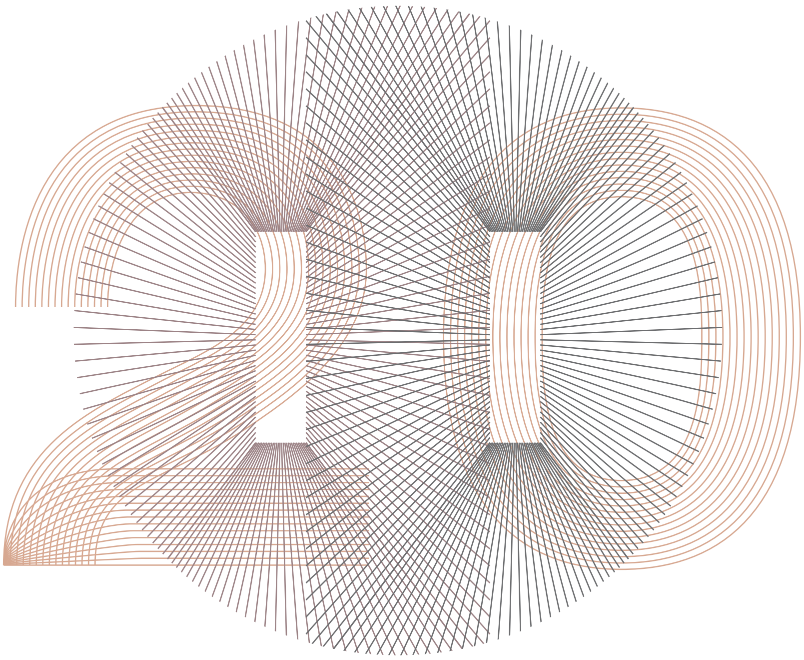
Investec Limited Group and Company
Annual Financial Statements **2011**



*Out of the Ordinary®*

Investec

Specialist Bank and
Asset Manager

# Corporate information

## Secretary and registered office

Benita Coetsee
100 Grayston Drive
Sandown Sandton 2196
PO Box 785700 Sandton 2196
Telephone (27 11) 286 7957
Facsimile (27 11) 291 1806

## Internet address

www.investec.com

## Registration number

Reg. No. 1925/002833/06

## Auditors

Ernst & Young Inc.
KPMG Inc.

## Investec directors

Refer to pages 120 to 122

## Transfer secretaries

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

## Investec offices – contact details

Refer to page 203

For queries regarding information in this document:

## Investor Relations

Telephone (27 11) 286 7070
e-mail: investorrelations@investec.com
Internet address:
www.investec.com/en_za/#home/investor_relations.html

# Contents

## 01 Investec in perspective



## 02 Overview of the activities of Investec Limited



## 03 Financial review



## 04 Risk and governance

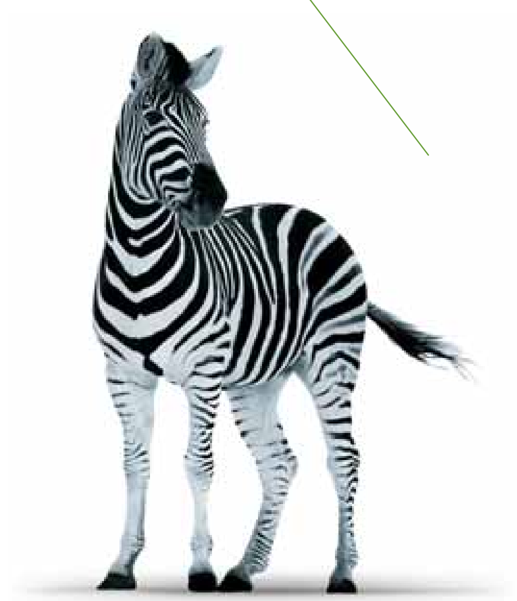


## 05 Additional information



## 06 Financial statements

# Investec in perspective



# Overview of the Investec group

## Mission statement

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

## Who we are

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

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

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

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

## What we do

We are organised as a network comprising six business divisions: Asset Management, 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.

## Philosophies

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

## 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

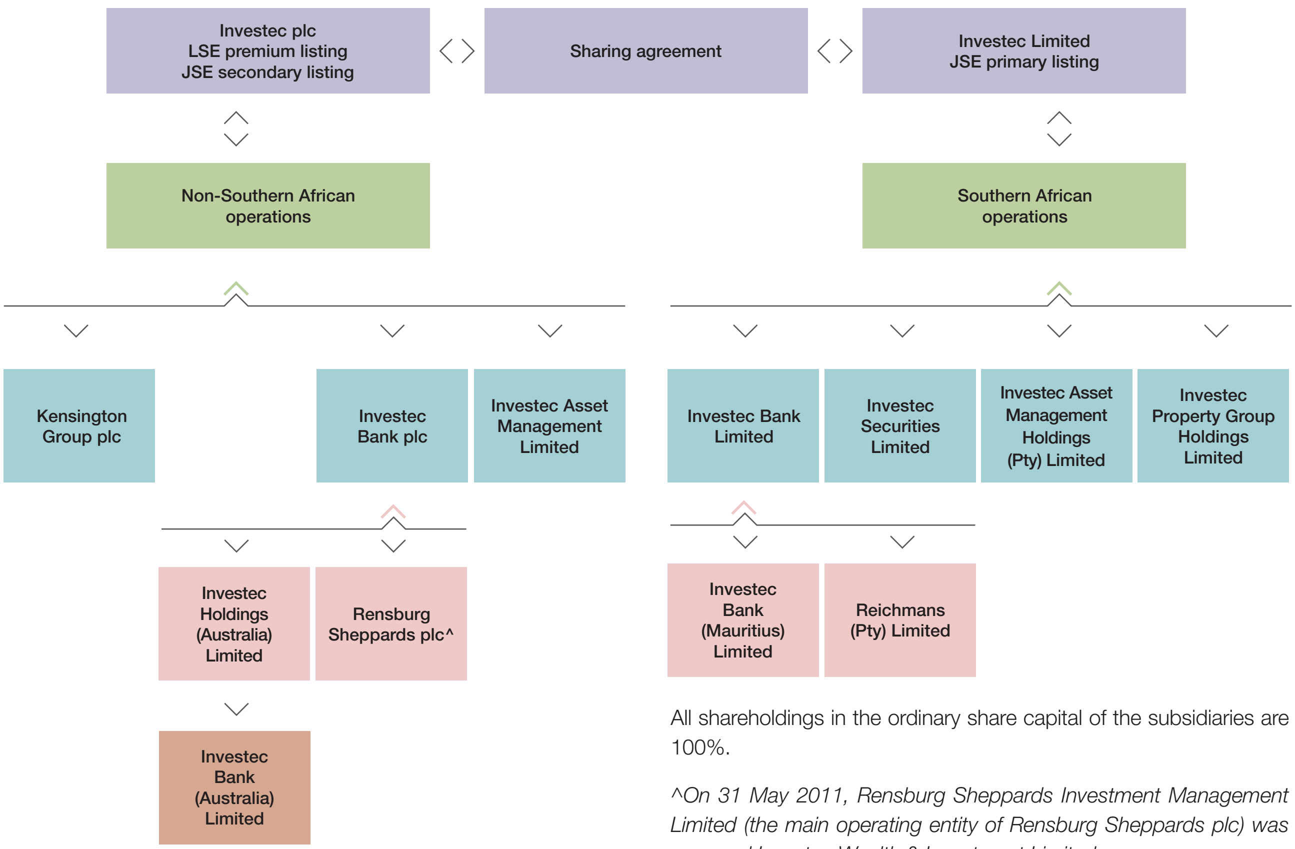
- Moral strength
- Risk consciousness
- Highest ethical standards

# Overview of Investec's and Investec Limited'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.

**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.*

## 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.

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

# 2

# Overview of the activities of Investec Limited

# Overview of the activities of Investec Limited

The activities conducted by the significant 'operating' subsidiaries of Investec Limited are discussed below:

## 1. Investec Asset Management

Investec Asset Management is a specialist investment manager of third party assets on behalf of clients. Our investment teams are organised around seven core investment capabilities servicing our primarily institutional and professional client base.

We have grown significantly since inception in 1991 in South Africa. Today, we are one of the largest managers of third party assets in Southern Africa, managing funds on behalf of individuals, retirement funds, insurance companies, government bodies, universities, corporations and other institutions. We are a multi-specialist investment manager and a market leader in specialist equity, fixed interest, balanced and absolute return funds. As at 31 March 2011, South African funds under management amounted to R305 billion.

We are committed to achieving excellent investment performance, delivering quality client service and creating appropriate investment solutions that fulfill the needs of our clients.

## 2. Wealth and Investment (conducted by Investec Securities Limited)

The creation of the Wealth and Investment division in South Africa is the result of the recent merger of the South African Private Bank's Wealth Management division with Investec Private Client Securities on 1 April 2010.

Investec Wealth and Investment South Africa provides investment management and stockbroking services for private clients, charities, pension funds and trusts. Over 290 staff operate from eight offices across South Africa. With R22.6 billion of funds under full discretionary management and a further R136.2 billion of funds under various other forms of administration, Investec Wealth and Investment is one of South Africa's leading private client investment management businesses.

## 3. Property Activities

Investec Property is one of South Africa's pre-eminent property operations. The business has built strong expertise within the specialist areas of:

- Property fund and asset management

  We manage property portfolios to maximise returns and capital growth of property assets over time

- Development

  We develop, re-develop and refurbish properties within the office, retail, industrial, residential and land conversion sectors using our extensive experience and skill

- Trading and acquisitions

  The division sources buildings or land opportunities with the specific intention of adding or unlocking value and ultimately trading the assets in order to optimise the return.

## 4. Investec Bank Limited

The bank's structure comprises three principal business units: Private Banking, Investment Banking and Capital Markets. Each division provides specialised products and services to defined target markets. Our head office also provides certain group-wide integrating functions including risk management, information technology, finance, investor relations, marketing, human resources and organisational development. The head office is also responsible for our central funding as well as other activities such as trade finance.

## 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.

# Overview of the activities of Investec Limited (continued)

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 (housed in Investec Securities Limited) and principal investments. Our target market includes: listed and unlisted companies, fund managers, government and parastatals.

### Corporate Finance

The Corporate Finance division focuses on the following activities:

- Financial advisory
  - M&A including disposals
  - Corporate and balance sheet restructuring
  - Privatisation
  - Corporate BEE transactions (partner selection, structuring, full negotiation, debt raising)
  - Fair and reasonable opinions.
- Equity capital markets
  - Primary listings (primary capital raisings) and inward listings
  - Secondary issues (rights offers/vendor placings/issues for cash)
  - Share buy-backs.
- Sponsor services
  - JSE/Securities Regulation Panel liaison and compliance.

### Institutional Research, Sales and Trading

Institutional Research, Sales and Trading is a specialist South African equity broker which targets both the local and foreign institutional and hedge fund investor. The offering is presented on a single platform providing clients with access to broad-based, in-depth South African centric research and sales, equity execution, electronic trading, prime broking services and a selection of equity derivative instruments.

### Principal Investments

We invest in businesses using our balance sheet and apply a buy, build and grow strategy to deliver superior, sustainable returns through a combination of insightful investing, strategic participation and long-term trusted partnerships.

We invest directly into private companies or work as a specialist team to buy out public companies.

We back management teams through building trusted partnerships focusing on organic growth  combined with bolt-on acquisitions to help build considerable, sustainable businesses, fund new technologies, expand working capital, make acquisitions and strengthen balance sheets.

## 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 bank and manages liquidity and interest rate risk for the bank.

### Treasury sales and structuring

This unit focuses on four principal areas of sales: interest rates, foreign exchange, commodities and money markets. Our sales activities are centred around a select target client base offering solutions for their short-term operational requirements as well as their long-term strategic requirements. Our activities include all associated areas of hedging, advisory, short-term lending, long-term lending overlays, deposit-taking, structured investment products, general risk management, related regulation and compliance. We also play an integral role in the associated transactional services and offshore needs of these clients.

### Interest rate trading

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

### Currency and derivatives trading

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

### Financial products

We are involved in financial engineering, preference share investments and structures, credit derivatives and the development of investment products for the retail and institutional market.

### Structured and asset finance

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

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

## Group Services and Other Activities

Group Services includes the central services and central funding functions, while Other Activities predominantly includes the International Trade Finance business.

### 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.

### Other Activities

Other Activities include those operations that are better managed separately due to the specific expertise which would be diluted if incorporated and split across the business operations. Also included are those operations that do not yet fall into one of our principal business divisions and that we have grown organically or retained following acquisition due to their profitability and diversifying effect on our income streams.

#### International Trade Finance

We acquired our International Trade Finance business, ReichmansCapital, in South Africa in 1990. Clients are small to medium-sized owner managed businesses. We offer trade, asset and debtor finance to provide clients with working capital and funding for the acquisition of assets, and to facilitate growth.

# Financial review

# Snapshot of the year and strategic focus

## Highlights

### 2011: Focused on reshaping the business...

Headline earnings attributable to ordinary shareholders remained in line with the prior year at R2.1 billion. All six business units remained profitable with four out of six recording strong growth in operating profit. Overall results were constrained by the slow recovery of non-performing loans

- Positioned the business as a specialist bank and asset manager
- Realigned the business model to focus on building non-banking revenue streams
- Momentum in the Asset Management and Wealth Management businesses continued
  - Total third party assets under management increased by 13.4% to R464.3 billion
  - Operating profit from these businesses rose 14.2% to R1 006 million
  - Together they accounted for 30.4% of Investec Limited's operating profit (2010: 24.3%)
- Activity levels in Specialist Banking showed improvement; the Investment Banking and Capital Markets businesses recorded good growth in operating profit
- Strong capital and liquidity position:
  - Tier 1 ratio of 11.9%
  - Cash and near cash balances increased 9.6% to R52.6 billion
  - Customer deposits increased 8.0% to R154.5 billion
  - The ratio of core loans (excluding own originated securitised assets) to deposits improved from 77.5% to 74.1%
  - Low gearing ratios; core loans and advances to equity fell to 5.8 times (2010: 6.4 times)
- The credit loss ratio was in line with the prior year at 0.71%; the group expects this ratio to decrease during the forthcoming financial year
- Investment in the Investec brand continues.

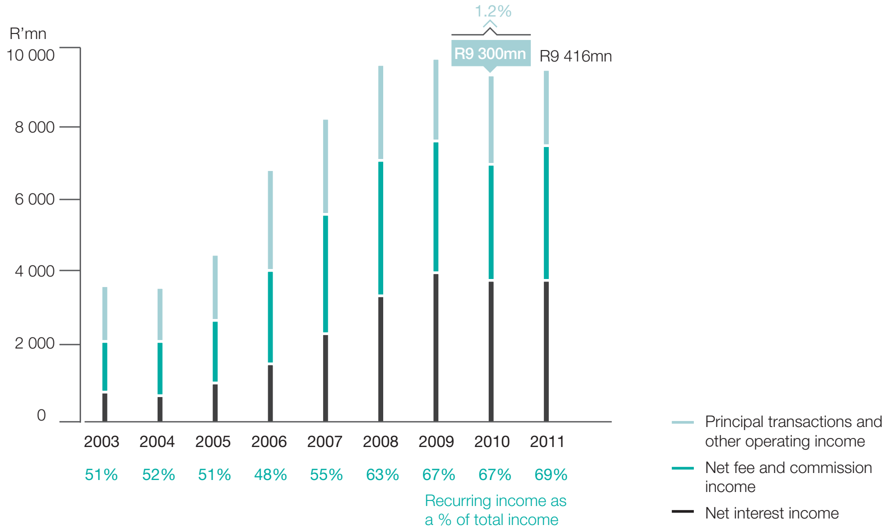
### 2012: Foundation for growth in place

## Financial features

| | 31 March 2011 | 31 March 2010 | % change |
|---|---|---|---|
| Operating profit before taxation and headline adjustments (R'million) | 3 228 | 3 587 | (10.0%) |
| Headline earnings attributable to ordinary shareholders (R'million) | 2 124 | 2 141 | 0.8% |
| Cost to income ratio | 55.8% | 51.7% | |
| Total capital resources (including subordinated liabilities) (R'million) | 27 648 | 23 932 | 15.5% |
| Total equity (R'million) | 20 782 | 18 591 | 11.8% |
| Total assets (R'million) | 307 475 | 277 104 | 11.0% |
| Net core loans and advances (R'million) | 120 784 | 118 155 | 2.2% |
| Customer accounts (deposits) (R'million) | 154 504 | 143 121 | 8.0% |
| Cash and near cash balances (R'million) | 52 591 | 47 986 | 9.6% |
| Third party assets under management (R'million) | 464 348 | 409 415 | 13.4% |
| Capital adequacy ratio | 15.9% | 15.6% | |
| Tier 1 ratio | 11.9% | 12.1% | |

## Diversified business model...continues to support a large recurring base

### Total operating income

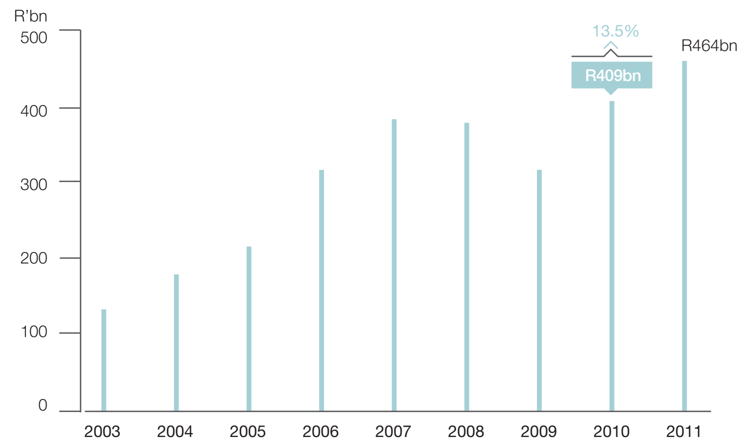



*Where recurring income is net interest income and annuity fees and commissions.*

## Good growth in third party assets under management… momentum in realigning our business model continues

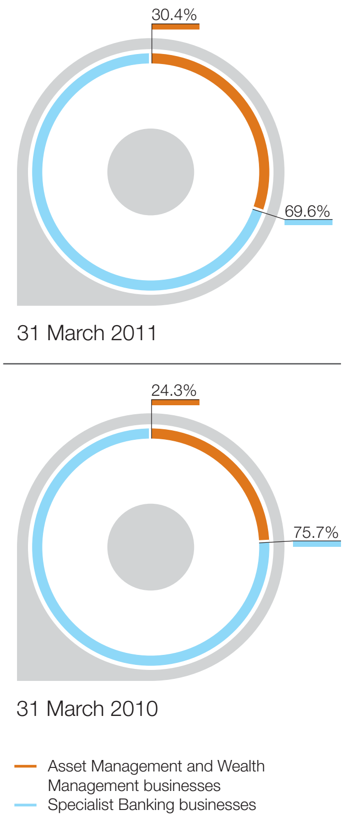
- Consolidation of global Wealth Management businesses
- Investec Asset Management reported net inflows of R1.4 billion for the year.

### Third party assets under management




## Resulting in strong contribution from Asset Management and Wealth Management businesses

### Contribution to group earnings



## Sound capital and liquidity position maintained… achieved capital targets

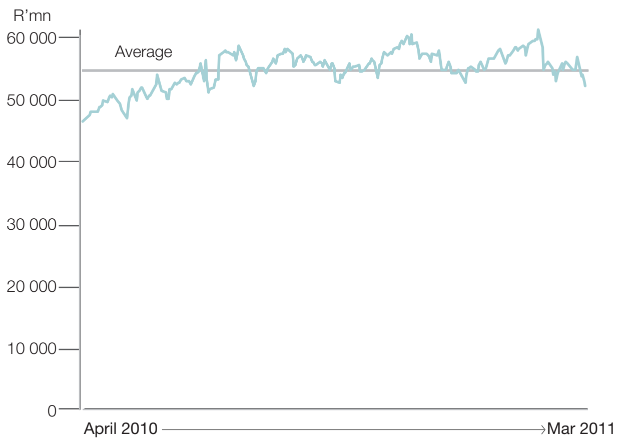
- The intimate involvement of senior management ensures stringent management of risk and liquidity
- Our policy has always been to hold capital in excess of regulatory requirements and we intend to perpetuate this philosophy
- Investec has maintained a strong capital base and has met its targets in this 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 74.1% (2010: 77.5%).

