for the acquisition of RS with the balance of £29.2 million being settled in cash.

In the period from 30 September 2010 to 31 March 2011, IHI made a profit before taxation of £1.8 million from operating income of £10.8 million. If the acquisition of IHI had occurred on 1 April 2010 as opposed to 30 September 2010 the operating income of the group would have been £572.8 million and profit before taxation would have been £59.7 million.

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	Rensburg Sheppards plc	Investec Holdings (Ireland) Ltd
Loans and advances to banks	67 914	26 109
Loans and advances to customers	–	6 333
Investment securities	1 483	12
Deferred taxation assets	2 721	–
Other assets	137 812	1 353
Property and equipment	4 683	1 539
Intangible assets	112 034	468
Total assets	**326 647**	**35 814**
Deposits by banks	867	–
Debt securities in issue	–	2 065
Current taxation liabilities	11 085	–
Deferred taxation liabilities	29 317	1 220
Other liabilities	156 637	3 751
Total liabilities	**197 906**	**7 036**
Net assets/fair value of net assets	**128 741**	**28 778**
Goodwill	193 059	4 750
Fair value of consideration	321 800	33 528
Fair value of cash consideration	29 200	–

The book values and fair values of assets and liabilities were the same at the date of acquisition. The net cash flow on these acquisitions, net of cash within subsidiaries acquired, amounted to £64.8 million.

The bank completed the acquisition of Access Capital Limited after the year end on 18 April 2011 (being the effective date of acquisition) and changed its name to Investec Capital Asia Limited. Investec Capital Asia Limited is a licensed entity regulated by the Hong Securities and Futures Commission that has been providing investment banking services to clients based in greater China since 2000.

27. Acquisitions and disposals (continued)

2010

On 2 March 2010 the bank issued 6 million 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 to 2 March 2010 to 31 March 2010, LDF made a profit before taxation of £109 000.

The assets and liabilities of LDF at the date of acquisition, goodwill arising on the transactions and total consideration paid are disclosed in the table below:

£'000	Book value at date of acquisition	Fair values 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
Non-controlling 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

Disposals

The bank incurred a net loss of £35.6 million on the sale and deconsolidation of investments previously consolidated as subsidiaries. This loss was partially offset by the waiver of a loan of £27.0 million from the bank's parent which was funding these investments.

At 31 March £'000	2011	2010
28. Other trading liabilities		
Short positions		
– Equities	65 520	34 327
– Gilts	336 806	155 968
	402 326	190 295

At 31 March £'000	2011	2010
29. Debt securities in issue		
Bonds and medium term notes repayable:		
Up to one year	15 590	10 171
Greater than one year but less than five years	–	16 486
	15 590	26 657
Other unlisted debt securities in issue repayable:		
Not more than three months	146 003	202 897
Over three months but not more than one year	205 794	53 773
Over one year but not more than five years	1 234 142	1 356 349
Greater than five years	201 403	132 998
	1 787 342	1 746 017
	1 802 932	1 772 674

At 31 March £'000	2011	2010
30. Other liabilities		
Settlement liabilities	446 203	196 225
Other creditors and accruals	182 174	126 029
Other non interest bearing liabilities	75 234	60 771
	703 611	383 025

At 31 March £'000	2011	2010
31. Pension commitments		
Cost of defined contribution schemes	11 546	10 098

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 2011 (31 March 2010: £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 2011.

This was performed by a qualified, independent actuary. The valuation showed a surplus in the scheme of £19 007 000 (31 March 2010: surplus of £2 569 000). This surplus has been recognised in the financial statements of Investec plc.

The major assumptions used were:

At 31 March	2011	2010
Discount rate	5.50%	5.50%
Rate of increase in salaries	3.50%	3.70%
Rate of increase in pensions in payment	1.8 – 3.4%	3.60%
Inflation	3.50%	3.70%

31. Pension commitments (continued)

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:

At 31 March	2011	2010
Male aged 65	87.4	87.7
Female aged 65	89.5	91.0
Male aged 45	89.3	89.7
Female aged 45	90.9	93.1

The assets held in the schemes and the expected rates of return were:

	2011		2010	
At 31 March	Value at £'000	Long-term rate of return expected	Value at £'000	Long-term rate of return expected
Equities	27 937	7.70%	37 721	7.80%
Bonds	79 003	4.20%	63 336	4.40%
Cash	3 619	4.20%	3 530	4.40%
Total market value of assets	110 559		104 587	

The following amounts have been recognised in the financial statements of the bank's ultimate parent company, Investec plc, in accordance with IAS 19:

At 31 March £'000	2011	2010
Recognised in the balance sheet		
Fair value of fund assets	110 559	104 587
Present value of obligations	(91 552)	(102 018)
Net asset	19 007	2 569
Amounts in balance sheet		
Asset	19 007	2 569
Net asset	19 007	2 569
Recognised in the income statement		
Expected return on pension scheme assets	5 858	4 843
Interest on pension obligations	(5 484)	(5 361)
Net return	374	(518)
Recognised in the statement of recognised income and expense		
Actuarial losses on plan assets	1 178	7 794
Actuarial gains/(losses)	11 334	(18 585)
Actuarial gains/(losses)	12 512	(10 791)
Deferred taxation	(3 420)	3 021
Actuarial gains/(losses) in statement of comprehensive income	9 092	(7 770)

31. Pension commitments (continued)

Demographic assumptions (continued)

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 £13.4 million (£9.3 million net of deferred taxation) (2010: £24.2 million (£17.4 million net of deferred taxation)).

	£'000
Changes in the fair value of defined benefit obligations	
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**
Interest cost	5 484
Actuarial gains	(11 334)
Benefits paid	(4 616)
Defined benefit obligation at 31 March 2011	**91 552**
Changes in the fair value of plan assets	
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**
Expected return	5 858
Actuarial gains	1 178
Contributions by the employer	3 552
Benefits paid	(4 616)
Assets at 31 March 2011	**110 559**

The group expects to make £3.6 million of contributions to the scheme in the 2012 financial year.

At 31 March £'000	2011	2010	2009	2008	2007
GM scheme					
Defined benefit obligation	(91 552)	(102 018)	(79 586)	(80 319)	(91 178)
Plan assets	110 559	104 587	89 912	97 950	95 356
Surplus	19 007	2 569	10 326	17 631	4 178
Experience adjustments on plan liabilities	11 334	(18 585)	1 770	11 543	(165)
Experience adjustments on plan assets	1 178	7 794	(12 838)	(2 410)	(3 315)

At 31 March £'000	2011	2010
32. Subordinated liabilities		
Issued by Investec Bank plc		
Subordinated fixed rate medium-term notes	502 126	–
Issued by subsidiaries of Investec Bank plc:		
Issued by Investec Finance plc		
Guaranteed subordinated step-up notes	33 979	208 576
Guaranteed undated subordinated callable step-up notes	19 471	269 983
Issued by Investec Australia Limited		
Guaranteed subordinated medium-term notes	–	15 207
Subordinated floating rate medium-term notes	13 052	12 227
Issued by Global Ethanol Holdings Limited		
Subordinated loan notes	34 505	32 328
	603 133	538 321
Remaining maturity:		
In one year or less, or on demand	34 505	–
In more than one year, but not more than two years	–	32 328
In more than two years, but not more than five years	40 015	–
In more than five years	528 613	505 993
	603 133	538 321

Issued by Investec Bank plc:

Sterling denominated subordinated notes

On 17 February 2011 Investec Bank plc issued £500 000 000 of 9.625% subordinated notes due in 2022 at a discount (2022 notes). Interest is paid annually. The notes are listed on the London Stock Exchange. The notes will be redeemed at par on 17 February 2022.