## Capital adequacy and Tier 1 ratios

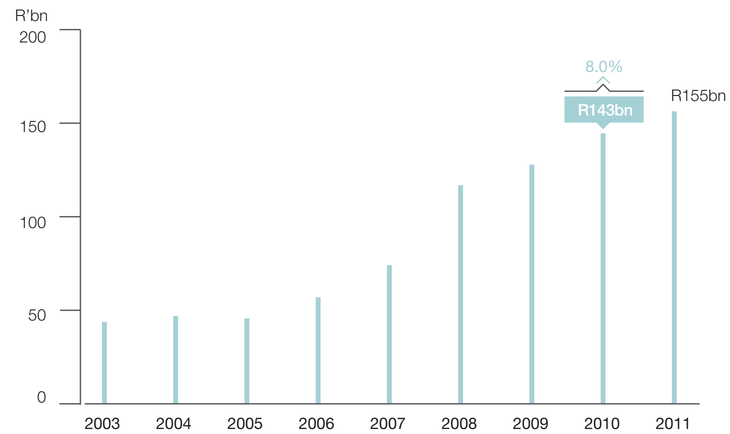
| At 31 March 2011 | Capital adequacy ratio | Tier 1 ratio |
|---|---|---|
| Investec Limited | 15.9% | 11.9% |
| Investec Bank Limited | 15.6% | 11.5% |

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

**Cash and near cash trend**

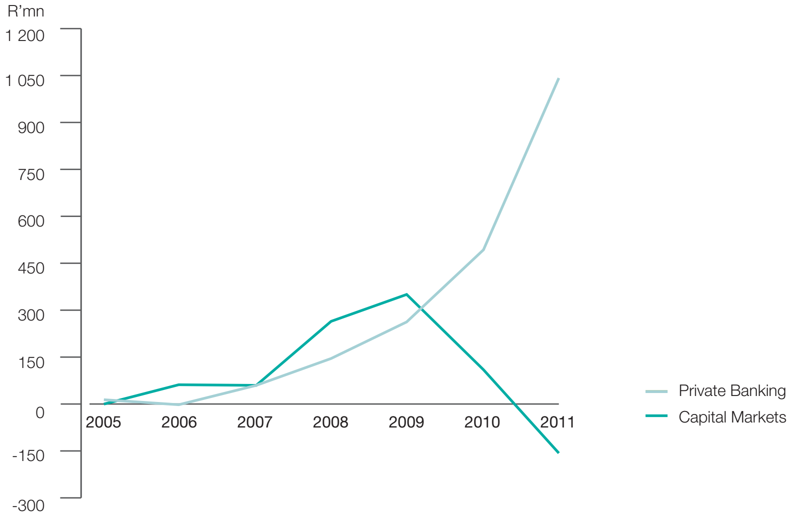



**Customer accounts (deposits)**



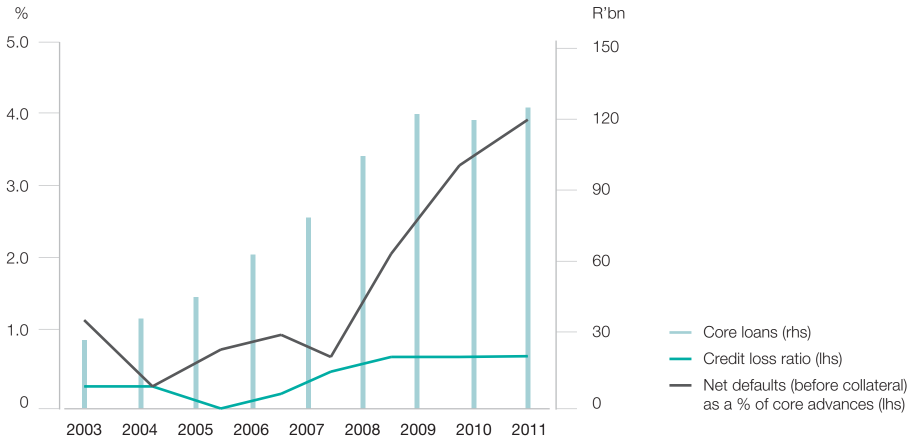
## Specialist Banking impacted by an increase in impairments and defaults…

### Impairments/recoveries by business




*Where a negative number indicates a recovery*

### 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 remained in line with the prior year at 0.71%
- 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.

Sustainability developments during the period

- A strategic review of our sustainability initiatives
- An extensive stakeholder engagement exercise was carried out involving a number of our stakeholders
- An analysis of the risks and opportunities of climate change for our business
- We maintained our presence in the Dow Jones Sustainability Index, the JSE-SRI Index and the FTSE4Good Index.
- To coincide with UN World Water Day on 22 March 2011, the South African offices held water awareness campaigns
- Significant development in environmentally responsible technology and energy efficient fittings in a number of our buildings
- Hosted a 'post-Cancun' discussion with leaders in the field of climate change looking at the impact of climate change for business and society at large

## Non-financial performance highlights

| | 31 March 2011 | 31 March 2010 |
|---|---|---|
| Social | | |
| Training spend on employees (R'million) | 54.9 | 27.4 |
| Corporate social investment spend (R'million) | 38.4 | 28.0 |
| Environmental | | |
| Carbon emissions per full-time employee ($Co_2$ metric tonnes) | 11.19 | 12.30 |
| Carbon emissions per $m^2$ of office space ($Co_2$ metric tonnes) | 0.46 | 0.50 |

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.

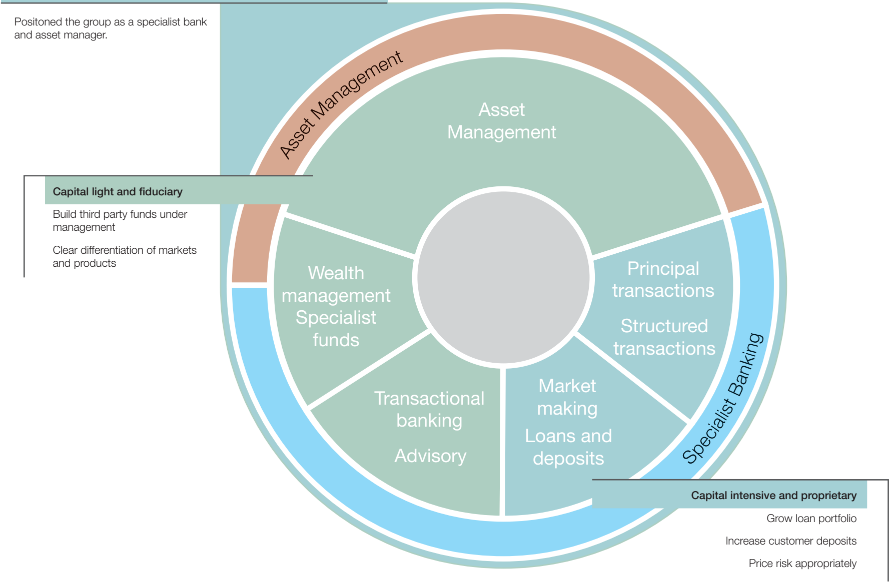
Investec strives to be a distinctive specialist bank and asset manager, driven by commitment to its core philosophies and values.

# Snapshot of the year and strategic focus (continued)

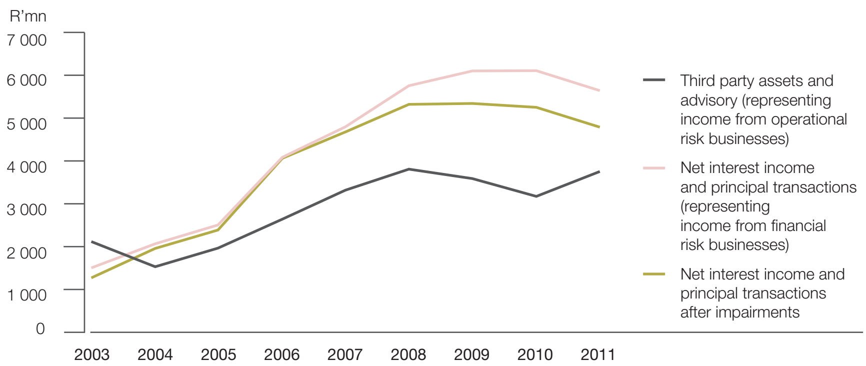
## Continue strategy of building our franchise… realigning the business model

- 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 global Wealth and Investment unit which provides investment management services and independent financial planning advice to private clients, charities and trusts
- Operating completely independently from these structures is Investec Asset Management. Its sole focus is the provision of investment management services to its predominantly global institutional client base.

### Realigning the business model




## Continue strategy of building our franchise… good progress in building capital light revenues




| Operational risk businesses | Core advisory and core banking | Financial risk businesses |
|---|---|---|
| • Asset management and wealth management<br>• Property funds<br>• Advisory services<br>• Transactional services | Overall objectives:<br>• Containing costs<br>• Maintaining credit quality<br>• Strictly managing risk and liquidity | • Lending portfolios<br>• Principal transactions<br>• Structured transactions<br>• 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 and Asset Management businesses.

## Looking forward

### We have globalised our Asset Management business and 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.

This is a process which will take time to implement and further detail will be given at the Investor Briefing in September 2011.

## 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.

- We will continue to focus on our clients, remaining competitive in core businesses and developing our brand.

# Financial review

2010/11 proved to be a year of economic recovery for South Africa, with annual growth of 2.8% compared with the recession of the previous year.

The commentary and analysis of Investec Limited's results for the year ended 31 March 2011 provides an overview of our financial performance relative to our results for the year ended 31 March 2010. Further detail on the performance of our business divisions is provided on pages 28 to 32. 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

### South Africa

Growth was led by consumption, both household and government, and the recovery was not hampered by higher taxes, reduced government spending or any of the other austerity measures being applied in many advanced economies. Indeed, the private sector is becoming financially healthier: spending on the back of rising real incomes, not excessive credit growth, and an ever growing middle class. However, the fixed investment sector remained in recession as corporates failed to take advantage of rand strength to import capital goods, preferring to wait until the recovery strengthened and proved sustainable. In addition, and despite the health of government finances, public investment in infrastructure stagnated, after contracting sharply in 2009. Job losses continued and corporate demand for credit fell on average, but rising disposable incomes and government's strong spend on social services saw living standards rise, as debt levels eased. This trend in living standards is likely to continue, compensating in part for the small size of the population, in turn supporting growth.

South Africa also saw some considerable achievements in 2010, from being ranked sixth in the world for both soundness and sophistication of its financial markets in the most recent global competitiveness survey, to second on the efficacy of corporate boards and first on both auditing and reporting standards, and the regulation of its securities exchange. Due also to the Reserve Bank's high level of financial market supervision (and the protection provided by the few exchange controls still in place), South Africa's financial system did not experience the same issues as the global financial community – it never had a banking crisis and government borrowing was accordingly unaffected. Consequently, South Africa's fiscal deficit shrunk, from 6.7% of GDP in 2009/10 to 5.0% in 2010/11, as the economy moved from a recession into a recovery phase. South Africa's low level of sovereign debt (close to 30% of GDP last year) means it can comfortably afford to increase borrowings to fund capital investment (both fixed and human) while many advanced economies have cut back on building productive capacity. As a result, South Africa is in a financial sense well structured for growth.

### United Kingdom

The UK economy started 2010 on a recovery footing, entering the 2010/11 financial year with recorded growth of 1% 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. A resumption of growth in the first quarter of 2011, largely reversing these losses, is expected. 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 |
| JSE All share | 32 204 | 28 748 | 12.0% | 29 667 |
| 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** | | | | |
| Rand/Pounds Sterling | 10.88 | 11.11 | (2.1%) | 11.16 |
| Rand/Dollar | 6.77 | 7.28 | (7.0%) | 7.19 |
| 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% |
| SA R157 (2015) | 7.82% | 7.95% | | 7.60% |
| Rand overnight | 5.23% | 6.28% | | 5.76% |
| SA prime overdraft rate | 9.00% | 10.00% | | 9.54% |
| JIBAR - 3 month | 5.58% | 6.67% | | 6.09% |
| 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% | – |
| South Africa GDP (% real growth over the calendar year) | 3.80% | 2.80% | | – |
| South Africa per capita GDP (real value) | 36 591 | 35 997 | 1.7% | – |
| Australia GDP (% change over the period) | 2.40% | 1.70% | | – |
| Per capita GDP (A$) | 60 178 | 56 872 | 4.5% | – |

*Source: Datastream, Bloomberg's, Office for National Statistics, SARB Quarterly Bulletin, 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 Southern Africa. We are organised as a network comprising six principal business divisions: Asset Management, 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 |
|---|---|---|---|
| **Asset Management** | | | |
| | • Fixed fees as a percentage of assets under management<br>• Variable performance fees | • Movements in the value of the assets underlying client portfolios<br>• Performance of portfolios against set benchmarks<br>• Net sales | • Fees and commissions |
| **Wealth and Investment** | | | |
| | • Investment management fees levied as a percentage of assets under management<br>• Commissions earned for executing transactions for clients | • Movement in the value of assets underlying client portfolios<br>• 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<br>• Performance fees<br>• Capital and debt raising fees<br>• Asset acquisition fees<br>• Property development fees | • Movements in the value of assets underlying client portfolios<br>• Movements in the value of property assets | • Fees and commissions |
| | • Trading and development activities | • Macro- and micro- economic market conditions<br>• Availability of profitable exit routes<br>• Whether appropriate market conditions exist to maximise gains on sale | • Principal transactions |

## An overview of our key income drivers (continued)

| Business activity | Key income drivers | Income impacted primarily by | Income statement – reflected as |
|---|---|---|---|
| **Private Banking** | | | |
| | • Interest earned in connection with the bank's lending and funding activities<br>• Fees earned for banking and lending services<br>• Income earned in respect of growth and acquisition finance activities | • Size of loan portfolio<br>• Interest rate environment<br>• Levels of activity<br>• Quality of transactions and deal flow | • Net interest income<br>• Net interest income and fees and commissions<br>• Fees and commissions and principal transactions |
| **Investment Banking** | | | |
| Corporate Finance | • Fees resulting from the provision of capital raising and financial advisory work | • Macro- and micro- economic fundamentals<br>• Industry-specific trends<br>• Underlying stock market activity particularly in our primary markets<br>• Idea generation | • Fees and commissions |
| Institutional Research, Sales and Trading | • Brokerage commissions<br>• Trading and market making activities | • Stock market trading volume and volatility<br>• Client allocation of broking transactions<br>• 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<br>• Dividends | • Macro- and micro- economic market conditions<br>• Availability of profitable exit routes<br>• Whether appropriate market conditions exist to maximise gains on sale<br>• Attractive investment opportunities | • Principal transactions |
| **Capital Markets** | | | |
| | • Asset creation | • Rate environment<br>• Size of loan portfolio<br>• Credit spreads<br>• Clients' capital and infrastructural investments<br>• Client activity | • Net interest income<br>• Principal transactions<br>• Other operating income |
| | • Structuring, management and distribution | • Rate environment<br>• Ability to originate appropriate assets<br>• Credit spreads<br>• Clients' capital and infrastructural investments<br>• Market conditions in the relevant exit markets | • Net interest income<br>• Fees and commissions<br>• Principal transactions |

| Business activity | Key income drivers | Income impacted primarily by | Income statement – reflected as |
|---|---|---|---|
| **Capital Markets (continued)** | | | |
| | • Derivative, sales, trading and hedging | • Client activity<br>• Market conditions<br>• Asset and liability creation<br>• Product innovation<br>• Market risk factors, primarily volatility and liquidity | • Principal transactions<br>• Fees and commissions |
| | • 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<br>• Distribution channels<br>• Ability to create innovative products<br>• Regulatory requirements | • Net interest income<br>• Principal transactions<br>• 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<br><br>Central Funding | • These businesses earn a variety of management and banking fees, brokerage commissions<br>• 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<br>• Rand/Dollar exchange rate in the case of the International Trade Finance operations<br>• Level of client activity | • All categories of income other than net operating income from assurance activities |

## Risks relating to our operations

### An overview of key risks

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

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

| Key risks | Reference |
|---|---|
| Credit and counterparty risk exposes us to losses caused by financial or other problems experienced by our clients | See pages 38 to 64 |
| Liquidity risk may impair our ability to fund our operations | See pages 78 to 84 |
| Our net interest earnings and net asset value may be adversely affected by interest rate risk | See pages 75 to 77 |
| Market, business and general economic conditions and fluctuations could adversely affect our businesses in a number of ways | See pages 65 to 73 |
| 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 85 to 88 |
| Operational risk may disrupt our business or result in regulatory action | See pages 85 to 88 |
| We may be vulnerable to the failure of our systems and breaches of our security systems | See pages 85 to 88 |
| We may have insufficient capital in the future and may be unable to secure additional financing when it is required | See pages 90 to 100 |
| The financial services industry in which we operate is intensely competitive | See pages 18 to 20 |
| Legal and regulatory risks are substantial in our businesses | See page 89 |
| Reputational, strategic and business risk | See page 89 |

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

Investec Limited posted headline earnings attributable to ordinary shareholders of R2 124 million, in line with the prior year.

Unless the context indicates otherwise, all income statement comparatives in the review below, relate to the results for 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

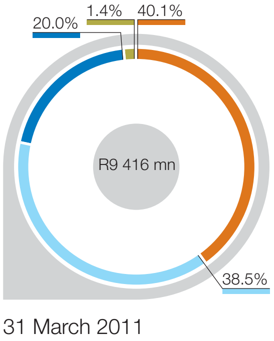
Total operating income before impairment losses on loans and advances of R9 416 million is 1.2% higher than the prior year. The various components of total operating income are analysed below.

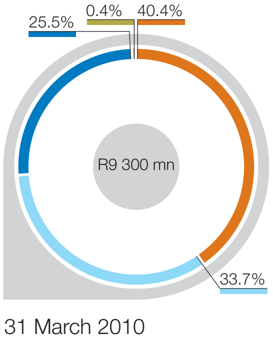
| R'million | 31 March 2011 | % of total income | 31 March 2010 | % of total income | % change |
|---|---|---|---|---|---|
| Net interest income | 3 776 | 40.1% | 3 756 | 40.4% | 0.5% |
| Other income | 5 640 | 59.9% | 5 544 | 59.6% | 1.7% |
| Net fee and commission income | 3 627 | 38.5% | 3 137 | 33.7% | 15.6% |
| Principal transactions | 1 825 | 19.4% | 2 315 | 24.9% | (21.2%) |
| Operating loss from associates | (17) | (0.2%) | (47) | (0.5%) | 63.8% |
| Net income on assurance activities | 146 | 1.6% | 80 | 0.9% | 82.5% |
| Other operating income | 59 | 0.6% | 59 | 0.6% | – |
| Total operating income before impairment losses on loans and advances | 9 416 | 100.0% | 9 300 | 100.0% | 1.2% |

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

| R'million | 31 March 2011 | % of total income | 31 March 2010 | % of total income | % change |
|---|---|---|---|---|---|
| Asset Management | 1 846 | 19.6% | 1 617 | 17.4% | 14.2% |
| Wealth and Investment | 603 | 6.4% | 496 | 5.3% | 21.6% |
| Property Activities | 676 | 7.2% | 556 | 6.0% | 21.6% |
| Private Banking | 2 520 | 26.8% | 2 225 | 23.9% | 13.3% |
| Investment Banking | 1 269 | 13.5% | 1 043 | 11.2% | 21.7% |
| Capital Markets | 1 905 | 20.2% | 1 998 | 21.5% | 4.7% |
| Group Services and Other Activities | 597 | 6.3% | 1 365 | 14.7% | (56.3%) |
| Total operating income before impairment losses on loans and advances | 9 416 | 100.0% | 9 300 | 100.0% | 1.2% |

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




- Net interest income
- Net fee and commission income
- Principal transactions and other operating income
- Net income from associates and assurance activities

### Net interest income

Net interest income remained in line with the prior year at R3 776 million largely as a result of a lower return generated on excess capital and liquidity held given the lower rate environment. The Private Bank however, did benefit from improved margins.

### Net fee and commission income

Net fee and commission income increased by 15.6% to R3 627 million (2010: R3 137 million). Funds under management have increased, supported by improved market indices and good net inflows. Transactional activity remains mixed and below historic trends.

### Principal transactions

Income from principal transactions decreased by 21.2% from R2 315 million to R1 825 million. The bank benefited from a solid performance from the investment banking and fixed income portfolios. This was offset by a weaker performance from some of the equity investments held within the central funding portfolio and lower foreign currency gains.

## 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 remained largely in line with the prior year at R860 million. The credit loss charge as a percentage of average gross loans and advances is 0.71% (2010: 0.71%). The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances has increased from 3.32% to 3.97%. The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.49 times (2010: 1.53 times). Further information on asset quality is provided on pages 52 to 64.

## Total expenses

The ratio of total operating expenses to total operating income increased from 51.7% to 55.8%.

Total expenses increased by 9.2% to R5 251 million (2010: R4 809 million). Total headcount is being closely monitored and expense growth (excluding variable remuneration) is targeted below the inflation rate. Total staff compensation costs increased by 12.2% to R3 477 million (2010: R3 098 million), resulting in a compensation ratio of 36.9% (2010: 33.3%). Other operating expenses are 3.7% higher than the prior year at R1 774 million.

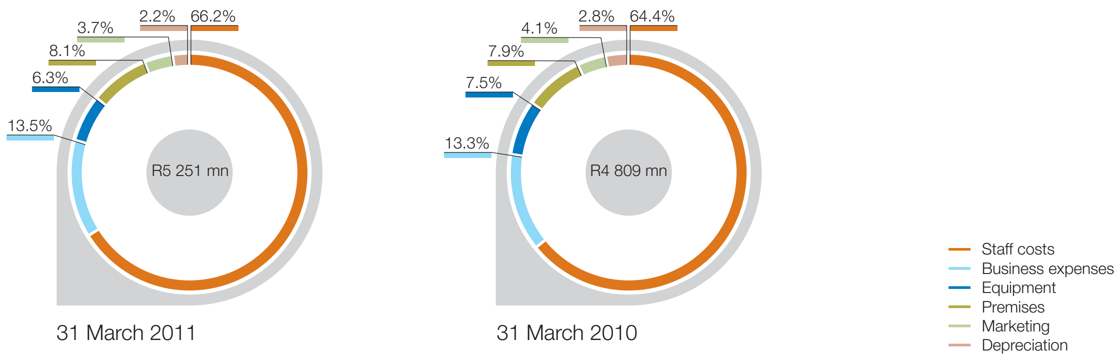
The various components of total expenses are analysed below.

| R'million | 31 March 2011 | % of total expenses | 31 March 2010 | % of total expenses | % change |
|---|---|---|---|---|---|
| Staff costs (including directors' remuneration) | 3 477 | 66.2% | 3 098 | 64.4% | 12.2% |
| Business expenses | 708 | 13.5% | 642 | 13.3% | 10.3% |
| Equipment (excluding depreciation) | 331 | 6.3% | 363 | 7.5% | (8.8%) |
| Premises (excluding depreciation) | 423 | 8.1% | 378 | 7.9% | 11.9% |
| Marketing expenses | 197 | 3.7% | 196 | 4.1% | 0.5% |
| Depreciation | 115 | 2.2% | 132 | 2.8% | 12.9% |
| Total expenses | 5 251 | 100.0% | 4 809 | 100.0% | 9.2% |

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

| R'million | 31 March 2011 | % of total expenses | 31 March 2010 | % of total expenses | % change |
|---|---|---|---|---|---|
| Asset Management | 1 014 | 19.3% | 912 | 19.0% | 11.2% |
| Wealth and Investment | 429 | 8.2% | 320 | 6.7% | 34.1% |
| Property Activities | 228 | 4.3% | 192 | 4.0% | 18.8% |
| Private Banking | 1 442 | 27.5% | 1 379 | 28.7% | 4.6% |
| Investment Banking | 536 | 10.2% | 457 | 9.5% | 17.3% |
| Capital Markets | 1 048 | 20.0% | 1 017 | 21.1% | 3.0% |
| Group Services and Other Activities | 554 | 10.5% | 532 | 11.0% | 4.1% |
| Total expenses | 5 251 | 100.0% | 4 809 | 100.0% | 9.2% |

**% of total expenses**




## Taxation

The effective tax rate decreased due to the resolution of matters for which a provision was previously held.

## Balance sheet analysis

Since 31 March 2010:

- Total shareholders' equity (including non-controlling interests) increased by 11.8% to R20.8 billion largely as a result of retained earnings
- Total assets increased by 11.0% to R307.5 billion largely as a result of increased cash holdings and an increase in our fixed income portfolio.

## Business unit review

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

| For the year to 31 March R'million | Asset Management | Wealth and Investment | Property Activities | Private Banking | Investment Banking | Capital Markets | Group Services and Other Activities | Total |
|---|---|---|---|---|---|---|---|---|
| 2011 | | | | | | | | |
| Operating income (post impairments) | 1 846 | 603 | 676 | 1 473 | 1 272 | 2 059 | 627 | 8 556 |
| Operating costs | (1 014) | (429) | (228) | (1 442) | (536) | (1 048) | (554) | (5 251) |
| **Operating profit before goodwill and taxation** | 832 | 174 | 448 | 31 | 736 | 1 011 | 73 | 3 305 |
| Cost to income ratio | 54.9% | 71.1% | 33.7% | 57.2% | 42.2% | 55.0% | 92.8% | 55.8% |
| 2010 | | | | | | | | |
| Operating income (post impairments) | 1 617 | 496 | 556 | 1 728 | 1 014 | 1 885 | 1 141 | 8 437 |
| Operating costs | (912) | (320) | (192) | (1 379) | (457) | (1 017) | (532) | (4 809) |
| **Operating profit before goodwill and taxation** | 705 | 176 | 364 | 349 | 557 | 868 | 609 | 3 628 |
| Cost to income ratio | 56.4% | 64.5% | 34.5% | 62.0% | 43.8% | 50.9% | 39.0% | 51.7% |

### Asset Management

#### Overview of performance

The Asset Management division posted an 18.0% increase in operating profit to R832 million (2010: R705 million) mainly as a result of higher average assets under management and increased performance fees. Performance fee revenue amounted to R346 million (2010: R285 million).

#### Developments

- We continue to deepen our distribution footprint and develop our seven investment capabilities
- We had net inflows for the year of R1.4 billion and assets under management were R305 billion at the end of the year
- Segregated mandates have performed well; on a weighted-average AUM basis, IAM's capabilities have all outperformed their benchmarks since either inception or GIPS (Global Investment Performance Standards) inception
- 81% by value and 67% by number of our mutual funds are in the first and second quartile over three years
- 70% by value and 71% by number of our mutual funds are in the first and second quartile over five years.

### Outlook

- The risks for our business include market levels, key staff retention, reputational risk and investment performance
- Momentum is positive and the business is benefiting from sustained performance over many years.

## Wealth and Investment

The creation of the Wealth and Investment division in South Africa is the result of the recent merger of the South African Private Bank's Wealth Management division with Investec Private Client Securities on 1 April 2010.

### Overview of performance

The Wealth and Investment division has benefited from an increase of 18.6% in assets under management to R158.8 billion (2010: R133.9 billion). Results have however been negatively impacted by increased personnel costs resulting from the merger, higher IT costs and lower earnings on deal driven and asset swap activities. Operating profit was R174 million, in line with the prior year.

### Developments

- The merger process is progressing reasonably well with a new operational team and management structures in place. In line with our medium-term strategy, the next few months will be dedicated to entrenching a common aspiration throughout the business to acquire new advisory and discretionary assets in an endeavour to drive future annuity income growth supported by good investment management performance.

### 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 and the direction of the Rand
- Cost growth in the new financial year will be lower than the year under review and the newly merged business is well positioned to leverage off a more streamlined cost and operational base
- The turnover line will be influenced by the success of the business in increasing the value of managed assets, both by attracting new assets and converting non-discretionary assets to discretionary assets, with the addition of new managed mandates/funds. With a relatively stable fixed cost base, there is a high level of operating leverage to an increase in turnover
- Potential further relaxation of exchange controls provides both risk and opportunity. While asset swap revenues could come under additional pressure, our international fund of funds should help offset this source of revenue with a higher quality annuity revenue stream.

## Property Activities

### Overview of performance

The Property division reported an increase in operating profit of 23.1% to R448 million (2010: R364 million). The property portfolio continues to perform well with the revaluation of investment properties net of funding costs amounting to R485 million (2010: R398 million).

### Developments

- The business has successfully formed a new diversified property fund in South Africa valued at R1.7 billion comprising Investec group owned assets. The fund was listed on the JSE Limited in April 2011
- Successfully procured development and re-development projects for major clients
- The business has cemented its status as a premier industrial developer.

### Outlook

- The business has a substantial pipeline of development and re-development projects
- The listing of the fund enhances capacity to procure new business and grow assets under management
- The business will continue to embark on trading and development of identified assets on a deal by deal basis
- The business aims to fully invest the Investec GLL Global Special Opportunities (GSO) Real Estate fund I. Total capital committed to the fund is €150 million.

## Private Banking

### Overview of performance

Private Banking posted a decrease in operating profit of 91.1% to R31 million (2010: R349 million) largely as a result of low activity levels and increased impairments. The private client core lending book grew by 3.4% from R85.5 billion to R88.4 billion and the deposit book grew by 9.6% from R51.2 billion to R56.1 billion.

### Developments

- The Private Bank continues to be active in the raising of retail deposits. However, growth was muted due to the lack of support for cash as an asset class and the low interest rate environment
- Lending activity levels have improved compared with the previous year. Due to significant growth in repayments, overall asset growth was subdued
- Revaluations and realisations of equity stakes and profit shares contributed significantly to operating income
- The economic environment remains subdued and contributed to an increase in impairments, while also delaying the exit of some of the larger non-performing transactions. Exit opportunities on residential leisure developments in particular are very limited at present
- In line with the strategy to consolidate the Wealth and Investment business within Investec, the Private Bank Wealth Management business was integrated into this pillar from 1 April 2010
- A renewed focus on core banking activities is currently in progress, aiming to improve the offering and client experience to target market individuals.

### 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. Given the gradual recovery and uplift in activity we expect impairments to decrease.

- Key objectives for the forthcoming period are:
  - Restoration of profitability largely due to improved activity levels in both lending and funding activities and an anticipated reduction in impairments
  - Growing our client base within our key target markets
  - Reduce the risk profile through increased focus on lower risk lending activities
  - Increase in annuity income through a focus on banking activities and transactional activities
  - Diversifying deposit base
  - Balance cost containment with investment for the future.

## Investment Banking

### Overview of performance

Operating profit of Investment Banking increased by 32.1% to R736 million (2010: R557 million). The investments held within the Principal Investments portfolio generated a solid performance. Corporate Finance performed well, posting a strong increase in net fees and commissions earned. The Institutional Research, Sales and Trading operations continued to be negatively impacted by challenging market conditions.

### Developments

#### Corporate Finance

- We have maintained our strong positioning
- Our focus was on local and cross-border M&A, capital raisings and restructuring transactions
- We retained our major clients and gained several new mandates during the period
- Numerous new mandates were entered into, however, it remains difficult to close deals given current market conditions
- The total value of corporate finance transactions increased to R76.9 billion (2010: R26.8 billion) during the period and the number of transactions increased to 60 (2010: 56)

- Sponsor broker deals completed during the period decreased to 74 (2010: 82) with the value increasing to R91.5 billion (2010: R46.7 billion)
- The Corporate Finance division was ranked first in volume of listed M&A transactions and second in general corporate finance by volume in Dealmakers Magazine Survey for Corporate Finance (2010 calendar year). This is the seventh year that we have been ranked first in volume of listed M&A transactions
- The Sponsor division was ranked second in volume of M&A transactions and second in general corporate finance in the Dealmakers Magazine Survey for Sponsors (2010 calendar year). The Sponsor division has been ranked in the top 2 in M&A transactions and general corporate finance by volume for the past eight years.

#### Institutional Research, Sales and Trading

- Institutional Securities experienced a challenging financial year
- Agency revenues decreased 9% as some market share growth in the local institutional space was offset by a sharp reduction in revenues from our prime broking activities
- The closure of two large hedge fund clients necessitated the re-sizing of the Prime Broking business at the end of 2010
- Our international agency revenues declined marginally as international flows into the region remained subdued
- Facilitation losses, experienced when committing capital to capture trade flow, increased sharply
- Intense broker competition combined with difficult equity markets saw the loss ratio move higher
- The SA UK hedge book performed well and revenue from this source increased significantly.

#### Principal Investments

- The total South African Direct Investments portfolio increased to R2 511 million at 31 March 2011 (March 2010: R1 587 million). The increase in value was primarily due to a good performance from the portfolio
- The total South African Private Equity portfolio was R3 838 million at 31 March 2011 (March 2010: R3 301 million). We continued to expand the capacity of our private equity investments through the acquisition of two new private equity assets as well as large capital projects and expenditure within the portfolio. The benefits of these activities will only be felt in future financial years. The increase in value in the current year was driven by a good performance of the underlying investments and acquisitions mentioned.

### Outlook

#### Corporate Finance

- The deal pipeline in this business remains reasonable.

#### Institutional Research, Sales and Trading

- The outlook for the next 12 months remains challenging. The intensity of competition in the market is unlikely to abate and the resource pool for specialist skills is set to remain tight. Nevertheless, we forecast a return to profitability next year on the back of our key strategies to grow market share amongst the foreign client base, reduce loss ratios associated with capital commitment and to better leverage our specialist skills into the broader investment bank.

#### Principal Investments

- We remain active in seeking direct investment opportunities, while continuing to unlock further value from the portfolio and building BEE platforms
- The majority of companies in our Private Equity portfolio are trading profitably in very difficult market conditions and the overall outlook remains positive for future growth.

## Capital Markets

### Overview of performance

Capital Markets posted an increase in operating profit of 16.5% to R1 011 million (2010: 868 million) benefiting from a recovery in loans previously impaired. Corporate activity levels, however, remain depressed and the division's lending book decreased 3.4% to R27.8 billion (2010: R28.8 billion).

### Developments

- The corporate market continues to remain weak with low levels of activity leading to depressed lending activity and consequently, lower hedging activity. We have however, seen an increase in pipeline in our lending businesses
- Significant surplus liquidity levels were maintained during the year and we continue to be a provider of liquidity to the South African interbank market. Our surplus liquidity has had a negative effect on our margin for the period
- We grew our portfolio of highly rated yield enhancing fixed income investments as opportunities presented themselves.

### Outlook

- Our business is well positioned to grow significantly with a recovery in the South African market and levels of fixed direct investment improving
- We continue to build and grow sustainable businesses on the back of client driven transactional flow in derivatives and financial markets
- We will grow our portfolio of highly rated yield enhancing fixed income investments as opportunities present themselves
- The margin line is expected to improve over the coming months as the cost of funding reduces
- We continue to be a net provider of liquidity to the interbank market
- We anticipate that trading and structuring opportunities will improve as the markets move into an upward interest rate cycle

## Group Services and Other Activities

### Overview of performance

Operating profit from Group Services and Other Activities decreased by 88.0% from R609 million to R73 million largely as a result of a lower return generated on cash balances and certain equity investments held within the Central Funding portfolio and lower foreign currency gains.

# 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 34 to 102) with further disclosures provided within the financial statements section (pages 130 to 202). 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 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 18 to 20.

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 within the group 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 remained static at 0.71%. The group expects this ratio to decrease during the forthcoming financial year.

- Limited exposure to rated and unrated structured credit investments; representing approximately 2% of total assets
- A low leverage (gearing) ratio of 11.5 times
- A low level of net assets and liabilities exposed to the volatility of IFRS fair value accounting; with "level 3" assets amounting to approximately 0.1% of total assets
- Low equity (investment) risk exposure; within total investments comprising 5.9% 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 0.1% of total operating income
- A high level of readily available, high quality liquid assets; average cash and near cash of approximately R56 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
- A high level of recurring income which continues to support sustainability of operating profit.

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

Detailed information on key developments during the financial year in review is provided in the sections that follow (refer to pages 44 and 45), with the most salient aspects provided below.

### Credit risk

Credit quality on gross core loans and advances deteriorated in the first three quarters, with a slowdown in the fourth quarter of the financial year in review. Core loans and advances increased by 2.2% to R120.8 billion. Default loans (net of impairments) as a percentage of core loans and advances increased from 3.32% to 3.97%. The credit loss ratio has remained at 0.71%. The majority of defaults were recorded in the Private Bank division. These defaults largely comprise a relatively small number of clients where finance was provided at reasonably conservative loan to values but with no obvious serviceability except realisation of collateral. Defaults have occurred when clients have been unable to realise sales to service and repay.

The Capital Markets division reported no material defaults for the current financial year and benefited from a recovery on a provision raised in prior years.

### Traded market risk

Trading conditions in South Africa remained difficult, as client flow failed to pick up much over the year. Risk assumed in the trading businesses continues to be low and has in some cases been even lower than last year. Investec remains committed to trading on client flow as opposed to proprietary trading. Despite the difficult trading conditions all trading desks recorded a profit.

### Balance sheet risk

The bank continued to benefit from a growing retail franchise with total customer deposits increasing by 8.0% from 1 April 2010 to R154.5 billion at 31 March 2011 (Private Bank deposits amount to R56.1 billion and other retail deposits amount to R98.4 billion). Cash and near cash balances increased by 9.6% from 1 April 2010 to R52.6 billion at 31 March 2011, with excess reserves placed in highly liquid treasury bills and local government bonds. Our liquidity was further boosted by several successful medium- term senior and subordinated notes issues.

## 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 (R'million) | 120 784 | 118 155 |
| Gross defaults as a % of gross core loans and advances | 5.07% | 3.96% |
| Defaults (net of impairments) as a % of net core loans and advances | 3.97% | 3.32% |
| Net defaults (after collateral and impairments) as a % of net core loans and advances | – | – |
| Credit loss ratio* | 0.71% | 0.71% |
| Structured credit investments as a % of total assets | 1.66% | 1.50% |
| Banking book investment and equity risk exposures as a % of total assets | 5.90% | 5.50% |
| Traded market risk: one-day value at risk (R'million) | 3.8 | 3.6 |
| Cash and near cash (R'million) | 52 591 | 47 986 |
| Customer accounts (deposits) (R'million) | 154 504 | 143 121 |
| Core loans to equity ratio | 5.8x | 6.4x |
| Total gearing/leverage ratio** | 11.5x | 11.7x |
| Core loans (excluding own originated assets which have been securitised) to customer deposits | 74.1% | 77.5% |
| Capital adequacy ratio | 15.9% | 15.6% |
| Tier 1 ratio | 11.9% | 12.1% |

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

** *Total assets excluding assurance assets to total equity.*

## An overview of key risks

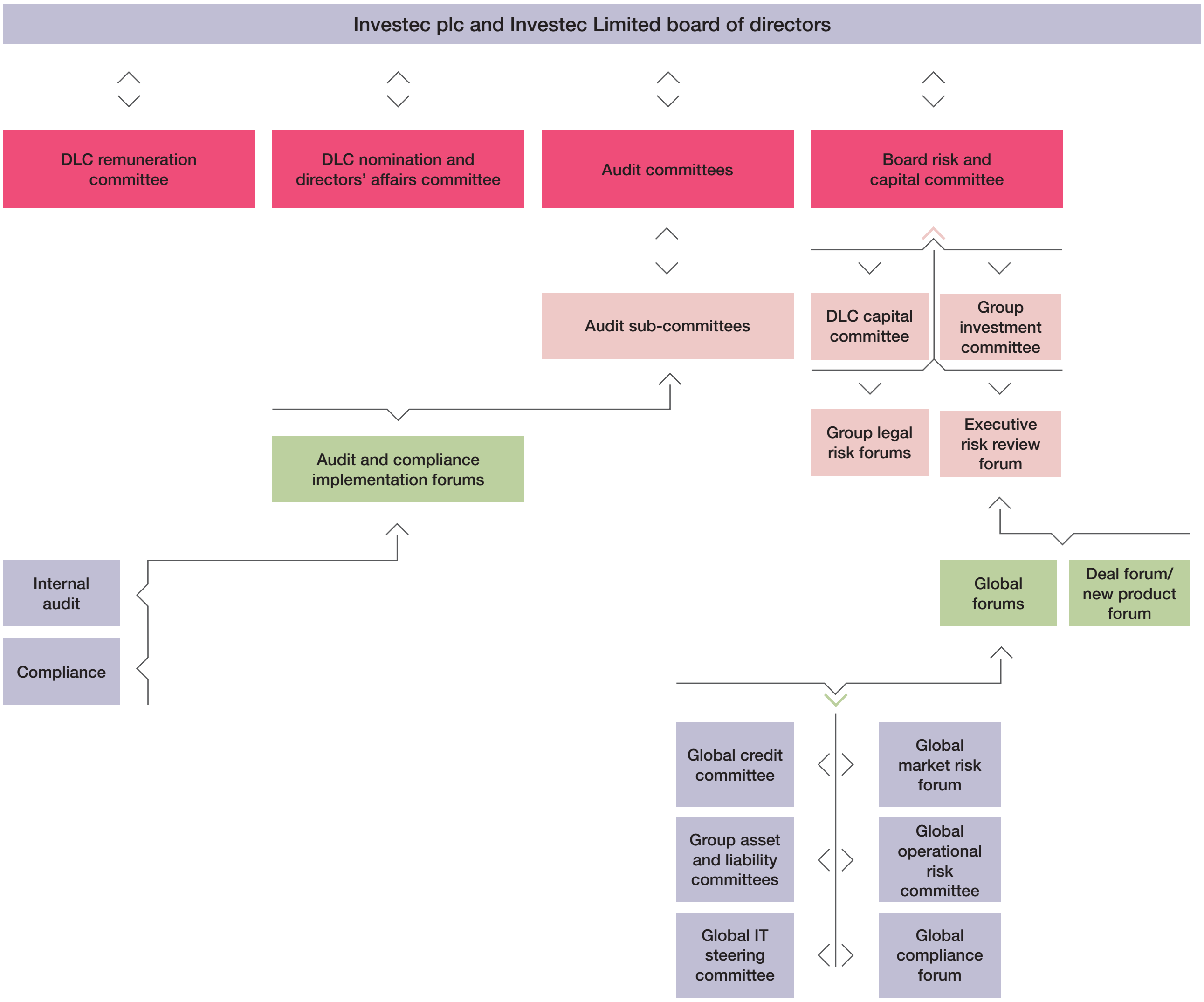
In our ordinary course of business we face a number of risks that could affect our business operations. These risks have been highlighted on page 24. The sections that follow provide information on a number of these risk areas.