Investec Bank plc invited the holders of the 2016 notes (see below) and perpetual notes (see below) to exchange the existing notes for the new 2022 notes. Under the exchange offer, the bank exchanged £193 258 000 of the 2022 notes for the perpetual notes and £166 504 000 of the 2022 notes for the 2016 notes.

Issued by subsidaries of Investec Bank plc:

Guaranteed subordinated callable step-up notes

On 1 March 2004 Investec Finance plc issued £200 000 000 of 7.75% guaranteed subordinated step-up notes due in 2016 at a discount (2016 notes). 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 was reset to become the aggregate of 3.5% and the gross redemption yield of the relevant benchmark gilt. This rate will reset annually.

On 17 February 2011 £166 207 000 of the 2016 notes where repurchased and new subordinated notes issued by Investec Bank plc at an exchange ratio of 100 per cent. On 16 March 2011, £166 207 000 of the notes representing approximately 83.1 per cent of the total issued principal amount, were cancelled. As at 31 March 2011 the principal amount in issue was £33 793 000.

Guaranteed undated subordinated callable step-up notes

On 23 January 2007 Investec Finance plc issued £350 000 000 of 6.25 per cent. guaranteed undated subordinated step-up notes callable in 2017 at a discount (perpetual notes). 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 per cent. payable quarterly in arrears.

On 17 February 2011 £226 930 000 of the perpetual notes were repurchased and new subordinated notes issued by Investec Bank plc at an exchange ratio of 85.2 per cent. On 16 March 2011, £226 930 000 of the notes representing approximately 64.8% of the original total issued principal amount, were cancelled. As at 31 March 2011 the principal amount in issue was £17 861 000.

32. Subordinated liabilities (continued)

Medium-term notes

Subordinated floating rate medium-term notes (denominated in Australian Dollars)

A$10 750 000 of floating rate medium-term notes (MTN) issued on 12 February 2010 at three 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 three month BBSW plus 7.5% payable quarterly in arrears.

A$1 500 000 was sold into the market on 12 August 2010 and a further A$2 250 000 sold into the market on 4 November 2010 having been held internally since 12 February 2010.

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 are redeemable on 31 December 2011. 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	2011	2010
33. Ordinary share capital		
Authorised		
The authorised share capital is £2 000 million (2010: £1 000 million) comprising:		
2 000 million ordinary shares of £1 each (2010: 1 000 million ordinary shares of £1 each)		
Issued, allotted and fully paid		
Number of ordinary shares	Number	Number
At beginning of year	748 000 000	655 000 000
Issued during the year	278 000 000	93 000 000
At end of year	1 026 000 000	748 000 000
Nominal value of ordinary shares	£'000	£'000
At beginning of year	748 000	655 000
Issued during the year	278 000	93 000
At end of year	1 026 000	748 000

At 31 March £'000	2011	2010
34. Non-controlling interests		
Non-controlling interests attributable to holders of ordinary shares in subsidiaries	(23 794)	2 785
	(23 794)	2 785

At 31 March £'000	2011 Total future minimum payments	2011 Present value	2010 Total future minimum payments	2010 Present value
35. Finance lease disclosures				
Finance lease receivables included in loans and advances to customers				
Lease receivables due in:				
Less than 1 year	235 407	208 313	190 512	165 764
1 – 5 years	678 240	581 026	641 086	548 375
Later than 5 years	38 733	29 472	29 663	22 898
	952 380	818 811	861 261	737 037
Unearned finance income	133 569		124 224	

At 31 March 2011, unguaranteed residual values accruing to the benefit of Investec were £37.9 million (2010: £38.3 million).

For the year to 31 March £'000	2011	2010
36. Notes to cash flow statement		
Reconciliation of operating profit to operating profit adjusted for non-cash items:		
Operating profit before taxation	60 400	33 450
Adjustment for non-cash items included in operating profit:		
Depreciation of operating leased assets	16 447	–
Depreciation, amortisation and impairment of property, equipment and intangibles	15 719	22 377
Impairment of loans and advances	170 554	133 186
Operating income from associates	(1 150)	(88)
Dividends received from associates	923	422
Share-based payment charges	1 531	724
Operating profit adjusted for non-cash items	264 424	190 071
Increase in operating assets		
Loans and advances to banks	697 631	(260 740)
Reverse repurchase agreements and cash collateral on securities borrowed	(982 454)	(237 247)
Trading securities	(294 250)	12 262
Derivative financial instruments	115 708	164 972
Investment securities	(477 469)	(849 506)
Loans and advances to customers	(807 950)	(569 147)
Securitised assets	(17 761)	(274 735)
Other assets	(126 347)	(86 989)
	(1 892 892)	(2 101 130)
Increase in operating liabilities		
Deposits by banks	(614 878)	(1 223 326)
Derivative financial instruments	(9 394)	(109 701)
Other trading liabilities	212 031	(1 602)
Reverse repurchase agreements and cash collateral on securities lent	67 645	(503 532)
Customer accounts (deposits)	1 064 535	3 778 406
Debt securities in issue	28 193	833 328
Securitised liabilities	(35 465)	286 891
Other liabilities	133 335	28 539
	846 002	3 089 003

At 31 March £'000	2011	2010
37. Commitments		
Undrawn facilities	860 557	511 620
Other commitments	242	48 061
	860 799	559 681
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	17 077	16 858
1 – 5 years	46 968	48 314
Later than 5 years	12 598	21 413
	76 643	86 585
At 31 March 2011, 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	107 635	4 839
1 – 5 years	92 058	8 430
Later than 5 years	1 519	–
	201 212	13 269

Investec leases assets to third parties under operating and finance lease arrangements including transport assets, machinery, and property. The term of the leases range between three and five years with no annual escalation clauses. The majority of the leases have renewal options.

At 31 March	Carrying amount		Related liability	
£'000	2011	2010	2011	2010
Pledged assets				
Loans and advances to customers	28 042	229 323	27 822	229 323
Loans and advances to banks	227 576	226 745	227 576	187 727
Investment securities	117 696	173 905	53 077	166 308
Reverse repurchase agreements and cash collateral on securities borrowed	20 965	–	11 143	–
Trading securities	416 330	214 165	363 648	210 964
	810 609	844 138	683 266	794 322

The assets pledged by the group are strictly for the purpose of providing collateral for the counterparty. To the extent that the counterparty is permitted to sell and/or repledge the assets, they are classified on the balance sheet as reverse repurchase agreements and cash collateral on securities borrowed.

At 31 March £'000	2011	2010
38. Contingent liabilities		
Guarantees and irrevocable letters of credit	219 891	222 751
	219 891	222 751

The amounts shown above are intended only to provide an indication of the volume of business outstanding at the balance sheet date.

Guarantees are issued by Investec Bank plc 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. The FSCS has borrowed from HM Treasury Fund to fund the compensation costs. 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 2012.

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.

For the year to 31 March £'000	2011	2010
39. Related party transactions		
Transactions, arrangements and agreements involving directors and others		
Particulars of transactions, arrangements and agreements entered into by the group with directors and connected persons and companies controlled by them, and with officers of the company, were as follows:		
Directors, key management and connected persons and companies controlled by them		
Loans		
At beginning of year	8 071	14 249
Increase in loans	14 095	4 955
Repayment of loans	(4 713)	(11 133)
At end of year	17 453	8 071
Guarantees		
At beginning of year	495	1 993
Additional guarantees granted	–	495
Guarantees cancelled	(495)	(1 993)
At end of year	–	495
Deposits		
At beginning of year	26 760	18 361
Increase in deposits	20 330	20 287
Decrease in deposits	(13 772)	(11 888)
At end of year	33 318	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.

For the year to 31 March £'000	Investec plc, its subsidiaries and associates	Investec Limited and subsidiaries	Associates of the bank	Total
Transactions with other related parties				
2011				
Assets				
Loans and advances to banks	–	11 792	–	11 792
Loans and advances to customers	783 144	936	8 206	792 286
Reverse repurchase agreements and cash collateral on securities borrowed	–	73 215	–	73 215
Derivative financial instruments	262	3 514	–	3 776
Other assets	38	10 121	–	10 159
Liabilities				
Deposits from banks	–	(47 736)	–	(47 736)
Customer accounts	(86 798)	(10 901)	–	(97 699)
Debt securities in issue	–	(134 073)	–	(134 073)
Derivative financial instruments	(23)	(7 698)	–	(7 721)
Subordinated liabilities	–	(16 102)	–	(16 102)

For the year to 31 March £'000	Investec plc, its subsidiaries and associates	Investec Limited and subsidiaries	Associates of the bank	Total
39. Related party transactions (continued)				
Transactions with other related parties				
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)
Customer accounts	(205 413)	(10 229)	–	(215 642)
Debt securities inissue	–	(126 556)	–	(126 556)
Derivative financial instruments	(843)	(3 221)	–	(4 064)
Subordinated liabilities	–	(15 086)	–	(15 086)

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 Investec group. In the year to 31 March 2011, Investec Bank plc received £20.7 million (2010: £22.4 million) for these services. Specific transactions between group entities have resulted in a net fee payment to Investec Bank plc of £0.9 million (2010: £1.2 million).

During the year to March 2011, interest of £9.3 million (2010: £5.2 million) was paid to entities in the Investec Limited group and £0.4 million (2010: £0.6 million) was paid to Investec plc and fellow subsidiaries. Interest of £0.1 million (2010: £0.3 million) was received from Investec Limited group and interest of £48.3 million (2010: £43.8 million) was received from Investec plc and fellow subsidiaries.

The bank 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 €183.9 million (2010: €186.7 million) as at 31 March 2011. SF2 pays a fee of 0.21% per annum to the bank on the drawn amount of the facility.

Rent of £0.4 million (2010: £1.5 million) and a contribution of £0.0 million (2010: £0.1 million) was received from Rensburg Sheppards plc in respect of their occupation of 2 Gresham Street in its capacity as an associate until the date of acquisition. A further £0.1 million (2010: £0.4 million) was received in relation to other services provided to RS including IT and Internal Audit.

40. Hedges

The group uses derivatives for the management of financial risks relating to its asset and liability portfolios, mainly associated with non-trading interest rate risks and exposures to foreign currency risk. Most non-trading interest rate risk is transferred from the originating business to the Central Treasury in the Capital Markets business. Once aggregated and netted Treasury as the sole interface to the wholesale market for cash and derivative transactions, actively manages the liquidity mismatch and non-trading interest rate risk from our asset and liability portfolios. In this regard, Treasury is required to exercise tight control of funding, liquidity, concentration and non-trading interest rate risk within defined parameters.

The accounting treatment of accounting hedges is dependent on the classification between fair value hedges and cash flow hedges and in particular accounting hedges require the identification of a direct relationship between a hedged item and hedging instrument.

This relationship is established in limited circumstances based on the manner in which the group manages its risk exposure. Below is a description of each category of accounting hedges achieved by the group.

Fair value hedges

Fair value hedges are entered into mainly to hedge the exposure of changes in fair value of fixed rate financial instruments attributable to interest rates.

At 31 March £'000	Description of financial instrument designated as hedging instrument	Fair value of hedging instrument	Cumulative gains or losses on hedging instrument	Current year gains or losses on hedging instrument	Cumulative gains or losses on hedged item	Current year gains or losses on hedged item
2011						
Assets	Interest rate swap	12 124	12 319	5 131	(11 890)	(4 341)
	Cross currency swap	(31 898)	(31 898)	(13 653)	31 898	13 653
Liabilities	Interest rate swap	(7 053)	(7 053)	24 853	6 773	(24 845)
	Fx currency swap	(1 471)	(1 471)	(1 244)	1 471	1 545
		(28 298)	(28 103)	15 087	28 252	(13 988)
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

40. 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 other comprehensive income and transferred to the income statement when the cash flows occurs and affect income statement. The nominal expected future cash flows that are subject to cash flow hedges are:

As at 31 March £'000	Description of financial instrument designated as hedging instrument	Fair value of hedging instrument	Period cash flows are expected to occur and affect income statement
2011			
Assets	Interest rate swap	424	1 to 5 years
Liabilities	Interest rate swap	(1 654)	1 to 5 years
		(1 230)	
2010			
Assets	Interest rate swap	504	1 to 5 years
Liabilities	Interest rate swap	(5 395)	1 to 5 years
		(4 891)	

There was no ineffective portion recognised in the income statement.

Hedges of net investments in foreign operations

The group has entered into foreign exchange contracts to hedge the exposure of the group balance sheet to its net investment, in Australian Dollars, in the Australian operations of the group.

At 31 March £'000	Hedging instrument negative fair value
2011	14 545
2010	1 581

There was no ineffective portion recognised in the income statement.