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, as described more fully below. 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.

## Our governance framework




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

| | |
|---|---|
| BRCC | Board risk and capital committee |
| ERRF | Executive risk review forum |
| SARB | South African Reserve Bank |

## 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

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 62 to 64 for further information).

Target clients include high net worth individuals, certain professionally qualified individuals, high income earning individuals, corporates, parastatals, government institutions and banks. Corporates must have scale, relevance, experienced management, able board members and strong earnings/cash flow. Interbank lending is reserved for those banks and institutions in the group's core geographies of activity, which are systemic and highly rated. Direct exposures to cyclical industries and start-up ventures tend to be avoided.

We typically originate loans with the intent of holding these assets to maturity, and thereby developing a "hands on" and longstanding relationship with our clients. In certain instances we have elected to sell certain assets down and/or securitised them (refer to pages 68 and 69 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.

Corporates must have scale, relevance, experienced management, able board members and strong earnings/cash flow

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

- In relation to sovereigns and securitisations, Fitch, Moody's and Standard & Poors 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 South Africa

Credit and counterparty risk is assumed mainly through the Private Bank, Capital Markets, and Asset Finance (ReichmansCapital) divisions.

### Private Banking

Lending products are primarily offered through our structured property finance, private client lending, specialised lending and growth and acquisition finance activities, and are targeted to meet the requirements of our clients. Central to our credit philosophy is the concept of sustainability of income through the cycle. As such, the client base has been defined to include high net worth clients (who through diversification of income streams will reduce income volatility) and individuals with a profession which has historically supported a high and sustainable income stream irrespective of the stage in the economic cycle.

A large portion of the lending portfolio is supported by residential and commercial property collateral. Exposure to commercial and retail properties was originally approved at conservative loan to value ratios. Income producing assets are generally substantially let with good quality anchor tenants. Collateral exposure to the South African property market is regionally diversified (primarily Pretoria, Johannesburg, Cape Town, Durban and Port Elizabeth). Serviceability of a loan advanced against property (and not only asset value) and quality of the client are primary considerations in the credit assessment process.

An analysis of the Private Banking loan portfolio and asset quality information is provided on page 59.

### Capital Markets

Investec Corporate Treasury provides money market, interest rate and foreign exchange products to corporates and institutions. We are an active market maker in the spot and forward US Dollar/Rand interbank markets. Trading transactions giving rise to issuer, settlement and replacement risk were among the primary areas of potential credit and counterparty risk in the year under review. Simulation based methodologies have been implemented for the majority of the Corporate Treasury product offering, the benefit of which is the identification of increases in exposures as a result of changes in volatility and prices and the identification of roll-off risk.

As part of the daily management of liquidity, the treasury function places funds with the central bank (the SARB) and other commercial banks and financial institutions. These market counterparties are highly rated, investment grade entities with credit risk of a systemic nature.

The Specialised Finance, Project Finance and Resource Finance businesses lend money on a structured basis to corporates, government and institutions, with full recourse to either a suitable asset or to the balance sheet of the entity to which the funds are advanced. Typical assets that are funded include property, plant and equipment, infrastructure and movable assets. Credit limits are set for each counterparty and monitored to ensure risk is mitigated. The credit appetite for each counterparty is based on the financial strength of the principal borrower, underlying security, cash flow and, in the case of trading products, the nature of the underlying security traded.

The Resource Finance business may be exposed to countries presenting complex legal and political risks. Political risk insurance is taken to ensure political risks are well managed. There is also strong adherence to prudent country risk limits to manage concentration risk on an ongoing basis. Most of the Resource Finance business activities form part of the corporate asset class (as defined by Basel II), since recourse in the event of default will be to the total assets of the corporate and not merely the resource project being financed.

Due to the relative illiquidity of the credit derivative market in South Africa, counterparty exposures and mitigation benefits obtained as a result of credit derivative transactions are negligible.

An analysis of the Capital Markets loan portfolio and asset quality information is provided on page 59.

ReichmansCapital

ReichmansCapital is an asset finance business which operates on a premium margin business model for small and medium sized corporates. The business is a relatively small portion of the overall group credit exposure.

The Specialised Finance, Project Finance and Resource Finance businesses lend money on a structured basis to corporates, government and institutions, with full recourse to either a suitable asset or to the balance sheet of the entity to which the funds are advanced

## Credit and counterparty risk in Mauritius

Investec Bank (Mauritius) Limited offers various banking services and its primary business activities are corporate lending, property finance, resource finance and structured finance. Target market includes both corporate and private clients. Prudential limits have been set and are monitored daily. Investec Bank (Mauritius) Limited is a subsidiary of Investec Bank Limited. It has a decentralised credit approval and management process in compliance with our group credit philosophy, policy and procedures.

## 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 52 and 53). 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" of the 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.

<table>
<tr><th>Regulatory and economic capital classification</th><th>IFRS impairment treatment</th><th>Arrears, default and recoveries classification category</th><th>Description</th></tr>
<tr><td rowspan="2">Performing assets</td><td rowspan="2">For assets which form part of a homogenous portfolio, a portfolio impairment is required which recognises asset impairments that have not been individually identified.<br><br>The portfolio impairment takes into account past events and does not cover impairments to exposures arising out of uncertain future events.<br><br>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.</td><td>Past due</td><td>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.</td></tr>
<tr><td>Special mention</td><td>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:<br>• Covenant breaches;<br>• There is a slowdown in the counterparty's business activity;<br>• An adverse trend in operations that signals a potential weakness in the financial strength of the counterparty; or<br>• Any restructured credit exposures until appropriate watchlist committee decides otherwise.<br><br>Ultimate loss is not expected, but may occur if adverse conditions persist.<br><br>Supplementary reporting categories:<br>• Credit exposures overdue 1 – 60 days<br>• Credit exposures overdue 61 – 90 days.</td></tr>
</table>

| 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:<br>• Capability of the client to generate sufficient cash flow to service debt obligations and the ongoing viability of the client's business<br>• Likely dividend or amount recoverable on liquidation or bankruptcy<br>• Nature and extent of claims by other creditors<br>• Amount and timing of expected cash flows<br>• Realisable value of security held (or other credit mitigants)<br>• 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.<br>• The risk that such credit exposure may become an impaired asset is probable;<br>• The bank is relying, to a large extent, on available collateral; or<br>• 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.<br><br>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<br>• 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 particular certain property assets remained under considerable pressure. Residential and commercial property valuations 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 62 to 64.

## Credit and counterparty risk year in review

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

- The slow to moderate recovery of the domestic economy from the global financial crisis as a result of:
  - Increased discretionary spending, although marginal in a low interest rate environment, accompanied by the existing debt burden on consumers;
  - Inflationary pressures as a result of oil and utility price increases;
  - Limited investment by corporates due to economic uncertainty throughout the 2010 calendar year with increased lending to the corporate sector in the first quarter of 2011;
  - Infrastructure spending by government a key driver of local economic growth in the financial year in review;
  - The European sovereign debt crisis and contagion fears;
  - Secondary economic effects as a result of the conflict in the North African, Middle East and Arabian regions and the natural disaster in Japan;
  - Continuation of the appreciation in the value of the Rand against the US dollar, Pound and Euro;
- Market volatility continued in the first two quarters of the financial year under review, with strong growth in the third and fourth quarters with the JSE reflecting overall growth of 12% year on year improving to levels last seen before the start of the 2008 crisis;

- The property market remains under pressure with low or static growth across the residential and commercial property markets.

We are conscious of the effect of the low or static growth in the property market (both global and local) and the impact on our portfolio secured by property. The high net worth and/or stable income streams of our target market clients provides a level of protection from decreases in property values. Before the start of the global financial crisis, as property values increased, many clients built an effective equity buffer, resulting in lower average loan to value ratios which have reduced potential losses on depreciation of values.

Lower levels of volatility relative to the 2010 financial year have resulted in lower profitability levels and exposure for the majority of our trading divisions with the exception of the Interest Rate Trading division which benefited from the multiple rate cuts during the financial year in review.

For both interest rate and foreign exchange rate products simulation methodologies are employed which enable us to identify more accurately the level of potential exposures to counterparties for these trading activities. The methodologies recognise volume of trading, volatility of products traded, deal tenor and credit mitigants in deriving granular counterparty exposure profiles (and, in so doing, allow for roll-off risk assessments).

Loans and advances secured by share portfolios (including BEE transactions) are monitored frequently. Most of these counterparties remain within credit approved loan to value or cover ratios and are performing on current debt obligations.

For assets written during the current year there has been adherence to lower loan to value lending and a continuation of downward pricing pressures.

Credit quality on gross core loans and advances deteriorated in the first three quarters, with a slowdown in the fourth quarter of the financial year in review. Core loans and advances increased by 2.2% to R120.8 billion. Default loans (net of impairments) as a percentage of core loans and advances increased from 3.32% to 3.97%. The credit loss ratio has remained at 0.71%. The majority of defaults were recorded in the Private Bank and largely comprise a relatively small number of clients where finance was provided at reasonably conservative loan to values but with no obvious serviceability except realisation of collateral. Defaults have occurred when clients have been unable to realise sales to service and repay.

The Capital Markets division reported no material defaults for the current financial year and benefited from a recovery on a provision raised in prior years.

A lot of emphasis has been placed on the strengthening of recoveries and administrative areas and increased involvement from executive and senior management to deal with potential problematic loans and working on the best outcome/solution for our clients and ourselves. However, managing certain of the larger defaulted property developments in order to maximise recoveries may take longer than originally anticipated.

## Credit risk-regulatory considerations

In January 2011, Investec implemented the enhancements in respect of credit risk in the Basel II framework as recommended by the Basel Committee on Banking Supervision (BCBS) and as stipulated by the SARB. These amendments relate specifically to the amount of credit risk capital required when providing liquidity facilities to securitisation vehicles, as well as when holding re-securitisation exposures. Since these activities constitute less than 1% of total gross credit exposure, the impact on required capital for the group is immaterial.

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 of the CVA changes. In many cases, the amendments will follow a phased approach with implementation beginning 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 38 to 45 describes 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 9.8% to R248 billion largely as a result of an increase in fixed income investments and cash and near cash balances. Cash and near cash balances increased by 9.6% to R52.6 billion and are largely reflected in the following line items in the table below: debt instruments; bank placements and sovereign, government placements.

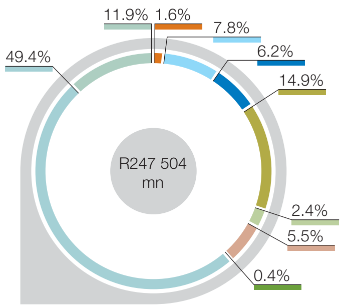
| Audited<br>R'million | 31 March 2011 | 31 March 2010 | % change | Average* |
|---|---|---|---|---|
| On-balance sheet exposures | 217 971 | 196 392 | 11.0% | 207 183 |
| Securitisation exposures arising from securitisation/principal finance activities | 3 954 | 3 298 | 19.9% | 3 627 |
| Rated instruments | 2 774 | 1 794 | 54.6% | 2 284 |
| Unrated instruments | 320 | 383 | (16.4%) | 352 |
| Other | 860 | 1 121 | (23.3%) | 991 |
| Debt instruments - non sovereign (NCDs, bonds held,debentures) | 19 393 | 15 576 | 24.5% | 17 485 |
| Bank placements | 15 344 | 17 206 | (10.8%) | 16 275 |
| Sovereign, government placements | 36 832 | 22 366 | 64.7% | 29 599 |
| Call facilities (non-bank entities) | 5 829 | 5 577 | 4.5% | 5 703 |
| Trading exposures (positive fair value excluding potential future exposures) | 13 544 | 12 372 | 9.5% | 12 958 |
| Other credit exposures | 902 | 1 060 | (14.9%) | 981 |
| Gross core loans and advances to customers** | 122 173 | 118 937 | 2.7% | 120 555 |
| Off-balance sheet exposures | 29 533 | 29 069 | 1.6% | 29 302 |
| Guarantees^ | 5 452 | 4 643 | 17.4% | 5 048 |
| Contingent liabilities, committed facilities and other | 24 081 | 24 426 | (1.4%) | 24 254 |
| Total gross credit and counterparty exposures pre collateral or other credit enhancements | 247 504 | 225 461 | 9.8% | 236 485 |

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

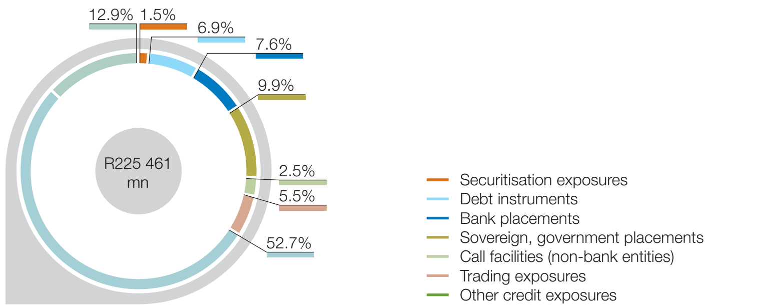
** As calculated on page 52.

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

**An analysis of gross credit and counterparty exposures**




31 March 2011




31 March 2010

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

| R'million | 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 | 67 007 | 13 054 | 20 407 | 64 868 | 19 465 | 33 170 | 217 971 |
| Securitisation exposures arising from securitisation/principal finance activities | – | – | 2 | 1 108 | 2 741 | 103 | 3 954 |
| Rated instruments | – | – | – | 75 | 2 699 | – | 2 774 |
| Unrated instruments | – | – | 2 | 173 | 42 | 103 | 320 |
| Other | – | – | – | 860 | – | – | 860 |
| Debt instruments - non sovereign (NCDs, bonds held,debentures) | 2 550 | 991 | 4 527 | 9 478 | 1 847 | – | 19 393 |
| Bank placements | 13 381 | 937 | – | 1 026 | – | – | 15 344 |
| Sovereign, government placements | 28 234 | 4 612 | 770 | 2 198 | 780 | 238 | 36 832 |
| Call facilities (non-bank entities) | 5 829 | – | – | – | – | – | 5 829 |
| Trading exposures (positive fair value excluding potential future exposures) | 2 168 | 665 | 903 | 6 492 | 2 403 | 913 | 13 544 |
| Other credit exposures | 870 | – | 32 | – | – | – | 902 |
| Gross core loans and advances to customers | 13 975 | 5 849 | 14 173 | 44 566 | 11 694 | 31 916 | 122 173 |
| Off-balance sheet exposures | 21 663 | 1 871 | 3 119 | 2 807 | 16 | 57 | 29 533 |
| Guarantees | 1 403 | 968 | 2 004 | 1 077 | – | – | 5 452 |
| Contingent liabilities, committed facilities and other | 20 260 | 903 | 1 115 | 1 730 | 16 | 57 | 24 081 |
| Total gross credit and counterparty exposures pre collateral or other credit enhancements | 88 670 | 14 925 | 23 526 | 67 675 | 19 481 | 33 227 | 247 504 |

### 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<br>R'million | Securitisation exposures arising from securitisation/ principal finance activities | | | | Debt instruments - non sovereign (NCDs, bonds held, debentures) |
|---|---|---|---|---|---|
| | Total | Rated instruments | Unrated instruments | Other | |
| **As at 31 March 2011** | | | | | |
| Cash and balances at central banks | – | – | – | – | – |
| Loans and advances to banks | – | – | – | – | – |
| Cash equivalent advances to customers | – | – | – | – | – |
| Reverse repurchase agreements and cash collateral on securities borrowed | – | – | – | – | 1 149 |
| Trading securities | 149 | 75 | 74 | – | 10 046 |
| Derivative financial instruments | – | – | – | – | – |
| Investment securities | 2 945 | 2 699 | 246 | – | 8 198 |
| Loans and advances to customers | 860 | – | – | 860 | – |
| Securitised assets | – | – | – | – | – |
| Deferred taxation assets | – | – | – | – | – |
| Other assets | – | – | – | – | – |
| Interests in associated undertakings | – | – | – | – | – |
| Property and equipment | – | – | – | – | – |
| Investment property | – | – | – | – | – |
| Goodwill | – | – | – | – | – |
| Intangible assets | – | – | – | – | – |
| Insurance assets | – | – | – | – | – |
| Total | 3 954 | 2 774 | 320 | 860 | 19 393 |
| **As at 31 March 2010** | | | | | |
| Cash and balances at central banks | – | – | – | – | – |
| Loans and advances to banks | – | – | – | – | – |
| Cash equivalent advances to customers | – | – | – | – | – |
| Reverse repurchase agreements and cash collateral on securities borrowed | – | – | – | – | 1 326 |
| Trading securities | 230 | – | 230 | – | 12 469 |
| Derivative financial instruments | – | – | – | – | – |
| Investment securities | 1 869 | 1 794 | 75 | – | 1 237 |
| Loans and advances to customers | 1 108 | – | 23 | 1 085 | – |
| Securitised assets | 91 | | 55 | 36 | – |
| Deferred taxation assets | – | – | – | – | – |
| Other assets | – | – | – | – | 544 |
| Interests in associated undertakings | – | – | – | – | – |
| Property and equipment | – | – | – | – | – |
| Investment property | – | – | – | – | – |
| Goodwill | – | – | – | – | – |
| Intangible assets | – | – | – | – | – |
| Insurance assets | – | – | – | – | – |
| Total | 3 298 | 1 794 | 383 | 1 121 | 15 576 |

1. *Largely relates to exposures that are classified as equity risk in the banking book.*
2. *Relates to impairments. Further information is provided on page 181.*
3. *Largely includes liquidity facilities provided to third party corporate securitisation vehicles. These facilities have remained undrawn and are reflected as a contingent liability, i.e. off-balance sheet exposures to the bank.*

| | Bank placements | Sovereign, government placements | Call facilities (non-bank entities) | Trading exposures (positive fair value excluding potential future exposures) | Other credit exposures | Gross core loans and advances to customers | Total credit and counterparty exposure | Assets that we deem to have no legal credit exposure | Note refer-ence | Total balance sheet |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | |
| | 46 | 6 767 | – | – | – | – | 6 813 | – | | 6 813 |
| | 5 916 | – | – | 216 | – | – | 6 132 | – | | 6 132 |
| | – | – | 5 829 | – | – | – | 5 829 | – | | 5 829 |
| | | | | | | | | | | |
| | 9 382 | 424 | – | 660 | – | – | 11 615 | – | | 11 615 |
| | – | 26 900 | – | 1 094 | – | – | 38 189 | 10 422 | 1 | 48 611 |
| | – | – | – | 10 983 | – | – | 10 983 | 506 | 1 | 11 489 |
| | – | 2 741 | – | – | – | – | 13 884 | 40 | 1 | 13 924 |
| | – | – | – | – | – | 115 830 | 116 690 | (1 456) | 2 | 115 234 |
| | – | – | – | – | – | 6 343 | 6 343 | 1 943 | 3 | 8 286 |
| | – | – | – | – | – | – | – | 404 | | 404 |
| | – | – | – | 591 | 902 | – | 1 493 | 3 422 | | 4 915 |
| | – | – | – | – | – | – | – | 135 | | 135 |
| | – | – | – | – | – | – | – | 467 | | 467 |
| | – | – | – | – | – | – | – | 4 127 | | 4 127 |
| | – | – | – | – | – | – | – | 203 | | 203 |
| | – | – | – | – | – | – | – | 111 | | 111 |
| | – | – | – | – | – | – | – | 69 180 | | 69 180 |
| | 15 344 | 36 832 | 5 829 | 13 544 | 902 | 122 173 | 217 971 | 89 504 | | 307 475 |
| | | | | | | | | | | |
| | 43 | 3 617 | – | – | – | – | 3 660 | | | 3 660 |
| | 14 318 | – | 4 | 301 | 2 | – | 14 625 | | | 14 625 |
| | – | – | 5 573 | – | 882 | – | 6 455 | | | 6 455 |
| | | | | | | | | | | |
| | 2 841 | – | – | 509 | – | – | 4 676 | | | 4 676 |
| | – | 18 749 | – | 3 049 | – | – | 34 497 | 8 771 | 1 | 43 268 |
| | – | – | – | 7 400 | – | – | 7 400 | 450 | 1 | 7 850 |
| | – | – | – | – | – | – | 3 106 | 57 | 1 | 3 163 |
| | – | – | – | – | – | 111 682 | 112 790 | (858) | 2 | 111 932 |
| | – | – | – | – | – | 7 255 | 7 346 | 2 650 | 3 | 9 996 |
| | – | – | – | – | – | – | – | 403 | | 403 |
| | 4 | – | – | 1 113 | 176 | – | 1 837 | 5 482 | | 7 319 |
| | – | – | – | – | – | – | – | 180 | | 180 |
| | – | – | – | – | – | – | – | 188 | | 188 |
| | – | – | – | – | – | – | – | 3 033 | | 3 033 |
| | – | – | – | – | – | – | – | 280 | | 280 |
| | – | – | – | – | – | – | – | 98 | | 98 |
| | – | – | – | – | – | – | – | 59 978 | | 59 978 |
| | 17 206 | 22 366 | 5 577 | 12 372 | 1 060 | 118 937 | 196 392 | 80 712 | | 277 104 |