41. Liquidity analysis of financial liabilities based on undiscounted cash flows

At 31 March £'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
2011								
Liabilities								
Deposits by banks	281 782	158 502	65 650	32 567	118 905	104 768	10 840	773 014
Derivative financial instruments	376 272	1 060	10 395	10 021	25 988	159 179	5 622	588 537
Derivative financial instruments – held-for-trading	261 749	–	–	–	–	–	–	261 749
Derivative financial instruments – held for hedging risk	114 523	1 060	10 395	10 021	25 988	159 179	5 622	326 788
Repurchase agreements and cash collateral on securities lent	555 474	–	57 334	–	–	–	–	612 808
Customer accounts	1 587 081	1 750 787	2 538 862	3 176 564	756 069	674 362	226 604	10 710 329
Debt securities in issue	1 289	67 618	129 699	143 203	269 825	1 294 974	144 642	2 051 250
Liabilities arising on securitisation	2 000	19 175	61 576	305 419	76 003	318 954	337 328	1 120 455
Other liabilities	784 702	207 124	105 356	24 992	17 642	25 480	1 790	1 167 086
	3 588 600	2 204 266	2 968 872	3 692 766	1 264 432	2 577 717	726 826	17 023 479
Subordinated liabilities	–	–	638	1 243	100 625	264 588	807 727	1 174 821
On balance sheet liabilities	3 588 600	2 204 266	2 969 510	3 694 009	1 365 057	2 842 305	1 534 553	18 198 300
Off balance sheet	344 895	74 362	38 104	53 953	150 312	339 496	38 795	1 039 917
Total liabilities	3 933 495	2 278 628	3 007 614	3 747 962	1 515 369	3 181 801	1 573 348	19 238 217
2010								
Liabilities								
Deposits by banks	232 989	326 665	125 246	132 504	372 084	241 673	20 800	1 451 961
Derivative financial instruments	170 606	18 153	32 479	27 389	62 386	178 282	425 600	914 895
Derivative financial instruments – held-for-trading	166 817	–	–	–	–	–	–	166 817
Derivative financial instruments – held for hedging risk	3 789	18 153	32 479	27 389	62 386	178 282	425 600	748 078
Repurchase agreements and cash collateral on securities lent	222 530	44 802	15 351	234 149	45 036	–	–	561 868
Customer accounts	1 371 080	1 490 775	2 310 468	2 632 617	440 316	1 128 926	184 200	9 558 382
Debt securities in issue	–	97 999	128 099	41 035	61 482	1 652 026	142 364	2 123 005
Liabilities arising on securitisation	598	19 572	65 453	85 370	145 689	567 219	290 305	1 174 206
Other liabilities	428 840	48 270	85 389	43 653	31 120	6 808	3	644 083
	2 426 643	2 046 236	2 762 485	3 196 717	1 158 113	3 774 934	1 063 272	16 428 400
Subordinated liabilities	–	–	458	23 341	219 524	143 753	307 851	694 927
On balance sheet liabilities	2 426 643	2 046 236	2 762 943	3 220 058	1 377 637	3 918 687	1 371 123	17 123 327
Off balance sheet	238 809	19 688	25 002	23 292	58 985	377 481	60 538	803 795
Total liabilities	2 665 452	2 065 924	2 787 945	3 243 350	1 436 622	4 296 168	1 431 661	17 927 122

The balances in the above table will not agree directly to the balances in the consolidated balance sheet as the table incorporates all cash flow on an undiscounted basis relating to both principal and those associated with all future coupon payments (except for trading liabilities and trading derivatives). Furthermore loan commitments are generally not recognised on the balance sheet. Trading liabilities and trading derivatives have been included in the 'demand' time bucket and not by contractual maturity because trading liabilities are typically held for short periods of time. For an unaudited analysis based on discounted cash flows please refer to pages 87 and 88.

At 31 March	Principal activity	Country of incorporation	Interest % 2011	Interest % 2010
42. Principal subsidiaries and associated companies				
Direct subsidiary undertakings of Investec Bank plc				
Guinness Mahon & Co Limited	Investment holding	England and Wales	100.0%	100.0%
Investec Asset Finance PLC	Leasing company	England and Wales	100.0%	100.0%
Investec Bank (Switzerland) AG	Banking institution	Switzerland	100.0%	100.0%
Investec Finance plc	Debt issuer	England and Wales	100.0%	100.0%
Investec Group Investments (UK) Limited	Investment holding	England and Wales	100.0%	100.0%
Investec Holdings (Ireland) Limited	Holding company	Ireland	100.0%	–
Rensburg Sheppards plc	Holding company	England and Wales	100.0%	–
Indirect subsidiary undertakings of Investec Bank plc				
Investec Experien Pty Limited	Financial services	Australia	100.0%	100.0%
Investec Bank (Australia) Limited	Banking institution	Australia	100.0%	100.0%
Investec Bank (Channel Islands) Limited	Banking institution	Guernsey	100.0%	100.0%
Investec Ireland Limited	Financial services	Ireland	100.0%	–
Investec Trust Holdings AG	Investment holding	Switzerland	100.0%	100.0%
Investec Trust (Switzerland) S.A.	Trust company	Switzerland	100.0%	100.0%
Investec Trust (Jersey) Limited	Trust company	Jersey	100.0%	100.0%
Leasedirect Finance Limited	Finance broker	England and Wales	75.0%	75.0%
Investec Wealth & Investment Limited (formerly Rensburg Sheppards Investment Management Limited)	Stockbroking and portfolio management	England and Wales	100.0%	–
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	33.2%	35.0%

* *The company has taken advantage of the exemption under section 410(2) of the Companies Act 2006 by providing information only in relation to subsidiary undertakings whose results of financial position, in the opinion of the directors, principally affected the financial statements. A complete list of subsidiary and associated undertakings will be included in the next Investec Bank plc annual return filed with the registrar of companies.*

Statement of directors' responsibilities

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

Steven Heilbron
Joint chief executive officer

17 June 2011

Independent auditor's report to the member of Investec Bank plc

We have audited the financial statements of Investec Bank plc for the year ended 31 March 2011 which comprise the balance sheet, the statement of total recognised gains and losses, and the related notes 1 to 27. 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 member, 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 member 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 member as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibility statement set out on page 197, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the 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 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- Give a true and fair view of the state of the company's affairs as at 31 March 2011 and of its profit for the year then ended;
- 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, or returns adequate for our audit have not been received from branches not visited by us; or
- The financial statements are not in agreement with the accounting records and returns; or
- 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 matters

We have reported separately on the group financial statements of Investec Bank Plc for the year ended 31 March 2011 and on the information in the directors' remuneration report.

Ernst & Young LLP

Michael-John Albert
Senior statutory auditor
for and on behalf of Ernst & Young LLP, Statutory Auditor

London
17 June 2011

Notes:

1. *The maintenance and integrity of the Investec plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.*
2. *Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.*

Balance sheet

At 31 March £'000	Notes	2011	2010
Assets			
Cash and balances at central banks		976 739	1 502 887
Treasury bills and other eligible bills	6	64 225	110 349
Loans and advances to banks	5	1 860 981	981 115
Loans and advances to customers	5/7	7 011 886	6 713 279
Debt securities	8	1 349 557	642 075
Equity shares	10	137 409	88 741
Interests in associated undertakings	11	9 261	9 288
Shares in group undertakings	12	923 801	568 251
Tangible fixed assets	13	220 427	25 451
Derivative assets	21	541 702	696 627
Other assets	14	492 081	444 811
Prepayments and accrued income		11 864	11 286
		13 599 933	11 794 160
Liabilities			
Deposits by banks	5	1 788 299	2 112 936
Customer accounts	5	7 675 480	6 628 375
Debt securities in issue	5	879 526	668 639
Derivative liabilities	21	481 503	489 786
Trading liabilities – short positions		402 326	190 295
Other liabilities	15	405 347	270 983
Accruals and deferred income		96 124	72 939
		11 728 605	10 433 953
Subordinated liabilities	5/17	555 451	473 980
		12 284 056	10 907 933
Equity			
Ordinary share capital	18	1 026 000	748 000
Share premium account		105 117	70 533
Capital reserve		114 128	–
Other reserves		(9 477)	(4 689)
Profit and loss account		80 109	72 383
Total shareholders' equity	1	1 315 877	886 227
Total liabilities and shareholders' equity		13 599 933	11 794 160
Memorandum items			
Commitments	19	611 057	332 550
Contingent liabilities	20	213 631	211 156
		824 688	543 706

The directors approved the accounts and authorised them for issue on 17 June 2011.

David van der Walt
Joint chief executive officer

Steve Heilbron
Joint chief executive officer

Statement of total recognised gains and losses

For the year to 31 March £'000	2011	2010
Profit for the year attributable to shareholders	30 726	60 184
Fair value movements on available-for-sale assets	17 611	7 801
Currency translation movements	(22 399)	(5 986)
Total recognised gains relating to the year	25 938	61 999

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.

Significant accounting policies

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 standards requirements.

Accounting policies applied are consistent with those of the prior year.

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 in the income statement over the period the service conditions of the grant are met with the amount changing according to the number of awards expected to vest. The cumulative expense recognised for equity–settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the bank's best estimate of the number of equity instruments that will ultimately vest.

The liability in respect of cash-settled share-based payments 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 with the change in fair value being recognised in the income statement. 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 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 the bank is determined based on the primary economic environment in which the bank operates.

The results and financial position of foreign operations 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 the income statement 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 bank 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 the income statement
- Exchange differences arising on monetary items that form part of the net investment in a foreign operation are determined using closing rates and recognised as a separate component of equity (foreign currency translation reserve) upon consolidation and is 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, principal transactions and other operating income.

Revenue is recognised when it can be reliably measured and it is probable that the economic benefits will flow to the bank. Revenue is recognised at the fair value of consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognised.

Interest income is recognised in the income statement using the effective interest 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 method is based on the estimated life of the underlying instrument or 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.

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 includes the unrealised profits on trading portfolios, which are marked to market daily. Equity investments received in lieu of corporate finance fees are included in trading securities and valued accordingly.

Financial instruments

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

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

Financial assets and liabilities held at fair value through profit or loss

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

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

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

- It eliminates or significantly reduces an inconsistent measurement or recognition 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
- If a contract contains one or more embedded derivatives (which significantly modifies the cash flows that would be required by the contract and is not clearly prohibited from separation from the host contract) and the bank has designated the entire hybrid contract as a financial instrument at fair value through profit and loss.

Transaction costs incurred on financial instruments held at fair value through profit or loss are recognised immediately in the income statement.

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 or 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 or 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’.

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

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 other comprehensive income 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 other comprehensive income are included in the income statement in the period in which the impairment is identified.

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

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

Financial liabilities

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

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

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

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 deemed 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 or loss
- Loans and advances designated as available-for-sale
- Financial liabilities classified as trading or designated as held at fair value through profit or 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.

'Day 1' profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on the valuation technique whose variables include only data from observable markets, the difference between the transaction price and fair value is recognised immediately in the income statement. In cases where fair value is determined using the data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

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. Over and above individual collective impairments raised at specific portfolio levels, the bank has implemented a collective impairment allowance at a central level (within the bank services and other business segment) that takes into account macro economic factors, mainly driven by data related to the prevailing credit markets which indicate incurred but not specifically identified losses across the loan portfolios (that is, exposures in all business segments). Assets specifically identified as impaired are excluded from the collective assessment.

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

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

Derecognition of financial assets and liabilities

A financial asset or a portion thereof is derecognised when the 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 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 and either (a) the bank has transferred substantially all the risk and rewards associated with the financial assets or (b) the bank has neither transferred nor retained substantially all the risks and rewards associated with the financial assets but has transferred control of the asset.

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

When an existing financial liability is replaced or modified with substantially different terms, such a replacement or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

Reclassification of financial instruments

The 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. In certain circumstances it may also reclassify 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 the 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 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 or hedge of net investments in foreign operations accounting when the transactions meet the specified hedge accounting criteria. To qualify for hedge accounting treatment, the 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. Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%.
- For cash flow hedges, a forecasted transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect 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.
- For qualifying fair value hedges, the change in fair value of the hedging instrument is recognised in the income statement. Changes in fair value of the hedged item that is attributable to the hedged risk are also recognised in the income statement.

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

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

Hedge accounting is discontinued when it is determined that the instrument ceases to be highly effective as a hedge; 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 or when the designation as a hedge is revoked.

Embedded derivatives

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

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

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 deliver cash or another financial asset. 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, at a fixed price or a selling price plus a lenders return, they remain on the balance sheet. Proceeds received are recorded as a liability on the balance sheet under ‘repurchase agreements and cash collateral on securities lent’. Securities that are purchased under a commitment to resell the securities at a future date are not recognised on the balance sheet. The consideration paid is recognised as an asset under ‘reverse repurchase agreements and cash collateral on securities borrowed’. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method.

Securities borrowing transactions that are not cash collateralised are not included 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 guarantee contracts issued by the bank are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due, in accordance with the terms of the debt instrument.

Financial guarantees are initially recognised at fair value, adjusted for the transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition the liability under each guarantee is measured at the higher of the amount recognised less cumulative amortisation and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Subsequent to initial measurement all changes in the balance sheet carrying value are recognised in the income statement.

Instalment credit, leases and rental agreements

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 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 are recorded at cost less accumulated depreciation and impairments.

Cost is the cash equivalent paid, or the fair value of the consideration given to acquire an asset and includes other expenditures that are directly attributable to the acquisition of the asset.

Depreciation is provided on the depreciable amount of each component on a straight-line basis over the 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 the income statement
- 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 other comprehensive income are net of related current and deferred taxation.

Employee benefits

The bank operates various defined contribution schemes and two closed defined benefit schemes.

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 other comprehensive income.

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 fifteen 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.

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 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.