Detailed analysis of gross credit and counterparty exposures by industry

| R'million | HNW and professional individuals | Agriculture | Electricity, gas and water (utility services) | Public and non-business services | Business service |
|---|---|---|---|---|---|
| 31 March 2011 | | | | | |
| On-balance sheet exposures | 89 550 | 611 | 1 075 | 37 631 | 1 975 |
| 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 | – | – | – | 36 832 | – |
| Call facilities (non-bank entities) | – | 101 | – | – | 326 |
| Trading exposures (positive fair value excluding potential future exposures) | 91 | 1 | 166 | – | 70 |
| Other credit exposures | – | – | – | – | 15 |
| Gross core loans and advances to customers | *89 459 | 509 | 909 | 799 | 1 564 |
| Off-balance sheet exposures | 23 720 | 100 | 17 | – | 138 |
| Guarantees | 4 003 | – | 17 | – | 62 |
| Contingent liabilities, committed facilities and other | 19 717 | 100 | – | – | 76 |
| Total gross credit and counterparty exposures pre collateral or other credit enhancements | 113 270 | 711 | 1 092 | 37 631 | 2 113 |
| 31 March 2010 | | | | | |
| On-balance sheet exposures | 86 156 | 438 | 1 174 | 23 966 | 1 811 |
| Securitisation exposures arising from securitisation/principal finance activities | – | – | – | – | – |
| Rated instruments | – | – | – | – | – |
| Unrated instruments | – | – | – | – | – |
| Other | – | – | – | – | – |
| Debt instruments - non sovereign (NCDs, bonds held, debentures) | – | – | 230 | – | – |
| Bank placements | – | – | – | – | – |
| Sovereign, government placements | – | – | – | 22 366 | – |
| Call facilities (non-bank entities) | – | 50 | – | – | 336 |
| Trading exposures (positive fair value excluding potential future exposures) | 238 | 10 | 222 | – | 613 |
| Other credit exposures | 1 | – | – | 1 | – |
| Gross core loans and advances to customers | *85 917 | 378 | 722 | 1 599 | 862 |
| Off-balance sheet exposures | 21 367 | – | 18 | – | 53 |
| Guarantees | 2 745 | – | 18 | – | 53 |
| Contingent liabilities, committed facilities and other | 18 622 | – | – | – | – |
| Total gross credit and counterparty exposures pre collateral or other credit enhancements | 107 523 | 438 | 1 192 | 23 966 | 1 864 |

* *A further analysis of our Private Banking loan book is provided on page 59.*

| Finance and insurance (including central banks) | Retailers and wholesalers | Manufact-uring and commerce | Real estate | Mining and resources | Leisure, entertainment and tourism | Transport and communi-cation | Total |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| 63 311 | 3 913 | 7 632 | 4 300 | 2 007 | 1 921 | 4 045 | 217 971 |
| | | | | | | | |
| 3 929 | – | – | 25 | – | – | – | 3 954 |
| 2 774 | – | – | – | – | – | – | 2 774 |
| 295 | – | – | 25 | – | – | – | 320 |
| 860 | – | – | – | – | – | – | 860 |
| | | | | | | | |
| 19 393 | – | – | – | – | – | – | 19 393 |
| 15 344 | – | – | – | – | – | – | 15 344 |
| – | – | – | – | – | – | – | 36 832 |
| 1 680 | 1 632 | 1 689 | – | 244 | – | 157 | 5 829 |
| | | | | | | | |
| 11 425 | 498 | 66 | 954 | 35 | 28 | 210 | 13 544 |
| 828 | 9 | 18 | 7 | 17 | 8 | – | 902 |
| 10 712 | 1 774 | 5 859 | 3 314 | 1 711 | 1 885 | 3 678 | 122 173 |
| | | | | | | | |
| 1 846 | 74 | 437 | 103 | 2 331 | 158 | 609 | 29 533 |
| 176 | 3 | 220 | 68 | 891 | 7 | 5 | 5 452 |
| 1 670 | 71 | 217 | 35 | 1 440 | 151 | 604 | 24 081 |
| | | | | | | | |
| 65 157 | 3 987 | 8 069 | 4 403 | 4 338 | 2 079 | 4 654 | 247 504 |
| | | | | | | | |
| | | | | | | | |
| 57 607 | 3 533 | 8 973 | 3 470 | 1 546 | 1 935 | 5 783 | 196 392 |
| | | | | | | | |
| 3 110 | 91 | – | 97 | – | – | – | 3 298 |
| 1 794 | | – | – | – | – | – | 1 794 |
| 231 | 55 | – | 97 | – | – | – | 383 |
| 1 085 | 36 | – | – | – | – | – | 1 121 |
| | | | | | | | |
| 15 204 | – | – | – | – | – | 142 | 15 576 |
| 17 206 | – | – | – | – | – | – | 17 206 |
| – | – | – | – | – | – | – | 22 366 |
| 1 466 | 1 224 | 1 804 | – | 259 | – | 438 | 5 577 |
| | | | | | | | |
| 9 646 | 660 | 206 | 510 | 34 | 44 | 189 | 12 372 |
| 1 015 | 3 | 26 | – | 14 | – | – | 1 060 |
| 9 960 | 1 555 | 6 937 | 2 863 | 1 239 | 1 891 | 5 014 | 118 937 |
| | | | | | | | |
| 5 274 | 83 | 325 | 8 | 1 015 | 309 | 617 | 29 069 |
| 1 467 | – | 211 | – | 147 | – | 2 | 4 643 |
| 3 807 | 83 | 114 | 8 | 868 | 309 | 615 | 24 426 |
| | | | | | | | |
| 62 881 | 3 616 | 9 298 | 3 478 | 2 561 | 2 244 | 6 400 | 225 461 |

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

Private Banking loans account for 73.2% of total core loans and advances, as represented by the industry classification 'HNW and professional individuals'. A description of the type of lending we undertake within the Private Bank is provided on page 40, and a more detailed analysis of the Private Banking loan portfolio is provided on page 59. 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 pages 40 and 41, and a more detailed analysis of the Capital Markets loan portfolio is provided on page 59.

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

| | Gross core loans and advances | | Other credit and counterparty exposures | | Total | |
|---|---|---|---|---|---|---|
| R'million | 31 March 2011 | 31 March 2010 | 31 March 2011 | 31 March 2010 | 31 March 2011 | 31 March 2010 |
| HNW and professional individuals | 89 459 | 85 917 | 23 811 | 21 606 | 113 270 | 107 523 |
| Agriculture | 509 | 378 | 202 | 60 | 711 | 438 |
| Electricity, gas and water (utility services) | 909 | 722 | 183 | 470 | 1 092 | 1 192 |
| Public and non-business services | 799 | 1 599 | 36 832 | 22 367 | 37 631 | 23 966 |
| Business service | 1 564 | 862 | 549 | 1 002 | 2 113 | 1 864 |
| Finance and insurance (including central banks) | 10 712 | 9 960 | 54 445 | 52 921 | 65 157 | 62 881 |
| Retailers and wholesalers | 1 774 | 1 555 | 2 213 | 2 061 | 3 987 | 3 616 |
| Manufacturing and commerce | 5 859 | 6 937 | 2 210 | 2 361 | 8 069 | 9 298 |
| Real estate | 3 314 | 2 863 | 1 089 | 615 | 4 403 | 3 478 |
| Mining and resources | 1 711 | 1 239 | 2 627 | 1 322 | 4 338 | 2 561 |
| Leisure, entertainment and tourism | 1 885 | 1 891 | 194 | 353 | 2 079 | 2 244 |
| Transport and communication | 3 678 | 5 014 | 976 | 1 386 | 4 654 | 6 400 |
| Total | 122 173 | 118 937 | 125 331 | 106 524 | 247 504 | 225 461 |

## 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 are necessary in order to derive a number that reflects actual core lending activities.

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 us and securitised primarily to provide an alternative source of funding are added to loans and advances.

Calculation of core loans and advances to customers

| Audited<br>R'million | 31 March 2011 | 31 March 2010 |
|---|---|---|
| Loans (pre-impairments and intercompany loans) as per balance sheet | 116 690 | 112 790 |
| Less: warehouse facilities and structured credit investments arising out of our securitisation and principal finance activities and other credit exposures (pre-impairments) | (860) | (1 108) |
| Add: own-originated securitised assets | 6 343 | 7 255 |
| Gross core loans and advances to customers (pre impairments) | 122 173 | 118 937 |

## Asset quality and impairments

The tables that follow provide information with respect to the asset quality of our core loans and advances to customers. An overview of developments during the financial year is provided on pages 44 and 45.

| Audited<br>R'million | 31 March 2011 | 31 March 2010 |
|---|---|---|
| Gross core loans and advances to customers | 122 173 | 118 937 |
| | | |
| Total impairments | (1 389) | (782) |
| Portfolio impairments | (319) | (322) |
| Specific impairments | (1 070) | (460) |
| Net core loans and advances to customers | 120 784 | 118 155 |
| | | |
| Average gross core loans and advances to customers | 120 555 | 120 200 |
| | | |
| Current loans and advances to customers | 114 240 | 111 670 |
| Past due and default core loans and advances to customers | 7 933 | 7 267 |
| Past due loans and advances to customers (1-60 days) | 1 085 | 2 016 |
| Special mention loans and advances to customers | 658 | 546 |
| Default loans and advances to customers | 6 190 | 4 705 |
| Gross core loans and advances to customers | 122 173 | 118 937 |
| | | |
| Past due and default core loans and advances to customers | 7 933 | 7 267 |
| Default loans that are current and not impaired | 73 | 385 |
| Gross core loans and advances to customers that are past due but not impaired | 3 944 | 5 191 |
| Gross core loans and advances to customers that are impaired | 3 916 | 1 691 |
| | | |
| Total income statement charge for core loans and advances | (860) | (863) |
| Gross default loans and advances to customers | 6 190 | 4 705 |
| Specific impairments | (1 070) | (460) |
| Portfolio impairments | (319) | (322) |
| Defaults net of impairments | 4 801 | 3 923 |
| Collateral and other credit enhancements | 7 164 | 6 015 |
| Net default loans and advances to customers (limited to zero) | – | – |
| | | |
| Ratios: | | |
| Total impairments as a % of gross core loans and advances to customers | 1.14% | 0.66% |
| Total impairments as a % of gross default loans | 22.44% | 16.62% |
| Gross defaults as a % of gross core loans and advances to customers | 5.07% | 3.96% |
| Defaults (net of impairments) as a % of net core loans and advances to customers | 3.97% | 3.32% |
| 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) | 0.71% | 0.71% |

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

| Audited<br>R'million | Private Bank** 31 March 2011 | Private Bank** 31 March 2010 | Capital Markets** 31 March 2011 | Capital Markets** 31 March 2010 | Other* 31 March 2011 | Other* 31 March 2010 | Total 31 March 2011 | Total 31 March 2010 |
|---|---|---|---|---|---|---|---|---|
| Gross core loans and advances to customers | 89 459 | 85 917 | 27 832 | 28 794 | 4 882 | 4 226 | 122 173 | 118 937 |
| Total impairments | (1 085) | (418) | (28) | (16) | (276) | (348) | (1 389) | (782) |
| Portfolio impairments | (157) | (114) | (18) | (16) | (144) | (192) | (319) | (322) |
| Specific impairments | (928) | (304) | (10) | – | (132) | (156) | (1 070) | (460) |
| Net core loans and advances to customers | 88 374 | 85 499 | 27 804 | 28 778 | 4 606 | 3 878 | 120 784 | 118 155 |
| Average gross core loans and advances | 87 688 | 85 238 | 28 313 | 30 809 | 4 554 | 4 153 | 120 555 | 120 200 |
| Current loans and advances to customers | 81 972 | 79 167 | 27 699 | 28 568 | 4 569 | 3 935 | 114 240 | 111 670 |
| Past due and default core loans and advances to customers | 7 487 | 6 750 | 133 | 226 | 313 | 291 | 7 933 | 7 267 |
| Past due loans and advances to customers (1-60 days) | 939 | 1 776 | 17 | 155 | 129 | 85 | 1 085 | 2 016 |
| Special mention loans and advances to customers | 567 | 542 | 74 | – | 17 | 4 | 658 | 546 |
| Default loans and advances to customers | 5 981 | 4 432 | 42 | 71 | 167 | 202 | 6 190 | 4 705 |
| Gross core loans and advances to customers | 89 459 | 85 917 | 27 832 | 28 794 | 4 882 | 4 226 | 122 173 | 118 937 |
| Past due and default core loans and advances to customers | 7 487 | 6 750 | 133 | 226 | 313 | 291 | 7 933 | 7 267 |
| Default loans that are current and not impaired | 73 | 385 | – | – | – | – | 73 | 385 |
| Gross core loans and advances to customers that are past due but not impaired | 3 707 | 4 876 | 91 | 226 | 146 | 89 | 3 944 | 5 191 |
| Gross core loans and advances to customers that are impaired | 3 707 | 1 489 | 42 | – | 167 | 202 | 3 916 | 1 691 |
| Total income statement charge for core loans and advances | (1 047) | (497) | 154 | (113) | 33 | (253) | (860) | (863) |
| Gross default loans and advances to customers | 5 981 | 4 432 | 42 | 71 | 167 | 202 | 6 190 | 4 705 |
| Specific impairments | (928) | (304) | (10) | – | (132) | (156) | (1 070) | (460) |
| Portfolio impairments | (157) | (114) | (18) | (16) | (144) | (192) | (319) | (322) |
| Defaults net of impairments | 4 896 | 4 014 | 14 | 55 | (109) | (146) | 4 801 | 3 923 |
| Collateral and other credit enhancements | 7 084 | 5 789 | 32 | 156 | 48 | 70 | 7 164 | 6 015 |
| Net default loans and advances to customers (limited to zero) | – | – | – | – | – | – | – | – |
| Total impairments as a % of gross core loans and advances to customers | 1.21% | 0.49% | 0.10% | 0.06% | 5.65% | 8.23% | 1.14% | 0.66% |
| Total impairments as a % of gross default loans | 18.14% | 9.43% | 66.67% | 22.54% | 165.27% | 172.28% | 22.44% | 16.62% |
| Gross defaults as a % of gross core loans and advances to customers | 6.69% | 5.16% | 0.15% | 0.25% | 3.42% | 4.78% | 5.07% | 3.96% |
| Defaults (net of impairments) as a % of net core loans and advances to customers | 5.54% | 4.69% | 0.05% | 0.19% | (2.37%) | (3.76%) | 3.97% | 3.32% |
| 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) | 1.19% | 0.58% | (0.53%) | 0.35% | (0.72%) | 6.09% | 0.71% | 0.71% |

* *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 page 59.*

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

| Audited<br>R'million | 31 March 2011 | 31 March 2010 |
|---|---|---|
| Default loans that are current | 640 | 605 |
| 1 - 60 days | 1 325 | 2 428 |
| 61 - 90 days | 435 | 461 |
| 91 - 180 days | 859 | 1 075 |
| 181 - 365 days | 1 834 | 1 305 |
| >365 days | 2 840 | 1 393 |
| Past due and default core loans and advances to customers (actual capital exposure) | 7 933 | 7 267 |
| | | |
| 1 - 60 days | 310 | 514 |
| 61 - 90 days | 106 | 184 |
| 91 - 180 days | 342 | 833 |
| 181 - 365 days | 1 197 | 872 |
| >365 days | 2 525 | 1 154 |
| Past due and default core loans and advances to customers (actual amount in arrears) | 4 480 | 3 557 |

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

| Audited<br>R'million | 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 | 73 | – | – | – | – | – | 73 |
| Gross core loans and advances to customers that are past due but not impaired | | | | | | | |
| Total capital exposure | – | 1 234 | 372 | 704 | 842 | 792 | 3 944 |
| Amount in arrears | – | 278 | 77 | 270 | 568 | 564 | 1 757 |
| Gross core loans and advances to customers that are impaired | | | | | | | |
| Total capital exposure | 567 | 91 | 63 | 155 | 992 | 2 048 | 3 916 |
| Amount in arrears | – | 32 | 29 | 72 | 629 | 1 961 | 2 723 |
| | | | | | | | |
| As at 31 March 2010 | | | | | | | |
| Watchlist loans neither past due nor impaired | | | | | | | |
| Total capital exposure | 385 | – | – | – | – | – | 385 |
| Gross core loans and advances to customers that are past due but not impaired | | | | | | | |
| Total capital exposure | – | 2 289 | 443 | 847 | 858 | 754 | 5 191 |
| Amount in arrears | – | 408 | 179 | 740 | 634 | 699 | 2 660 |
| Gross core loans and advances to customers that are impaired | | | | | | | |
| Total capital exposure | 220 | 139 | 18 | 228 | 447 | 639 | 1 691 |
| Amount in arrears | – | 106 | 5 | 93 | 238 | 455 | 897 |

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<br>R'million | Current watchlist loans | 1 - 60 days | 61 - 90 days | 91 - 180 days | 181 - 365 days | >365 days | Total |
|---|---|---|---|---|---|---|---|
| Past due (1 - 60 days) | – | 1 085 | – | – | – | – | 1 085 |
| Special mention | – | 48 | 358 | 216 | 7 | 29 | 658 |
| Special mention (1 - 90 days) | – | 48 | 118 | *216 | *7 | *29 | 418 |
| Special mention (61 - 90 days and well secured) | – | – | 240 | – | – | – | 240 |
| Default | 640 | 192 | 77 | 643 | 1 827 | 2 811 | 6 190 |
| Sub-standard | 53 | 70 | 9 | 436 | 640 | 448 | 1 656 |
| Doubtful | 587 | 122 | 68 | 207 | 1 187 | 2 363 | 4 534 |
| Total | 640 | 1 325 | 435 | 859 | 1 834 | 2 840 | 7 933 |

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<br>R'million | Current watchlist loans | 1 - 60 days | 61 - 90 days | 91 - 180 days | 181 - 365 days | >365 days | Total |
|---|---|---|---|---|---|---|---|
| Past due (1 - 60 days) | – | 260 | – | – | – | – | 260 |
| Special mention | – | 1 | 74 | 37 | – | 17 | 129 |
| Special mention (1 - 90 days) | – | 1 | 3 | *37 | – | *17 | 58 |
| Special mention (61 - 90 days and well secured) | – | – | 71 | – | – | – | 71 |
| Default | – | 49 | 32 | 305 | 1 197 | 2 508 | 4 091 |
| Sub-standard | – | 5 | 2 | 211 | 421 | 300 | 939 |
| Doubtful | – | 44 | 30 | 94 | 776 | 2 208 | 3 152 |
| Total | – | 310 | 106 | 342 | 1 197 | 2 525 | 4 480 |

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

An age analysis of past due and default core loans and advances to customers as at 31 March 2010 (based on total capital exposure)

| Audited<br>R'million | Current watchlist loans | 1 - 60 days | 61 - 90 days | 91 - 180 days | 181 - 365 days | >365 days | Total |
|---|---|---|---|---|---|---|---|
| Past due (1 - 60 days) | – | 2 016 | – | – | | | 2 016 |
| Special mention | – | 120 | 300 | 16 | 101 | 9 | 546 |
| Special mention (1 - 90 days) | – | 120 | 59 | *16 | *101 | *9 | 305 |
| Special mention (61 - 90 days and well secured) | – | | 241 | – | – | – | 241 |
| Default | 605 | 292 | 161 | 1 059 | 1 204 | 1 384 | 4 705 |
| Sub-standard | 347 | 153 | 73 | 555 | 575 | 599 | 2 302 |
| Doubtful | 258 | 139 | 88 | 504 | 629 | 785 | 2 403 |
| Total | 605 | 2 428 | 461 | 1 075 | 1 305 | 1 393 | 7 267 |