For the year to 31 March £'000	Share capital	Share premium account	Capital reserve	Other reserves: Available-for-sale reserves	Other reserves: Foreign currency reserves	Profit and loss account	Total
1. Reconciliation of shareholders' funds and movements in reserves							
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
Retained profit for the year	–	–	–	–	–	30 726	30 726
Fair value movements on available for sale assets	–	–	–	17 611	–	–	17 611
Foreign currency adjustments	–	–	–	–	(22 399)	–	(22 399)
Total recognised gains/(losses) for the year	–	–	–	17 611	(22 399)	30 726	25 938
Issue of ordinary shares	278 000	34 584	114 128	–	–	–	426 712
Dividends paid to ordinary shareholders	–	–	–	–	–	(23 000)	(23 000)
At 31 March 2011	1 026 000	105 117	114 128	12 928	(22 405)	80 109	1 315 877

For the year to 31 March £'000	2011	2010
2. Dividends		
Final dividend for previous year	15 000	–
Interim dividend for current year	8 000	5 000
Total dividend attributable to ordinary shareholder recognised in current financial year	23 000	5 000

At 31 March £'000	2011	2010
3. Directors' emoluments		
Aggregate emoluments (excluding pension contributions)	6 006	6 114
Contributions to defined contributions scheme	100	261
	6 106	6 375
Number of directors in defined contributions scheme	3	4

Emoluments of the highest paid director were £4 121 927 (2010: £3 320 930) excluding £36 437 (2010: £31 222) of pension contributions to the defined contributions scheme.

Included in aggregate emoluments for the current year are deferred bonuses of £2 718 000 (2010: £1 995 000) which are payable in two equal instalments on 31 May 2012 and 31 May 2013. The deferred component will be equivalent to the value of 285 505 Investec plc shares (2010: 211 336 shares) at the close of business on each of 31 May 2012 and 31 May 2013.

The directors' emoluments of Messrs. Alford, Crosthwaite, Herman, B Kantor, I Kantor and Koseff 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.

At 31 March £'000	At fair value through profit or loss	
	Trading	Designated at inception
4. Classification of financial assets and financial liabilities		
2011		
Assets		
Cash and balances at central banks	–	–
Treasury bills and other eligible bills	–	–
Loans and advances to banks	455 380	–
Loans and advances to customers	–	16 611
Debt securities	421 740	4 006
Equity shares	95 106	6 289
Interests in associated undertakings	–	–
Shares in group undertakings	–	–
Tangible fixed assets	–	–
Derivative assets	541 702	–
Other assets	202 618	–
Prepayments and accrued income	–	–
	1 716 546	26 906
Liabilities		
Deposits by banks	456 413	–
Customer accounts	–	–
Debt securities in issue	–	–
Derivative liabilities	481 503	–
Trading liabilities – short positions	402 326	–
Other liabilities	217 262	–
Accruals and deferred Income	–	–
Subordinated liabilities	–	–
	1 557 504	–

	Loans and receivables	Available-for-sale	Held-to-maturity	Financial assets or financial liabilities at amortised cost	Non-financial instruments	Total
	976 739	–	–	–	–	976 739
	–	64 225	–	–	–	64 225
	1 405 601	–	–	–	–	1 860 981
	6 587 232	–	408 043	–	–	7 011 886
	155 564	768 247	–	–	–	1 349 557
	–	36 014	–	–	–	137 409
	–	–	–	–	9 261	9 261
	–	–	–	–	923 801	923 801
	–	–	–	–	220 427	220 427
	–	–	–	–	–	541 702
	228 006	–	–	–	61 457	492 081
	–	–	–	11 864	–	11 864
	9 353 142	868 486	408 043	11 864	1 214 946	13 599 933
	–	–	–	1 331 886	–	1 788 299
	–	–	–	7 675 480	–	7 675 480
	–	–	–	879 526	–	879 526
	–	–	–	–	–	481 503
	–	–	–	–	–	402 326
	–	–	–	113 189	74 896	405 347
	–	–	–	96 124	–	96 124
	–	–	–	555 451	–	555 451
	–	–	–	10 651 656	74 896	12 284 056

At 31 March £'000	At fair value through profit or loss Trading	 Designated at inception
4. Classification of financial assets and financial liabilities		
2010		
Assets		
Cash and balances at central banks	–	–
Treasury bills and other eligible bills	–	–
Loans and advances to banks	155 801	9 049
Loans and advances to customers	–	242 806
Debt securities	218 419	–
Equity shares	47 976	11 367
Interests in associated undertakings	–	–
Shares in group undertakings	–	–
Tangible fixed assets	–	–
Derivative assets	696 627	–
Other assets	160 559	–
Prepayments and accrued income	–	–
	1 279 382	263 222
Liabilities		
Deposits by banks	–	–
Customer accounts	204 562	–
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	–

Loans and receivables	Available-for-sale	Held-to-maturity	Financial assets or financial liabilities at amortised cost	Non-financial instruments	Total
1 502 887	–	–	–	–	1 502 887
–	110 349	–	–	–	110 349
816 265	–	–	–	–	981 115
5 989 681	–	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
161 080	–	–	–	–	696 627
–	–	–	–	123 172	444 811
–	–	–	11 286	–	11 286
8 469 913	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	Demand	Up to one month
5. Maturity of loans and deposits		
2011		
Assets		
Loans and advances to banks	1 296 173	482 856
Loans and advances to customers	727 516	438 034
Liabilities		
Deposits by banks	821 958	303 553
Customer accounts	843 422	1 318 563
Debt securities in issue	299 524	5 000
Subordinated liabilities	–	–
2010		
Assets		
Loans and advances to banks	767 577	125 944
Loans and advances to customers	303 907	550 935
Liabilities		
Deposits by banks	440 445	394 576
Customer accounts	605 328	984 606
Debt securities in issue	–	5 000
Subordinated liabilities	–	–

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	Balances with group companies
6 000	–	–	75 952	–	1 860 981	84 673
378 451	318 784	660 129	2 617 374	1 871 598	7 011 886	1 246 599
170 738	96 000	41 000	355 050	–	1 788 299	533 428
1 396 719	2 491 839	352 339	1 209 158	63 440	7 675 480	416 057
7 000	5 000	19 000	474 600	69 402	879 526	2 002
–	–	5 934	33 607	515 910	555 451	36 764
83 749	–	–	3 845	–	981 115	28 238
400 838	300 527	812 000	2 667 777	1 677 295	6 713 279	1 313 750
245 108	382 057	434 669	216 081	–	2 112 936	270 312
1 118 105	2 519 318	295 555	953 545	151 918	6 628 375	575 393
13 000	–	4 000	348 702	297 937	668 639	2 012
–	–	4 166	–	469 814	473 980	473 980

At 31 March £'000	2011	2010
6. Treasury bills and other eligible bills		
Securities designated as available-for-sale:		
Treasury bills	54 822	100 880
Other eligible bills – other issuers	9 403	9 469
	64 225	110 349
At beginning of year	110 349	16 051
Purchases	2 157 819	110 221
Maturities	(2 204 248)	(15 841)
Movement in fair value during the year	379	272
Exchange adjustments	(74)	(354)
Fair value at end of year	64 225	110 349