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<br>R'million | Current watchlist loans | 1 - 60 days | 61 - 90 days | 91 - 180 days | 181 - 365 days | >365 days | Total |
|---|---|---|---|---|---|---|---|
| Past due (1 - 60 days) | – | 366 | – | – | – | – | 366 |
| Special mention | – | 19 | 98 | 7 | 14 | 3 | 141 |
| Special mention (1 - 90 days) | – | 19 | 36 | *7 | *14 | *3 | 79 |
| Special mention (61 - 90 days and well secured) | – | – | 62 | – | – | – | 62 |
| Default | – | 129 | 86 | 826 | 858 | 1 151 | 3 050 |
| Sub-standard | – | 25 | 14 | 503 | 493 | 589 | 1 624 |
| Doubtful | – | 104 | 72 | 323 | 365 | 562 | 1 426 |
| Total | – | 514 | 184 | 833 | 872 | 1 154 | 3 557 |

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

An analysis of core loans and advances to customers

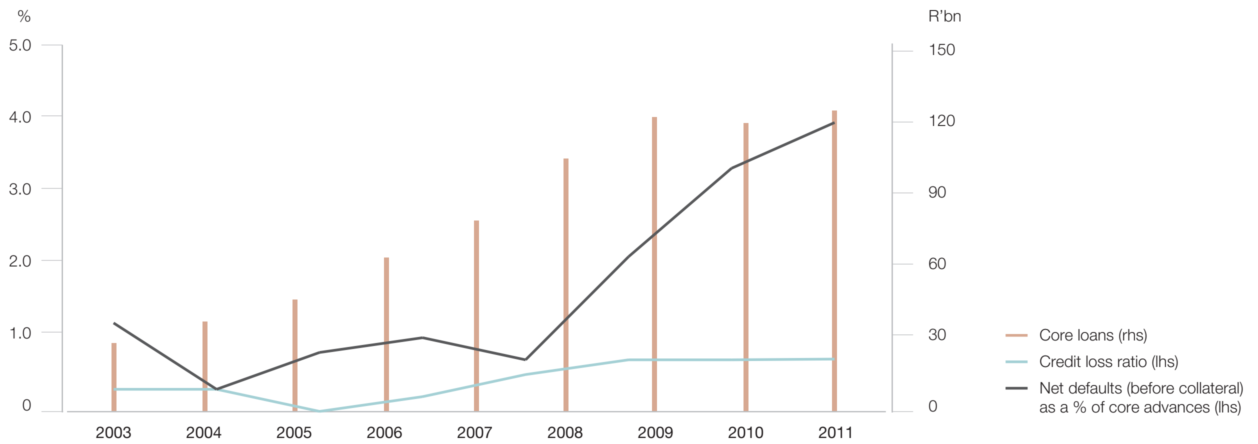
| Audited<br>R'million | Gross core loans and advances that are neither past due nor impaired | Gross core loans and advances that are past due but not impaired | Gross core loans and advances that are impaired | Total gross core loans and advances (actual capital exposure) | Specific impairments | Portfolio impairments | Total net core loans and advances (actual capital exposure) | Actual amount in arrears |
|---|---|---|---|---|---|---|---|---|
| As at 31 March 2011 | | | | | | | | |
| Current core loans and advances | 114 240 | – | – | 114 240 | – | (304) | 113 936 | – |
| Past due (1 - 60 days) | – | 1 085 | – | 1 085 | – | (9) | 1 076 | 260 |
| Special mention | – | 658 | – | 658 | – | (6) | 652 | 129 |
| Special mention (1 - 90 days) | – | 418 | – | 418 | – | (3) | 415 | 58 |
| Special mention (61 - 90 days and well secured) | – | 240 | – | 240 | – | (3) | 237 | 71 |
| Default | 73 | 2 201 | 3 916 | 6 190 | (1 070) | – | 5 120 | 4 091 |
| Sub-standard | 53 | 1 602 | 1 | 1 656 | – | – | 1 656 | 939 |
| Doubtful | 20 | 599 | 3 915 | 4 534 | (1 070) | – | 3 464 | 3 152 |
| Total | 114 313 | 3 944 | 3 916 | 122 173 | (1 070) | (319) | 120 784 | 4 480 |
| As at 31 March 2010 | | | | | | | | |
| Current core loans and advances | 111 670 | – | – | 111 670 | – | (309) | 111 361 | – |
| Past due (1 - 60 days) | – | 2 016 | – | 2 016 | – | (7) | 2 009 | 366 |
| Special mention | – | 546 | – | 546 | – | (6) | 540 | 141 |
| Special mention (1 - 90 days) | – | 305 | – | 305 | – | (6) | 299 | 79 |
| Special mention (61 - 90 days and well secured) | – | 241 | – | 241 | – | – | 241 | 62 |
| Default | 385 | 2 629 | 1 691 | 4 705 | (460) | – | 4 245 | 3 050 |
| Sub-standard | 347 | 1 948 | 7 | 2 302 | – | – | 2 302 | 1 624 |
| Doubtful | 38 | 681 | 1 684 | 2 403 | (460) | – | 1 943 | 1 426 |
| Total | 112 055 | 5 191 | 1 691 | 118 937 | (460) | (322) | 118 155 | 3 557 |

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

| R'million | Gross core loans | Gross defaults | Collateral | Impairments |
|---|---|---|---|---|
| Private Bank | | | | |
| Residential property | 36 388 | 3 360 | 4 013 | 427 |
| Residential property investment | 3 534 | 631 | 772 | 33 |
| Residential mortgages (owner occupied and second homes) | 27 710 | 685 | 957 | 76 |
| Residential property development | 1 457 | 337 | 413 | 23 |
| Residential estates/land | 3 687 | 1 707 | 1 871 | 295 |
| Commercial property | 37 790 | 1 359 | 1 740 | 252 |
| Commercial property investment | 33 288 | 1 033 | 1 316 | 197 |
| Commercial property land | 3 132 | 315 | 413 | 55 |
| Commercial property development | 1 370 | 11 | 11 | - |
| Other | 15 281 | 1 262 | 1 331 | 406 |
| Asset backed lending | 2 219 | 326 | 500 | 121 |
| Unlisted securities and general corporate lending | 6 308 | 522 | 479 | 153 |
| Unsecured lending | 1 457 | 87 | 65 | 45 |
| Other | 5 297 | 327 | 287 | 87 |
| Total Private Bank | 89 459 | 5 981 | 7 084 | 1 085 |
| | | | | |
| Capital Markets | | | | |
| Preference shares | 7 233 | - | - | - |
| Acquisition finance | 3 068 | - | - | - |
| Asset finance | 2 720 | - | - | - |
| Project finance | 2 001 | - | - | - |
| Structured finance | 11 658 | 42 | 32 | 28 |
| Resource finance and commodities | 1 152 | - | - | - |
| Total Capital Markets | 27 832 | 42 | 32 | 28 |
| | | | | |
| Other* | 4 882 | 167 | 48 | 276 |
| | | | | |
| Total group | 122 173 | 6 190 | 7 164 | 1 389 |

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

## Southern Africa



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

| Audited<br>R'million | Current core loans and advances | Past due (1 - 60 days) | Special mention (1 - 90 days) | Special mention (61 - 90 days and well secured) |
|---|---|---|---|---|
| As at 31 March 2011 | | | | |
| Private Banking professional and HNW individuals | 81 973 | 939 | 344 | 223 |
| Corporate sector | 19 347 | 13 | 74 | – |
| Banking, insurance, financial services (excluding sovereign) | 10 708 | 4 | – | – |
| Public and government sector (including central banks) | 799 | – | – | – |
| Trade finance and other | 1 413 | 129 | – | 17 |
| Total gross core loans and advances to customers | 114 240 | 1 085 | 418 | 240 |
| | | | | |
| As at 31 March 2010 | | | | |
| Private Banking professional and HNW individuals | 79 167 | 1 776 | 305 | 237 |
| Corporate sector | 19 827 | 155 | – | – |
| Banking, insurance, financial services (excluding sovereign) | 9 960 | – | – | – |
| Public and government sector (including central banks) | 1 599 | – | – | – |
| Trade finance and other | 1 117 | 85 | – | 4 |
| Total gross core loans and advances to customers | 111 670 | 2 016 | 305 | 241 |

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

| Audited<br>R'million | 31 March 2011 | 31 March 2010 |
|---|---|---|
| Private Banking professional and HNW individuals | 89 459 | 85 917 |
| Corporate sector | 19 555 | 20 134 |
| Banking, insurance, financial services (excluding sovereign) | 10 712 | 9 960 |
| Public and government sector (including central banks) | 799 | 1 599 |
| Trade finance and other | 1 648 | 1 327 |
| Total gross core loans and advances to customers | 122 173 | 118 937 |

| | Sub-standard | Doubtful | Total gross core loans and advances to customers | Portfolio impairments | Specific impairments | Total impairments |
|---|---|---|---|---|---|---|
| | 1 655 | 4 325 | 89 459 | (158) | (928) | (1 086) |
| | – | 121 | 19 555 | (155) | (89) | (244) |
| | – | – | 10 712 | (6) | – | (6) |
| | – | – | 799 | – | – | – |
| | 1 | 88 | 1 648 | – | (53) | (53) |
| | 1 656 | 4 534 | 122 173 | (319) | (1 070) | (1 389) |
| | | | | | | |
| | 2 227 | 2 205 | 85 917 | (113) | (305) | (418) |
| | 71 | 81 | 20 134 | (203) | (81) | (284) |
| | – | – | 9 960 | (6) | – | (6) |
| | – | – | 1 599 | – | – | – |
| | 4 | 117 | 1 327 | – | (74) | (74) |
| | 2 302 | 2 403 | 118 937 | (322) | (460) | (782) |

## Collateral by line of business

The following disclosure is made with respect to Basel II requirements and definitions. The table below shows an analysis of collateral held against core loans and advances by line of business.

| R'million | Private Bank | | |
|---|---|---|---|
| | Collateral held against | | |
| | Core loans and advances | Other credit and counterparty exposures* | Total |
| As at 31 March 2011 | | | |
| Eligible financial collateral | 17 406 | 4 054 | 21 460 |
| Listed shares | 16 075 | – | 16 075 |
| Cash | 1 331 | 4 054 | 5 385 |
| Debt securities issued by sovereigns | – | – | – |
| Mortgage bonds | 136 543 | 15 | 136 558 |
| Residential mortgages | 60 550 | – | 60 550 |
| Commercial property developments | 780 | 15 | 795 |
| Commercial property investments | 75 213 | – | 75 213 |
| Other collateral | 16 180 | 4 | 16 184 |
| Unlisted shares | 10 864 | – | 10 864 |
| Bonds other than mortgage bonds | 145 | – | 145 |
| Asset backed lending | 74 | – | 74 |
| Guarantees | 18 | 4 | 22 |
| Other | 5 079 | – | 5 079 |
| Total collateral | 170 129 | 4 073 | 174 202 |
| As at 31 March 2010 | | | |
| Eligible financial collateral | 13 855 | 2 749 | 16 604 |
| Listed shares | 13 608 | – | 13 608 |
| Cash | 247 | 2 749 | 2 996 |
| Debt securities issued by sovereigns | – | – | – |
| Mortgage bonds | 130 165 | – | 130 165 |
| Residential mortgages | 44 887 | – | 44 887 |
| Residential development | 104 | – | 104 |
| Commercial property developments | 678 | – | 678 |
| Commercial property investments | 84 496 | – | 84 496 |
| Other collateral | 15 281 | 499 | 15 780 |
| Unlisted shares | 624 | – | 624 |
| Bonds other than mortgage bonds | 216 | – | 216 |
| Asset backed lending | 14 269 | – | 14 269 |
| Guarantees | – | – | – |
| Other | 172 | 499 | 671 |
| Total collateral | 159 301 | 3 248 | 162 549 |

* *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.*

| Capital Markets | | | Other | | | Total | | |
|---|---|---|---|---|---|---|---|---|
| Collateral held against | | | Collateral held against | | | Collateral held against | | |
| Core loans and advances | Other credit and counterparty exposures* | Total | Core loans and advances | Other credit and counterparty exposures* | Total | Core loans and advances | Other credit and counterparty exposures* | Total |
| 6 737 | 3 546 | 10 283 | 1 840 | 453 | 2 293 | 25 983 | 8 053 | 34 036 |
| 5 062 | 1 261 | 6 323 | 1 744 | 453 | 2 197 | 22 881 | 1 714 | 24 595 |
| 1 675 | 847 | 2 522 | 9 | – | 9 | 3 015 | 4 901 | 7 916 |
| – | 1 438 | 1 438 | 87 | – | 87 | 87 | 1 438 | 1 525 |
| 4 541 | – | 4 541 | 556 | – | 556 | 141 640 | 15 | 141 655 |
| – | – | – | 556 | – | 556 | 61 106 | – | 61 106 |
| 14 | – | 14 | – | – | – | 794 | 15 | 809 |
| 4 527 | – | 4 527 | – | – | – | 79 740 | – | 79 740 |
| 20 153 | 1 068 | 21 221 | 1 979 | – | 1 979 | 38 312 | 1 072 | 39 384 |
| 2 493 | – | 2 493 | – | – | – | 13 357 | – | 13 357 |
| 1 717 | 220 | 1 937 | 411 | – | 411 | 2 273 | 220 | 2 493 |
| – | – | – | 837 | – | 837 | 911 | – | 911 |
| 11 379 | 848 | 12 227 | – | – | – | 11 397 | 852 | 12 249 |
| 4 564 | – | 4 564 | 731 | – | 731 | 10 374 | – | 10 374 |
| 31 431 | 4 614 | 36 045 | 4 375 | 453 | 4 828 | 205 935 | 9 140 | 215 075 |
| | | | | | | | | |
| 4 973 | 872 | 5 845 | 2 210 | 159 | 2 369 | 21 038 | 3 780 | 24 818 |
| 3 490 | 872 | 4 362 | 2 194 | 159 | 2 355 | 19 292 | 1 031 | 20 323 |
| 1 461 | – | 1 461 | 16 | – | 16 | 1 724 | 2 749 | 4 473 |
| 22 | – | 22 | – | – | – | 22 | – | 22 |
| 15 980 | – | 15 980 | 595 | – | 595 | 146 740 | – | 146 740 |
| – | – | – | 595 | – | 595 | 45 482 | – | 45 482 |
| – | – | – | – | – | – | 104 | – | 104 |
| – | – | – | – | – | – | 678 | – | 678 |
| 15 980 | – | 15 980 | – | – | – | 100 476 | – | 100 476 |
| 16 288 | 3 278 | 19 566 | 2 004 | – | 2 004 | 33 573 | 3 777 | 37 350 |
| 463 | – | 463 | – | – | – | 1 087 | – | 1 087 |
| 7 834 | 3 198 | 11 032 | 598 | – | 598 | 8 648 | 3 198 | 11 846 |
| 248 | – | 248 | 788 | – | 788 | 15 305 | – | 15 305 |
| 7 317 | 80 | 7 397 | – | – | – | 7 317 | 80 | 7 397 |
| 426 | – | 426 | 618 | – | 618 | 1 216 | 499 | 1 715 |
| 37 241 | 4 150 | 41 391 | 4 809 | 159 | 4 968 | 201 351 | 7 557 | 208 908 |

## Collateral

A summary of total collateral is provided below.

| R'million | Collateral held against: Core loans and advances | Collateral held against: Other credit and counterparty exposures* | Total |
|---|---|---|---|
| As at 31 March 2011 | | | |
| Eligible financial collateral | 25 983 | 8 053 | 34 036 |
| Listed shares | 22 881 | 1 714 | 24 595 |
| Cash | 3 015 | 4 901 | 7 916 |
| Debt securities issued by sovereigns | 87 | 1 438 | 1 525 |
| | | | |
| Mortgage bonds | 141 640 | 15 | 141 655 |
| Residential mortgages | 61 106 | – | 61 106 |
| Commercial property developments | 794 | 15 | 809 |
| Commercial property investments | 79 740 | – | 79 740 |
| | | | |
| Other collateral | 38 312 | 1 072 | 39 384 |
| Unlisted shares | 13 357 | – | 13 357 |
| Bonds other than mortgage bonds | 2 273 | 220 | 2 493 |
| Debtors, stock and other corporate assets | 911 | – | 911 |
| Guarantees | 11 397 | 852 | 12 249 |
| Other | 10 374 | – | 10 374 |
| | | | |
| Total collateral | 205 935 | 9 140 | 215 075 |
| | | | |
| As at 31 March 2010 | | | |
| Eligible financial collateral | 21 038 | 3 780 | 24 818 |
| Listed shares | 19 292 | 1 031 | 20 323 |
| Cash | 1 724 | 2 749 | 4 473 |
| Debt securities issued by sovereigns | 22 | – | 22 |
| | | | |
| Mortgage bonds | 146 740 | – | 146 740 |
| Residential mortgages | 45 482 | – | 45 482 |
| Residential development | 104 | – | 104 |
| Commercial property developments | 678 | – | 678 |
| Commercial property investments | 100 476 | – | 100 476 |
| | | | |
| Other collateral | 33 573 | 3 777 | 37 350 |
| Unlisted shares | 1 087 | – | 1 087 |
| Bonds other than mortgage bonds | 8 648 | 3 198 | 11 846 |
| Debtors, stock and other corporate assets | 15 305 | – | 15 305 |
| Guarantees | 7 317 | 80 | 7 397 |
| Other | 1 216 | 499 | 1 715 |
| | | | |
| Total collateral | 201 351 | 7 557 | 208 908 |

* *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.*

# 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. In addition, as a result of our local market knowledge and investment banking expertise, we are well positioned to take direct positions in listed shares where we believe that the market is mispricing the value of the underlying portfolio of assets. These investment positions are carefully researched with the intent to stimulate corporate activity. We also continue to pursue opportunities to help create and grow black owned and controlled companies
- 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
- Central Funding: The Central Funding division is the custodian of certain equity and property investments, which have largely arisen from corporate acquisitions made, notably in the early 2000s.

## 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, the Investec Bank Limited Direct Investments division investment committee and ERRF |
| Embedded derivatives, profit shares and investments arising from lending transactions | Credit risk management committees and ERRF |
| Investment and trading properties | Investment committee, Investec Property group Investment committee in South Africa and ERRF |
| Central Funding investments | Investment committee and ERRF |

Stress testing scenario analyses are performed regularly and reported to ERRF, BRCC and the board. As a matter of course, concentration risk is avoided and investments are well spread across geographies and industries.

## Valuation and accounting methodologies

For a description of our valuation principles and methodologies refer to pages 140 and 141 and pages 172 to 175 for factors taken into consideration in determining fair value. We have a low level of assets exposed to the volatility of IFRS fair value accounting with "level 3" assets amounting to 0.1% of total assets (refer to page 172 for further information).

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

| Audited<br>R'million | 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 | (410) | 469 | 242 | 301 | – |
| Listed equities | 384 | 20 | – | 404 | 1 |
| Investment and trading properties | 582 | – | 9 | 591 | – |
| Warrants, profit shares and other embedded derivatives | 78 | 138 | – | 216 | – |
| Total | 634 | 627 | 251 | 1 512 | 1 |
| **For the year ended 31 March 2010** | | | | | |
| Unlisted investments | 280 | 273 | 213 | 766 | – |
| Listed equities | 166 | 79 | 1 | 246 | 1 |
| Investment and trading properties | 447 | – | (2) | 445 | – |
| Warrants, profit shares and other embedded derivatives | 205 | 59 | 3 | 267 | – |
| Total | 1 098 | 411 | 215 | 1 724 | 1 |

Unrealised revaluation gains through profit and loss are included in Tier 1 capital. Revaluations that are posted directly to equity are excluded from capital within Investec Limited.

## Summary of investments held and stress testing analyses

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

| Audited<br>R'million | 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 | 6 070 | 911 | 5 888 | 883 |
| Listed equities | 1 274 | 318 | 815 | 204 |
| Investment and trading properties | 5 772 | 761 | 4 736 | 534 |
| Warrants, profit shares and other embedded derivatives | 577 | 202 | 638 | 223 |
| Total | 13 693 | 2 192 | 12 077 | 1 844 |

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

Stress test values applied

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

## Stress testing summary

Based on the information as at 31 March 2011, as reflected above we could have a R2.2 billion reversal in revenue (which assumes a year in which there is a "severe stress scenario"). 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 investment properties, profit shares and embedded derivatives are considered in the calculation of capital required for credit risk. Refer to page 98 for further detail.

## 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.

In South Africa, our securitisation business, which forms part of our Structured Finance unit, was established approximately ten years ago when the debt capital markets commenced development. Over this time, we have arranged a number of corporate bond and commercial paper programmes and third party securitisations.

We have also assisted in the development of select securitisation platforms with external third party originating intermediaries. At present we have provided limited warehouse funding lines to these intermediaries.

Furthermore, we provide standby liquidity facilities to two conduits, namely the Grayston Conduit 1 (Pty) Ltd Series 1 and Series 2, and to the securitisation structure of the Growthpoint Note Issuer Company (Series 1 Tranche 1; Series 1 Tranche 2; Series 2; and Series 3). These facilities, which totalled R2.0 billion as at 31 March 2011 (31 March 2010: R2.4 billion), have not been drawn on and are thus reflected as off-balance sheet contingent exposures in terms of our credit analysis (refer to page 69). The liquidity risk associated with these facilities is included in the stress testing for the group and is managed in accordance with our overall liquidity position.

We have also sought out select opportunities in the credit/debt markets and traded and invested in structured credit investments. These have largely been investments in rated instruments within the UK and Europe.

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

- Provide an alternative source of funding
- Provide a source of revenue
- Act as a mechanism to transfer risk
- Leverage returns through the retention of equity tranches in low default rate portfolios.

Total assets that have been originated and securitised by the Private Bank amount to R6.3 billion (31 March 2010: R7.3 billion) and include auto loans (R0.9 billion), residential mortgages (R4.4 billion) and commercial mortgages (R1.0 billion). These securitisation structures have all been rated by Moody's.

### Accounting policies Audited

Refer to page 181.

## 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.

| Nature of exposure/ activity | Exposure as at 31 March 2011 R'mn | Exposure as at 31 March 2010 R'mn | Credit analysis internal risk classification | Asset quality – relevant comments | Capital treatment |
|---|---|---|---|---|---|
| Structured credit investments* | 3 094 | 2 099 | On-balance sheet securitisation/principal finance exposure. | | Risk-weighted or supervisory deductions against primary and secondary capital. |
| Rated** | 2 774 | 1 794 | | | |
| Unrated | 320 | 305 | | | |
| Net warehouse lines provided to, and investment in third party intermediary originating platforms (mortgage and auto loans) | 790 | 1 092 | On-balance sheet securitisation/principal finance exposure. | | Risk-weighted depending on rating of counterparty |
| Private Banking division assets which have been securitised | 6 343 | 7 255 | 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 52. | We apply securitisation rules: either risk-weighted or supervisory deductions against primary and secondary capital. |
| Liquidity facilities provided to third party corporate securitisation vehicles | 2 041 | 2 434 | Off-balance sheet credit exposure as these facilities have remained undrawn and reflect a contingent liability of the bank. | | Unutilised facility that is risk-weighted. |

*Analysis of structured rated and unrated credit investments

| R'million | 31 March 2011 Rated** | Unrated | Total |
|---|---|---|---|
| US corporate loans | 33 | – | 33 |
| European RMBS | 2 340 | 166 | 2 506 |
| European CMBS | 109 | – | 109 |
| European corporate loans | – | 154 | 154 |
| South African RMBS | 271 | – | 271 |
| South African CMBS | 21 | – | 21 |
| Total | 2 774 | 320 | 3 094 |

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

| R'million | AAA | AA | A | BBB | BB | B and below | 31 March 2011 Total | 31 March 2010 Total |
|---|---|---|---|---|---|---|---|---|
| US corporate loans | – | – | – | – | 33 | – | 33 | 67 |
| European RMBS | 464 | 523 | 344 | 481 | 528 | – | 2 340 | 1 727 |
| European CMBS | 94 | – | – | 15 | – | – | 109 | – |
| South African RMBS | – | 241 | 30 | – | – | – | 271 | – |
| South African CMBS | – | – | 21 | – | – | – | 21 | – |
| Total | 558 | 764 | 395 | 496 | 561 | – | 2 774 | 1 794 |

## Traded market risk management

### Traded market risk description Audited

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

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

### Traded market risk governance structure Audited

To manage, measure and mitigate market risk, we have independent market risk management teams in each geography where we assume market risk. Local limits have been set to keep potential losses within acceptable risk tolerance levels. A global market risk forum (mandated by the various boards of directors) manages the market risks in accordance with pre-approved principles and policies. Risk limits are reviewed and set at the global market risk forum and ratified at the ERRF in accordance with the risk appetite defined by the board. Limits are reviewed either annually 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) and extreme value theory (EVT). Stress testing and scenario analysis are used to simulate extreme conditions to supplement these core measures.

VaR numbers are monitored daily at the 95%, 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.

We have internal model approval and so trading capital is calculated as a function of the 99% 10-day VaR. Backtesting results and a detailed stress testing pack are submitted to the regulator on a monthly basis.

## VaR 95% (one-day)

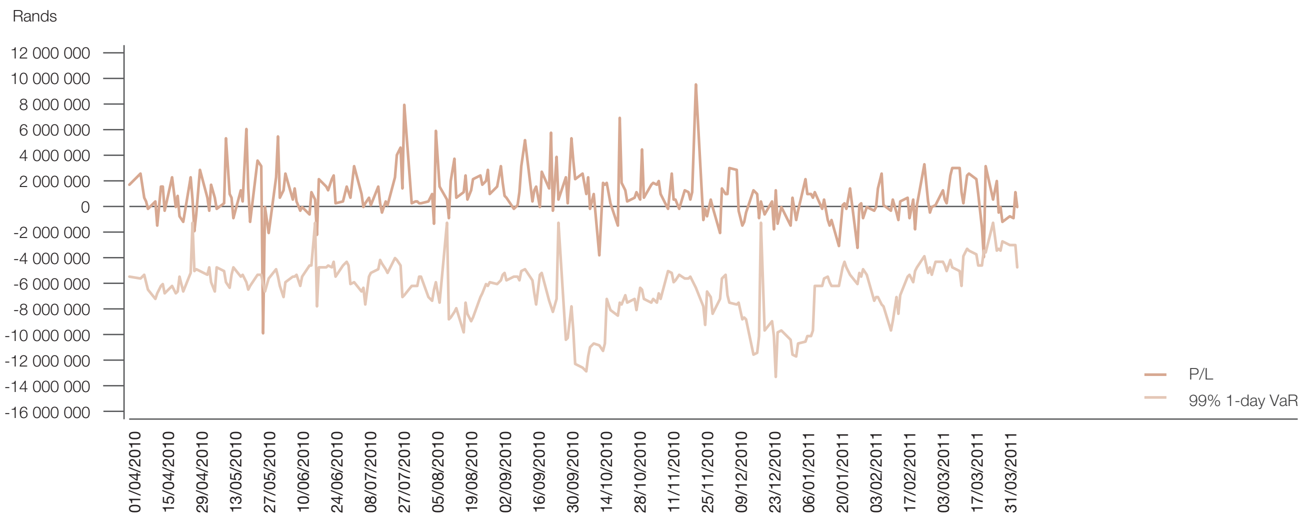
| Audited<br>R'million | Year end | Average | High | Low |
|---|---|---|---|---|
| **31 March 2011** | | | | |
| Commodities | 0.1 | 0.1 | 0.3 | – |
| Equity derivatives | 1.6 | 1.8 | 9.1 | 0.6 |
| Foreign exchange | 0.9 | 1.9 | 5.7 | 0.7 |
| Interest rates | 1.3 | 2.4 | 5.1 | 0.9 |
| Consolidated* | 3.8 | 4.0 | 10.0 | 2.0 |
| **31 March 2010** | | | | |
| Commodities | 0.1 | 0.1 | 0.6 | – |
| Equity derivatives | 1.1 | 2.9 | 18.2 | 0.6 |
| Foreign exchange | 2.4 | 2.4 | 7.1 | 1.2 |
| Interest rates | 1.3 | 2.0 | 6.5 | 0.9 |
| Consolidated* | 3.6 | 4.5 | 16.9 | 2.3 |

* *The consolidated VaR for each desk 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 graph below shows 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.

VaR for 2011 in the South African trading book has remained at low levels as experienced in 2010. Using hypothetical (clean) profit and loss data for backtesting resulted in two exceptions, which is less than the two to three exceptions that a 99% VaR implies. Last year we displayed the backtesting with the actual profit and loss data, using this data there would have been no exceptions over the year. The exceptions were due to normal trading losses.

**99% 1-day VaR backtesting**



## ETL 95% (one-day) Audited

| R'million | 31 March 2011 | 31 March 2010 |
|---|---|---|
| Commodities | 0.1 | 0.1 |
| Equity derivatives | 3.3 | 1.8 |
| Foreign exchange | 1.3 | 4.0 |
| Interest rates | 2.4 | 2.4 |
| Consolidated* | 5.8 | 5.0 |

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

## Stress testing Audited

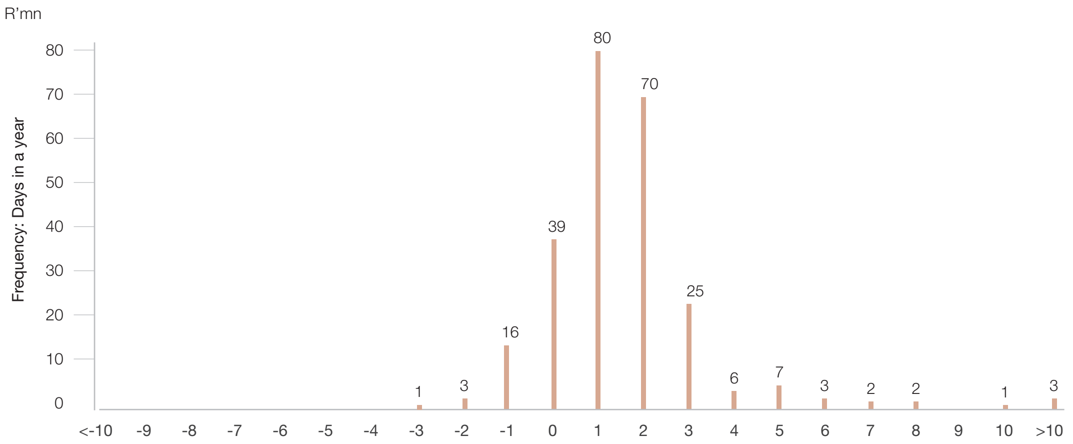
The table below indicates the potential losses that could arise if the portfolio is stress tested under extreme market conditions. The March 2010 methodology is not comparable to that used for March 2011. The March 2010 numbers assume a normal distribution of profits and losses and looked at the 15 standard 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 calculates the 99% EVT which is a 1-in-8 year possible loss event.

| R'million | 31 March 2011 | 31 March 2010 |
|---|---|---|
| Commodities | 0.3 | 0.6 |
| Equity derivatives | 24.3 | 8.6 |
| Foreign exchange | 5.6 | 18.4 |
| Interest rates | 10.0 | 10.3 |
| Consolidated | 13.6 | 37.9 |

## Profit and loss histogram

The histogram below illustrates the distribution of daily revenue during the financial year for our trading businesses. The distribution is skewed to the profit side and the graph shows that positive trading revenue was realised on 199 days out of a total of 258 days in the trading business. The average daily trading revenue generated for the year ended 31 March 2011 was R1.2 million (2010: R0.6 million).

**Profit and loss**



## Traded market risk mitigation

The market risk management team has a reporting line that is separate from the trading function, thereby ensuring 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

Trading conditions in South Africa remained difficult, as client flow failed to pick up much over the year. Risk assumed in the trading businesses continues to be low and has in some cases been even lower than last year. Investec remains committed to trading on client flow as opposed to proprietary trading. Despite the difficult trading conditions all trading desks recorded a profit.

## 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 178.

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.

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

## Balance sheet risk management

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. Investec has been proactively reporting on these ratios internally according to the emerging Basel definitions since 2010. In some jurisdictions Investec already exceeds minimum requirements and 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.

### Balance sheet risk description

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

### Balance sheet risk governance structure and risk mitigation

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

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

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

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

The ALCO's typically comprise 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 Audited

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 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

Non-trading interest rate risk otherwise known as interest rate risk in the banking book (IRRBB), 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.

- 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 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 three 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 three months repricing. Limits exist to ensure there is no undesired risk retained within any business or product area.

## Interest rate sensitivity gap

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

Interest rate sensitivity as at 31 March 2011

| R'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 | 5 176 | 483 | – | – | – | 6 779 | 12 438 |
| Cash and short-term funds – non-banks | 5 829 | – | – | – | – | – | 5 829 |
| Investment/trading assets and statutory liquids | 35 958 | 7 996 | 2 464 | 6 850 | 3 553 | 14 682 | 71 503 |
| Securitised assets | 7 425 | 26 | 21 | 124 | 23 | 667 | 8 286 |
| Advances | 101 147 | 649 | 1 744 | 7 671 | 3 108 | 915 | 115 234 |
| Other assets | – | – | – | – | – | 5 820 | 5 820 |
| Assets | 155 535 | 9 154 | 4 229 | 14 645 | 6 684 | 28 863 | 219 110 |
| Deposits – banks | (10 806) | (30) | – | (120) | – | – | (10 956) |
| Deposits – non-banks | (133 574) | (8 893) | (7 555) | (2 502) | (630) | (998) | (154 152) |
| Negotiable paper | (4 016) | (90) | (936) | (50) | (49) | – | (5 141) |
| Securitised liabilities | (6 753) | – | – | (218) | – | (582) | (7 553) |
| Investment/trading liabilities | (4 885) | – | – | – | – | (3 028) | (7 913) |
| Subordinated liabilities | (2 791) | – | (1 688) | (2 187) | (200) | – | (6 866) |
| Other liabilities | – | – | – | – | – | (7 238) | (7 238) |
| Liabilities | (162 825) | (9 013) | (10 179) | (5 077) | (879) | (11 846) | (199 819) |
| Intercompany loans | 3 547 | (58) | (425) | (1 335) | – | (580) | 1 149 |
| Shareholders' funds | (3 193) | – | – | – | (871) | (16 649) | (20 713) |
| Balance sheet | (6 936) | 83 | (6 375) | 8 233 | 4 934 | (212) | (273) |
| Off-balance sheet | 13 330 | (837) | 2 360 | (10 278) | (4 302) | – | 273 |
| Repricing gap | 6 394 | (754) | (4 105) | (2 045) | (632) | (212) | – |
| Cumulative repricing gap | 6 394 | 5 640 | 1 625 | (420) | 212 | – | – |

## 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.

| | Sensitivity to the following interest rates (expressed in original currencies) | | | | | |
|---|---|---|---|---|---|---|
| 'million | ZAR | GBP | USD | EUR | AUD | All (ZAR) |
| 200bp Down | (184.6) | 0.1 | 1.5 | – | 0.9 | (166.8) |
| 200bp Up | 174.8 | (0.2) | (2.1) | (0.1) | (0.7) | 152.4 |

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

### Liquidity risk description Audited

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 SARB and Bank of Mauritius
- 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. Our Private Bank continued to successfully raise private client deposits despite competitive pressures with total deposits increasing by 9.6% from 1 April 2010 to R56.1 billion at 31 March 2011. We have also introduced a number of innovative retail deposit initiatives within our Capital Markets division and these continued to experience strong inflows during the financial year. Our total retail customer deposit base increased by 8.0% from 1 April 2010 to R154.5 billion at 31 March 2011. On average our fixed and notice customer deposits have amounted to approximately 71% of total deposits since April 2006 for Investec Limited 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.

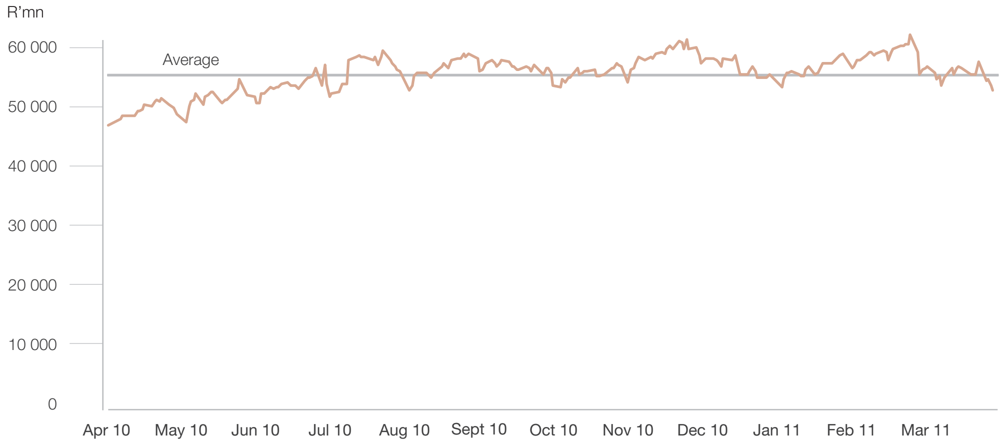
We engage in transactions that involve the use of both special purpose entities and asset securitisation structures. Securitisation represents a relatively modest proportion of our current funding profile, but provides additional flexibility and source of liquidity. These entities form part of the consolidated 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 R56 billion.

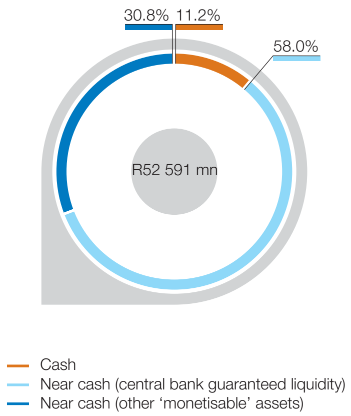
The group does not rely on committed funding lines for protection against unforeseen interruptions to cash flow. We are currently unaware of any circumstances that could significantly detract from our ability to raise funding appropriate to our needs.

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.

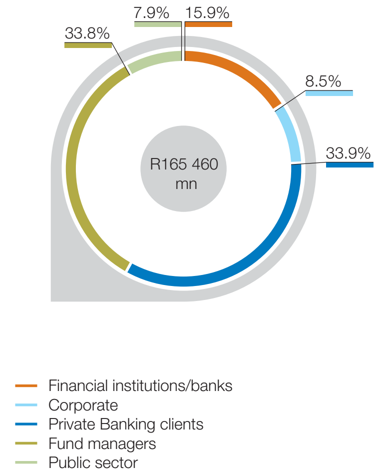
### Investec Limited cash and near cash trend




### 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.

The tables will not agree directly to the balances disclosed in the balance sheet 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.

# Risk management (continued)

Contractual liquidity as at 31 March 2011

| R'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* | 10 452 | 669 | 136 | 508 | 43 | 1 137 | – | 12 945 |
| Cash and short-term funds – non-banks | 5 829 | – | – | – | – | – | – | 5 829 |
| Investment/trading assets and statutory liquids** | 23 652 | 27 169 | – | 207 | 1 852 | 24 221 | 12 800 | 89 901 |
| Securitised assets | 1 076 | 167 | 406 | 423 | 440 | 2 335 | 3 439 | 8 286 |
| Advances | 1 917 | 8 172 | 8 836 | 7 542 | 11 790 | 47 588 | 29 389 | 115 234 |
| Other assets | 812 | 1 644 | 699 | 646 | 76 | – | 2 223 | 6 100 |
| **Assets** | 43 738 | 37 821 | 10 077 | 9 326 | 14 201 | 75 281 | 47 851 | 238 295 |
| Deposits – banks | (718) | (1 656) | (927) | (911) | (6 516) | (228) | – | (10 956) |
| Deposits – non-banks | (47 423)^ | (28 450) | (31 549) | (13 586) | (17 188) | (14 788) | (1 520) | (154 504) |
| Negotiable paper | – | (708) | (438) | (375) | (2 695) | (437) | (489) | (5 142) |
| Securitised liabilities | (107) | (1 639) | (1 979) | – | (273) | (3 555) | – | (7 553) |
| Investment/trading liabilities | (210) | (13 307) | (496) | (952) | (1 019) | (8 611) | – | (24 645) |
| Subordinated liabilities | – | – | – | – | (1 688) | (3 628) | (1 550) | (6 866) |
| Other liabilities | (230) | (1 348) | (489) | (630) | (548) | (555) | (4 047) | (7 847) |
| **Liabilities** | (48 688) | (47 108) | (35 878) | (16 454) | (29 927) | (31 851) | (7 607) | (217 513) |
| **Shareholders' funds** | – | – | – | – | – | – | (20 782) | (20 782) |
| **Contractual liquidity gap** | (4 950) | (9 287) | (25 801) | (7 128) | (15 726) | 43 430 | 19 462 | – |
| Cumulative liquidity gap | (4 950) | 14 237 | (40 038) | (47 166) | (62 892) | (19 463) | – | – |

Note: contractual liquidity adjustments (as discussed on page 81)

| R'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 | 6 721 | 669 | 136 | 508 | 43 | 1 137 | 3 731 | 12 945 |
| **Investment/trading assets and statutory liquids | 196 | 23 272 | 11 603 | 6 520 | 6 709 | 28 083 | 13 515 | 89 628 |

Behavioural liquidity (as discussed on page 81)

| R'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** | 23 586 | (193) | (2 541) | 2 455 | (5 762) | (52 595) | 35 051 | – |
| Cumulative | 23 586 | 23 394 | 20 852 | 23 307 | 17 545 | (35 051) | – | – |

*^Includes call deposits of R43.0 billion and the balance reflects term deposits which have finally reached/are reaching contractual maturity.*

## Balance sheet risk year in review

The financial year was characterised by 100bp of rate cuts and 150bp if the rate cut at the end of March 2010 is included. The Rand was exceptionally strong and this pushed inflation lower and facilitated the drop in interest rates to generational lows. The cost of term deposits plummeted precipitously and this allowed for a restoration of margins in the latter half of the year. Trading profits on the surplus liquid asset books and liquid asset books boosted income.