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	2011	2010
7. Customer accounts		
Total loans and advances to customers	7 011 886	6 713 279
Less: trading book loans and cash equivalent debtors	(2 895)	(7 354)
	7 008 991	6 705 925
Category analysis		
Private Banking	3 243 460	3 271 186
Corporate and public sector	2 628 741	2 138 197
Other	1 298 195	1 379 483
	7 170 396	6 788 866
Specific impairment	(155 727)	(64 269)
Portfolio impairment	(5 678)	(18 672)
	7 008 991	6 705 925
Specific and portfolio impairments		
Reconciliation of movements in specific and portfolio impairments for bad and doubtful debts:		
Specific impairment		
At beginning of year	64 269	64 238
Charge to the income statement	140 091	70 753
Utilised	(50 870)	(69 151)
Exchange adjustments	2 237	(1 571)
At end of year	155 727	64 269
Portfolio impairment		
At beginning of year	18 672	3 032
Charge to the income statement	(13 039)	15 680
Exchange adjustments	45	(40)
At end of year	5 678	18 672

At 31 March £'000	2011	2010
8. Debt securities		
Unlisted debt securities:		
– designated as held-for-trading or designated as held at fair value through profit and loss	425 746	218 419
– held at amortised cost	155 564	–
	581 310	218 419
Securities designated as available-for-sale		
Unlisted bank and building society certificates of deposit	–	–
Other unlisted debt securities	768 247	423 656
	768 247	423 656
Total debt securities	1 349 557	642 075
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	423 656	319 144
Additions	1 262 000	413 645
Sold/matured	(916 285)	(313 721)
Exchange adjustments	(2 686)	6 511
Movement in fair value during the year	1 562	(1 923)
At end of year	768 247	423 656

At 31 March £'000	2011	2010
9. 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:	637 011	83 768
Loans and advances to customers	637 011	83 768

At 31 March £'000	2011	2010
10. Equity shares		
Trading securities and securities designated as at fair value through profit and loss		
Listed	87 898	52 622
Unlisted	13 432	6 721
	101 330	59 343
Securities designated as available-for-sale		
Listed	10 340	4 145
Unlisted	25 739	25 253
	36 079	29 398
Total equity shares	137 409	88 741
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	29 398	17 958
Additions	3 840	20 415
Disposals	(2 726)	(10 231)
Exchange adjustments	86	1 024
Movement in fair value during the year	5 491	232
Fair value at end of year	36 079	29 398

At 31 March £'000	2011	2010
11. Interests in associated undertakings		
Analysis of the movement in investment:		
At beginning of year	11 616	11 632
Exchange adjustments	(27)	(16)
At end of year	11 589	11 616
Provision for impairment in value		
At beginning of year	(2 328)	(2 323)
Provision made	–	(5)
At end of the year	(2 328)	(2 328)
Net book value at the end of the year	9 261	9 288

The associated undertakings are unlisted.

At 31 March £'000	2011	2010
12. Shares in group undertakings		
Cost		
At beginning of year	570 270	504 696
Additions	355 550	9 245
Disposal of subsidiary	–	(9 245)
Recapitalisation of subsidiaries	–	10 107
Exchange adjustments	–	55 467
At end of the year	925 820	570 270
Provision for impairment in value		
At beginning of year	(2 019)	(2 019)
New impairments	–	–
At end of the year	(2 019)	(2 019)
Net book value at the end of the year	923 801	568 251

Details of the significant acquisitions are included in 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	Operating leases	Total
13. Tangible fixed assets					
Cost or valuation					
At beginning of year	24 868	4 541	25 265	–	54 674
Additions	2 253	461	3 744	226 097	232 555
Disposals	(94)	–	–	(15 755)	(15 849)
At end of year	27 027	5 002	29 009	210 342	271 380
Accumulated depreciation and amortisation					
At beginning of year	(10 526)	(4 104)	(14 593)	–	(29 223)
Disposals	94	–	–	632	726
Charge for the year	(1 837)	(125)	(4 047)	(16 447)	(22 456)
At end of year	(12 269)	(4 229)	(18 640)	(15 815)	(50 953)
Net book value at 31 March 2011	14 758	773	10 369	194 527	220 427
Net book value at 31 March 2010	14 342	437	10 672	–	25 451

During the year the bank purchased a book of operating leases on motor vehicles.

At 31 March £'000	2011	2010
14. Other assets		
Settlement debtors	417 768	320 640
Trading initial margin	25 080	19 949
Deferred tax asset (note 16)	21 297	42 235
Dealing properties	5 377	5 401
Other debtors	22 559	56 586
	492 081	444 811

Dealing properties are recorded at the lower of cost or selling price less cost to sell.

At 31 March £'000	2011	2010
15. Other liabilities		
Settlement creditors	326 844	194 465
Corporation and other taxes	7 403	26 787
Trade creditors and maintenance liabilities arising from operating leased assets	21 688	–
Other creditors and accruals	49 412	49 731
	405 347	270 983

At 31 March £'000	2011	2010
16. Deferred tax		
Deferred tax asset		
Deferred capital allowances	3 425	29 701
Arising from unexpired share options	10 998	9 757
Income and expenditure accruals	6 671	2 660
Other timing differences	203	117
	21 297	42 235
Deferred tax liability	–	–
Net deferred tax asset	21 297	42 235
Reconciliation of net deferred tax asset:		
At beginning of year	42 235	36 031
Credit to profit and loss	(20 938)	6 204
At end of year	21 297	42 235

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	2011	2010
17. Subordinated liabilities		
Dated subordinated debt		
Medium-term subordinated notes	502 126	–
Subordinated loans	53 325	473 980
	555 451	473 980
Remaining maturity:		
In one year or less, or on demand	5 934	4 166
In more than two years, but not more than five years	33 607	–
In more than five years	515 910	469 814
	555 451	473 980

Subordinated loans

Medium-term notes

On 17 February 2011 Investec Bank plc issued £500 000 000 of 9.625% subordinated notes due 2022 at a discount (2022 notes). Interest is paid annually. The notes are listed on the London Stock Exchange. The notes will be redeemed at par on 17 February 2022.

Subordinated loans

The net proceeds of two issues of step-up notes by a subsidiary of the bank, Investec Finance plc, have been on lent to the bank on a subordinated basis.

In January 2011 Investec Bank plc invited the holders of the 2016 notes and perpetual notes, issued by Investec Finance plc, to exchange their existing notes for the new 2022 notes.

Under the exchange offer, the bank exchanged £193 258 000 of the 2022 notes for the perpetual notes and £166 504 000 of the 2022 notes for the 2016 notes. Following the exchange £393 137 000 (2010: £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	2011	2010
18. Ordinary share capital		
Authorised		
The authorised share capital is £2 000 million (2010: £1 000 million) comprising 2 000 million ordinary shares of £1 each (2010: 1 000 million shares of £1 each).		
Issued, allotted and fully paid		
Number of ordinary shares	Number	Number
At beginning of year	748 000 000	655 000 000
Issued during the year	278 000 000	93 000 000
At end of year	1 026 000 000	748 000 000
Nominal value of ordinary shares		
At beginning of year	£'000	£'000
Issued during the year	748 000	655 000
At end of year	278 000	93 000
The unissued shares are under the control of the directors until the next annual general meeting.	1 026 000	748 000

At 31 March £'000	2011	2010
19. Commitments		
Undrawn facilities	611 057	332 550

The bank has entered into loan commitments in the normal course of its banking business.

At 31 March £'000	2011	2010
20. Contingent liabilities		
Guarantees and irrevocable letters of credit	213 631	211 156

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. The FSCS has borrowed from HM Treasury the fund the compensation costs. 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 2012.

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.

21. Derivatives

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	Notional principal amounts 2011	Positive fair value 2011	Negative fair value 2011	Notional principal amounts 2010	Positive fair value 2010	Negative fair value 2010
Foreign exchange derivatives						
Forward foreign exchange	4 614 380	32 906	(79 939)	1 601 771	20 464	(20 322)
Currency swaps	1 618 451	59 106	(62 333)	1 947 792	69 701	(26 637)
OTC options bought and sold	1 977 148	25 771	(11 702)	185 228	1 943	(2 386)
Other foreign exchange contracts	119 942	2 769	–	149 441	6 756	–
	8 329 921	120 552	(153 974)	3 884 232	98 864	(49 345)
Interest rate derivatives						
Caps and floors	998 315	3 757	(3 365)	444 062	1 209	(1 537)
Swaps	9 558 871	150 609	(62 607)	8 102 152	151 145	(100 954)
Forward rate agreements	279 792	99	(51)	220 655	–	(61)
Other interest rate contracts	251 107	3 527	(197)	–	–	–
OTC derivatives	11 088 085	157 992	(66 220)	8 766 869	152 354	(102 552)
Exchange traded options	–	–	–	281 736	253	(141)
	11 088 085	157 992	(66 220)	9 048 605	152 607	(102 693)
Equity and stock index derivatives						
OTC options bought and sold	2 036 849	15 622	(9 809)	1 371 977	41 403	(659)
Equity swaps and forwards	228 471	4 111	(2 626)	30 647	635	(982)
OTC derivatives	2 265 320	19 733	(12 435)	1 402 624	42 038	(1 641)
Exchange traded futures	178 333	1 471	(1 025)	7 123	1 237	(1 237)
Exchange traded options	161	35 721	(17 889)	693 728	35 990	(42 239)
Warrants	–	504	–	–	200	–
	2 443 814	57 429	(31 349)	2 103 475	79 465	(45 117)
Commodity derivatives						
OTC options bought and sold	–	–	–	98 029	1 313	(1 313)
Commodity swaps and forwards	322 264	170 148	(226 414)	1 672 164	276 382	(316 371)
OTC derivatives	322 264	170 148	(226 414)	1 770 193	277 695	(317 684)
Exchange traded futures	–	–	–	848 954	227 808	(150 935)
	322 264	170 148	(226 414)	2 619 147	505 503	(468 619)
Credit derivatives						
Credit swaps bought and sold	47 932	7 430	(3 546)	66 629	13 029	(3 850)
	47 932	7 430	(3 546)	66 629	13 029	(3 850)
Embedded derivatives		28 151	–		26 997	–
Gross fair values		541 702	(481 503)		876 465	(669 624)
Effect of on balance sheet netting		–	–		(179 838)	179 838
Derivatives per balance sheet		541 702	(481 503)		696 627	(489 786)

22. Hedges

At 31 March £'000	Description of financial instrument designated as hedging instrument	Fair value of hedging instrument	Cumulative gains/ (losses) on hedging instrument	Current year gains/ (losses) on hedging instrument	Cumulative gains/ (losses) on hedged item	Current year gains/ (losses) on hedged item
2011						
Assets	Interest rate swap	12 890	13 085	5 028	(12 645)	(4 198)
	Cross currency swap	(31 579)	(31 579)	(13 334)	31 579	13 334
Liabilities	Interest rate swap	(65)	(65)	16 422	(173)	(16 346)
	FX currency swap	–	–	227	–	74
		(18 754)	(18 559)	8 343	18 761	(7 136)
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	(40 098)	(40 098)	(10 492)	39 818	10 409
		(51 425)	(51 447)	(18 557)	49 955	18 052

At 31 March £'000	2011	2010
23. Related party transactions		
Transactions, arrangements and agreements involving directors, key management and connected persons and companies controlled by them:		
Loans		
At beginning of year	8 071	14 249
Increase in loans	14 095	4 955
Repayment of loans	(4 713)	(11 133)
At end of year	17 453	8 071
Guarantees		
At beginning of year	495	1 993
Additional guarantees granted	–	495
Guarantees cancelled	495	(1 993)
At end of year	–	495
Deposits		
At beginning of year	26 760	18 361
Increase in deposits	20 330	20 287
Decrease in deposits	(13 772)	(11 888)
At end of year	33 318	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 the 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.

24. Reclassifications

During the 2009 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.

At 31 March £'000	2011	2010
25. Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent		
Assets		
Reverse repurchase agreements	1 005 441	277 279
Cash collateral on securities borrowed	381 483	213 215
	1 386 924	490 494
As part of the reverse repurchase and securities borrowing agreements, the bank has received securities that it is allowed to sell or pledge. £407 million (2010: £425 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	576 451	528 905
Cash collateral on securities lent	36 212	16 182
	612 663	545 087

26. 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 holding company of the smallest and largest group into which the results of the bank are 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.

27. Principal subsidiary and associated undertakings

At 31 March £'000	Principal activity	Country of incorporation	Interest % 2011	Interest % 2010
Direct subsidiary undertakings of Investec Bank plc				
Guinness Mahon & Co Limited	Investment holding company	England and Wales	100.0%	100.0%
Investec Asset Finance PLC	Leasing	England and Wales	100.0%	100.0%
Investec Bank (Switzerland) AG	Banking institution	Switzerland	100.0%	100.0%
Investec Finance plc	Debt issuer	England and Wales	100.0%	100.0%
Investec Group Investments (UK) Limited	Investment holding company	England and Wales	100.0%	100.0%
Investec Holdings (Ireland) Limited	Holding company	Ireland	100.0%	–
Rensburg Sheppards plc	Holding company	England and Wales	100.0%	–
Indirect subsidiary undertakings of Investec Bank plc				
Investec Bank (Australia) Limited	Banking institution	Australia	100.0%	100.0%
Investec Bank (Channel Islands) Limited	Banking institution	Guernsey	100.0%	100.0%
Investec Experien Pty Limited	Financial services	Australia	100.0%	100.0%
Investec Ireland Limited	Financial services	Ireland	100.0%	–
Investec Trust Holdings AG	Investment holding company	Switzerland	100.0%	100.0%
Investec Trust (Jersey) Limited	Trust company	Jersey	100.0%	100.0%
Investec Trust (Switzerland) S.A.	Trust company	Switzerland	100.0%	100.0%
Leasedirect Finance Limited	Finance broker	England and Wales	75.0%	75.0%
Investec Wealth & Investment Limited (formerly Rensburg Sheppards Investment Management Limited)	Stockbroking and portfolio management	England and Wales	100.0%	–
All of the above subsidiary undertakings are included in the consolidated accounts.				
Principal associated undertaking of Investec Bank plc				
Hargreave Hale Limited	Stockbroking and portfolio management	England and Wales	33.2%	35.0%

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