Liquidity conditions improved dramatically over the year. The wholesale deposit base grew moderately relative to real asset growth which resulted in a buildup of cash reserves which were placed in highly liquid treasury bills and government bonds.

The bank continued to benefit from a growing retail franchise with total customer deposits increasing by 8.0% from 1 April 2010 to R154.5 billion at 31 March 2011 (Private Bank deposits amount to R56.1 billion and other retail deposits amount to R98.4 billion). Cash and near cash balances increased by 9.6% from 1 April 2010 to R52.6 billion at 31 March 2011.

The prospect of regulatory change will continue to force us along with other South African banks to lengthen our deposit books, review asset pricing and asset growth. Conditions remain favourable for further regular forays into the Rand bond and Euro bond markets during the course of 2011/12.

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 Limited:
  - We issued medium term 3.5 and seven year notes totaling R6.0 billion over the course of the year:
  - We raised EUR 220 million and USD 310 million for 18 months to boost our foreign currency cash reserves.

## 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 to 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.

It is expected that South Africa, as a member of the G20, will adopt the BCBS guidelines for liquidity risk measurement standards and monitoring.

The liquidity proposals in their original form have, however, highlighted the shortcomings in the collective financial markets in South Africa, brought about by structural impediments that can only be addressed in a collaborative environment. The banks alone are powerless to change the landscape of the South African financial markets and the industry faces many challenges in complying with these standards.

In recognition thereof the South African Minister of Finance recommended the institution of a structural funding and liquidity risk management task team, chaired by South Africa National Treasury, to investigate the structural funding profile which is conducive to continued resilience of the South Africa financial sector. The task team will aim to provide recommendations to improve the structural funding profile of South Africa in a way that leads to balanced economic growth, the long-term sustainability of the South African financial system and social well-being of the country.

The BCBS has endowed regulatory prudence to the discretion of the national regulator, SARB, who will have to lead South African banks into the new generation of regulatory supervision. The Banking Association South Africa formed an industry task group whose mandate is to develop a series of position papers that will contextualise the challenges that need to be considered, in order to facilitate dialogue with National Treasury and the SARB on matters relating to the proposed LCR and NSFR.

Investec is a participant in the structural funding and liquidity risk management task team as well as the Banking Association South Africa task group.

Although implementation time lines seem far into the future, compliance to 100% of the two ratios remain a target in the South African banking industry.

# 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.

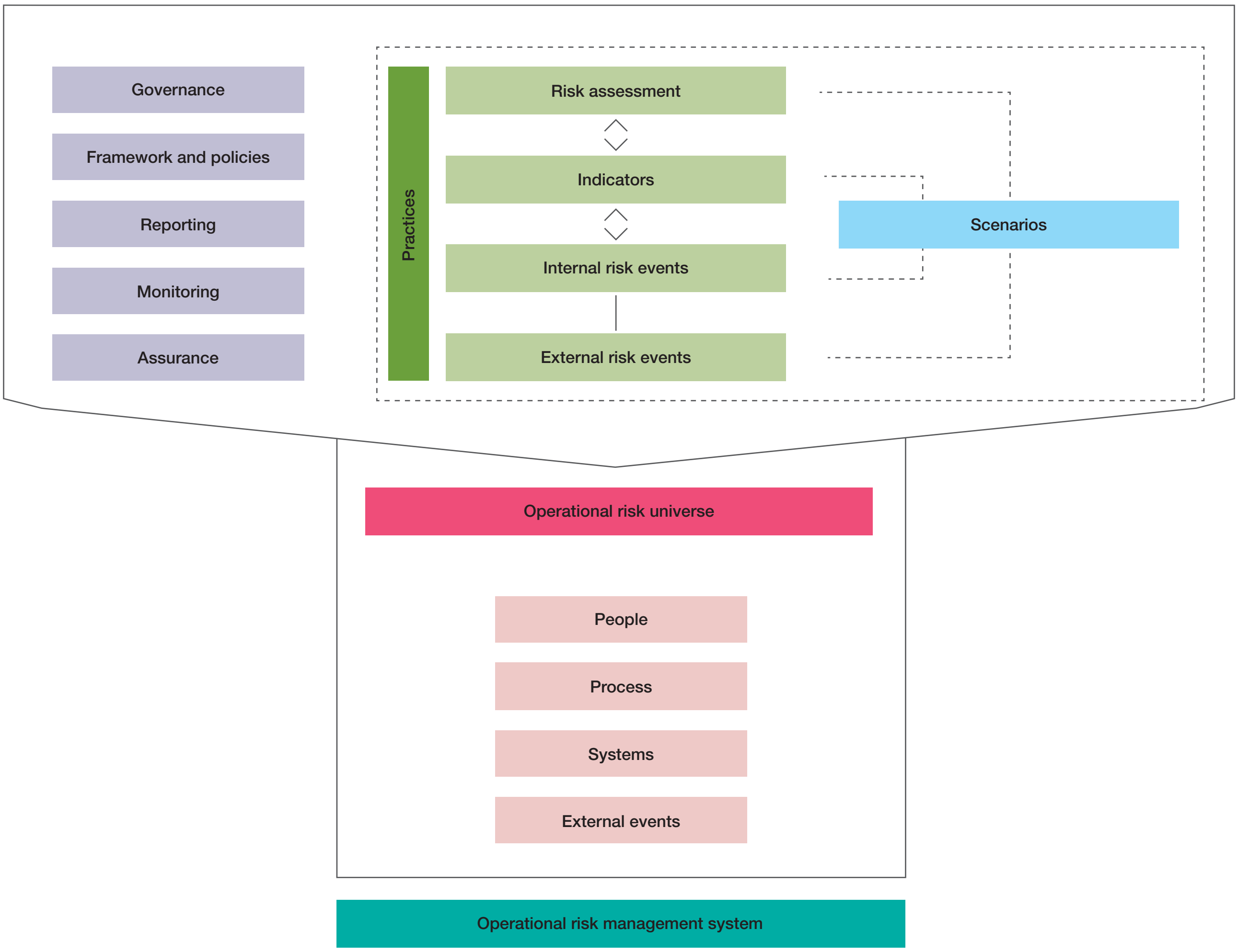
We recognise operational risk as a significant risk category, and strive to manage this within acceptable levels through the promotion of appropriate and relevant sound operational risk management practices.

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 management 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.



## Governance

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

| Level | Function | Activity |
|---|---|---|
| 1 | Business unit management | • Identify and mitigate operational risk<br>• Own the operational risks arising in their business area<br>• Establish and maintain an appropriate operational risk and control environment<br>• Maintain an embedded operational risk management capability<br>• Implement and execute sound operational risk management practices. |
| 2 | Group operational risk management | • Independent of operations<br>• Maintain the group operational risk management framework and policy<br>• Develop and promote sound operational risk management practices<br>• Challenge and review business unit operational risk practices and data<br>• Report on operational risk exposures, events, and emerging issues to board and board committees, and relevant business unit forums<br>• Ensure supervisory requirements are achieved. |
| 3 | Internal audit and specialist assurance | • Independent review of the operational risk framework, and the effectiveness of its implementation<br>• Audit findings integrated into the operational risk management process<br>• Specialist validation of key practices. |
| 4 | External audit and supervisors | • External assessment of the operational risk management environment<br>• Regulatory onsite reviews by the SARB. |
| 5 | Board and board committees | • Monitor and review the operational risk exposures and metrics<br>• 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<br>• 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<br>• 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.

## 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 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 procedures to monitor compliance, taking into account the required minimum standards
- Establishing legal risk forums, bringing together the various legal risk managers, to ensure we keep abreast of developments and changes in the nature and extent of our activities, and to benchmark our processes against best practice.

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

A legal risk forum is constituted in each significant legal entity within the group. Each forum meets at least half-yearly and more frequently where business needs dictate, and is chaired by the global head of Legal Risk or an appointed deputy. 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 plc is regulated by the FSA in the UK and Investec Limited is regulated by the SARB. In addition, a number of 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.

The DLC capital committee seeks to optimise the balance sheet such that capital held is in excess of internal capital.

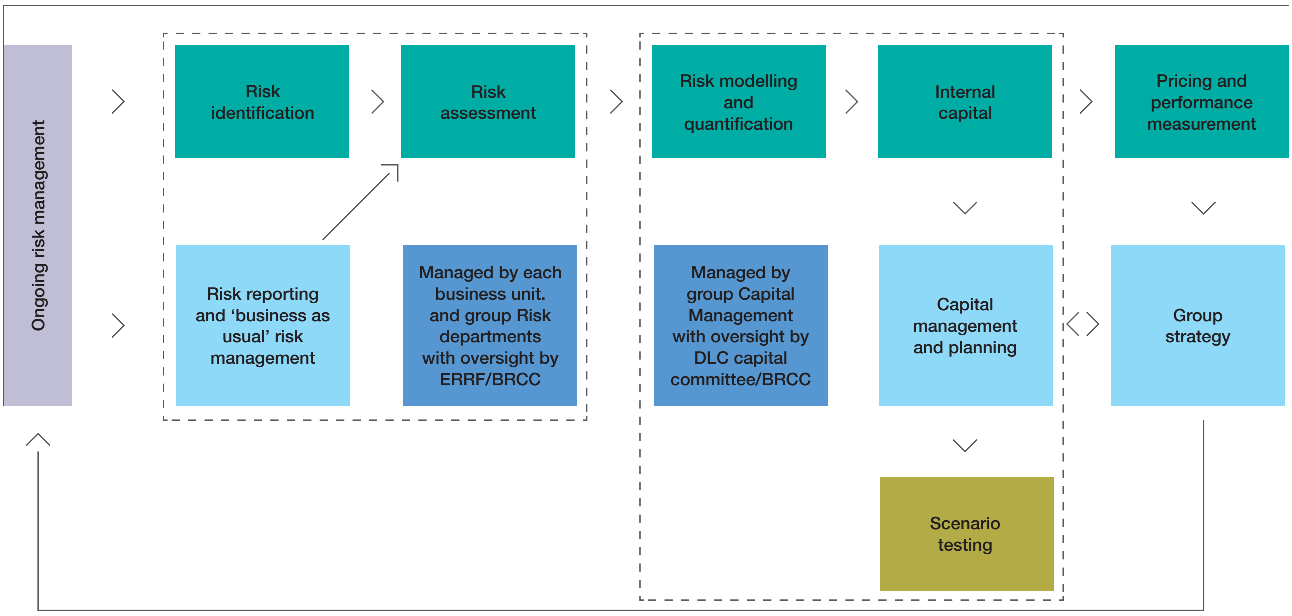
Internal capital performs a critical role in:

- Investment decision making and pricing that is commensurate with the risk being taken
- Allocating capital according to the greatest expected marginal risk-based return, and 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
- 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 to the DLC capital committee.

These forums have been in place for several years and their roles and responsibilities are discussed in the Investec group's 2011 annual report.

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. A formally constituted Capital Management Committee also exists in Australia. Capital adequacy within the Southern African operations is discussed monthly through the regulatory forum, which includes Investec Bank Limited and Investec Bank (Mauritius) Limited. The use of these committees 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
  - 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

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.

- 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.

## Accounting and regulatory treatment of group subsidiaries

Investec plc and Investec Limited are the two listed holding companies in terms of the DLC structure. The regulatory treatment of Investec Limited's principal subsidiaries and associates is set out below:

| Identity of investment/ interest held | Regulatory | % interest held | Regulatory treatment: Fully consolidated | Regulatory treatment: Entities that are given a deduction treatment | Country of operation | Restrictions and major impediments on the transfer of funds and regulatory capital within the Investec Limited group |
|---|---|---|---|---|---|---|
| **Bank controlling company** | | | | | | |
| Investec Limited | SARB | 100% | Yes | | SA | None |
| **Regulated subsidiaries banking and securities trading** | | | | | | |
| Investec Bank Limited | SARB | 100% | Yes | | SA | None |
| Investec Bank (Mauritius) Limited | Bank of Mauritius | 100% | Yes | | Mauritius | None |
| Investec Securities Limited | JSE, FSB, BESA, SAFEX | 100% | Yes | | SA | None |
| **Asset Management** | | | | | | |
| Investec Asset Management Holdings (Pty) Ltd | | 100% | Yes | | SA | None |
| Investec Asset Management (Pty) Ltd | FSB/SAFEX | 100% | Yes | | SA | None |
| Investec Fund Managers SA Ltd | FSB/SAFEX | 100% | Yes | | SA | None |
| **Insurance** | | | | | | |
| Investec Employee Benefits Holdings (Pty) Ltd | FSB | 100% | Deconsolidated | | SA | None |
| Investec Employee Benefits Ltd | FSB | 100% | Deconsolidated | | SA | None |
| Investec Assurance Limited | FSB and Long-Term Insurance Act | 100% | Deconsolidated | | SA | None |
| **Unregulated subsidiaries** | Not regulated subject to consolidated supervision | | | | | |
| Reichmans Holdings Limited | | 100% | Yes | | SA | None |
| AEL Investment Holdings (Pty) Ltd | | 100% | Yes | | SA | None |
| Investpref Ltd | | 100% | Yes | | SA | None |
| KWJ Investments (Pty) Ltd | | 100% | Yes | | SA | None |
| Securities Equities (Pty) Ltd | | 100% | Yes | | SA | None |
| Sechold Finance Services (Pty) Ltd | | 100% | Yes | | SA | None |
| Investec Personal Financial Services (Pty) Ltd | | 100% | Yes | | SA | None |
| Fedsure International Ltd | | 100% | Yes | | SA | None |
| Investec Share Plan Services (Pty) Limited | | 100% | Yes | | SA | None |

| Identity of investment/ interest held | Regulatory | % interest held | Regulatory treatment: Fully consolidated | Regulatory treatment: Entities that are given a deduction treatment | Country of operation | Restrictions and major impediments on the transfer of funds and regulatory capital within the Investec Limited group |
|---|---|---|---|---|---|---|
| Investec International Holdings (Gibraltar) Ltd | | 100% | Yes | | SA | None |
| Word Axis Management (Pty) Ltd | | 100% | Yes | | SA | None |
| Investec Group Data (Pty) Ltd | | 100% | Yes | | SA | None |
| Fuzztique (Pty) Limited | | 100% | Yes | | SA | None |
| Investec Property Group Holdings Ltd | | 100% | Yes | | SA | None |

There are no current or foreseen material practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities among the parent undertaking and its subsidiary undertakings, other than indicated on the table above.

## Capital structure

Summary information on the terms and conditions of the main features of all capital instruments is provided on page 194.

| | Investec Limited R'mn | IBL* R'mn |
|---|---|---|
| **As at 31 March 2011** | | |
| Regulatory capital | | |
| Tier 1 | | |
| Called up share capital | – | 27 |
| Share premium | 10 719 | 11 845 |
| Retained income | 10 903 | 7 067 |
| Treasury shares | (807) | – |
| Other reserves | 389 | 250 |
| Goodwill and intangible assets | (314) | (108) |
| Total tier 1 | 20 890 | 19 081 |
| Less: deductions | (297) | (297) |
| | 20 593 | 18 784 |
| Tier 2 capital | | |
| Aggregate amount | 7 039 | 7 039 |
| Less: deductions | (297) | (297) |
| | 6 742 | 6 742 |
| Total capital | 27 335 | 25 526 |
| **As at 31 March 2010** | | |
| Regulatory capital | | |
| Tier 1 | | |
| Called up share capital | – | 25 |
| Share premium | 10 416 | 10 530 |
| Retained income | 9 405 | 6 055 |
| Treasury shares | (1 140) | – |
| Other reserves | 439 | 158 |
| Goodwill and intangible assets | (378) | (95) |
| Total tier 1 | 18 742 | 16 673 |
| Less: deductions | (266) | (266) |
| | 18 476 | 16 407 |
| Tier 2 | | |
| Aggregate amount | 5 553 | 5 553 |
| Less: deductions | (265) | (265) |
| | 5 288 | 5 288 |
| Total capital | 23 764 | 21 695 |

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

## Capital requirements

| | Investec Limited R'mn | IBL* R'mn |
|---|---|---|
| **As at 31 March 2011** | | |
| **Capital requirements** | **16 377** | **15 537** |
| Credit risk – prescribed standardised exposure classes | 11 869 | 11 662 |
| Corporates | 7 541 | 7 369 |
| Secured on real estate property | 1 166 | 1 166 |
| Counterparty risk on trading positions | 395 | 364 |
| Short term claims on institutions and corporates | 1 553 | 1 553 |
| Retail | 291 | 291 |
| Institutions | 845 | 841 |
| Other exposure classes | 78 | 78 |
| Securitisation exposures | 450 | 450 |
| Equity risk – standardised approach | 2 160 | 2 109 |
| Listed equities | 346 | 295 |
| Unlisted equities | 1 814 | 1 814 |
| Market risk – portfolios subject to internal models approach | 129 | 90 |
| Interest rate | 40 | 40 |
| Foreign exchange | 21 | 21 |
| Commodities | 1 | 1 |
| Equities | 67 | 28 |
| Operational risk – standardised approach | 1 769 | 1 226 |
| **As at 31 March 2010** | | |
| **Capital requirements** | **14 465** | **13 272** |
| Credit risk – prescribed standardised exposure classes | 11 516 | 10 965 |
| Corporates | 7 481 | 6 991 |
| Secured on real estate property | 1 000 | 1 000 |
| Counterparty risk on trading positions | 321 | 321 |
| Short term claims on institutions and corporates | 1 282 | 1 221 |
| Retail | 698 | 698 |
| Institutions | 661 | 661 |
| Other exposure classes | 73 | 73 |
| Securitisation exposures | 356 | 356 |
| Equity risk – standardised approach | 717 | 697 |
| Listed equities | 55 | 35 |
| Unlisted equities | 662 | 662 |
| Market risk – portfolios subject to internal models approach | 154 | 91 |
| Interest rate | 31 | 31 |
| Foreign exchange | 31 | 31 |
| Commodities | 1 | 1 |
| Equities | 91 | 28 |
| Operational risk – standardised approach | 1 722 | 1 163 |

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

## Capital adequacy

| As at 31 March 2011 | Investec Limited R'mn | IBL* R'mn |
|---|---|---|
| Primary capital (tier 1) | 20 890 | 19 081 |
| Less: deductions | (297) | (297) |
| | 20 593 | 18 784 |
| Tier 2 capital | | |
| Aggregate amount | 7 039 | 7 039 |
| Less: deductions | (297) | (297) |
| | 6 742 | 6 742 |
| Total capital | 27 335 | 25 526 |
| Risk-weighted assets (banking and trading) | 172 370 | 163 537 |
| Credit risk – prescribed standardised exposure classes | 124 918 | 122 751 |
| Corporates | 79 376 | 77 573 |
| Secured on real estate property | 12 270 | 12 270 |
| Counterparty risk on trading positions | 4 153 | 3 829 |
| Short term claims on institutions and corporates | 16 342 | 16 342 |
| Retail | 3 067 | 3 067 |
| Institutions | 8 892 | 8 852 |
| Other exposure classes | 818 | 818 |
| Securitisation exposures | 4 737 | 4 737 |
| Equity risk – standardised approach | 22 740 | 22 204 |
| Listed equities | 3 646 | 3 110 |
| Unlisted equities | 19 094 | 19 094 |
| Market risk – portfolios subject to internal models approach | 1 358 | 943 |
| Interest rate | 420 | 420 |
| Foreign exchange | 221 | 221 |
| Commodities | 9 | 9 |
| Equities | 708 | 293 |
| Operational risk – standardised approach | 18 617 | 12 902 |
| Capital adequacy ratio | 15.9% | 15.6% |
| Tier 1 ratio | 11.9% | 11.5% |
| Capital adequacy ratio – pre operational risk | 17.8% | 16.9% |
| Tier 1 ratio – pre operational risk | 13.4% | 12.5% |

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

## Capital adequacy (continued)

| As at 31 March 2010 | Investec Limited R'mn | IBL* R'mn |
|---|---|---|
| Primary capital (tier 1) | 18 742 | 16 673 |
| Less: deductions | (266) | (266) |
| | 18 476 | 16 407 |
| Tier 2 capital | | |
| Aggregate amount | 5 553 | 5 553 |
| Less: deductions | (265) | (265) |
| | 5 288 | 5 288 |
| Total capital | 23 764 | 21 695 |
| Risk-weighted assets (banking and trading) | 152 264 | 139 716 |
| Credit risk – prescribed standardised exposure classes | 121 226 | 115 429 |
| Corporates | 78 746 | 73 588 |
| Secured on real estate property | 10 525 | 10 525 |
| Counterparty risk on trading positions | 3 380 | 3 380 |
| Short term claims on institutions and corporates | 13 495 | 12 857 |
| Retail | 7 352 | 7 352 |
| Institutions | 6 955 | 6 955 |
| Other exposure classes | 773 | 772 |
| Securitisation exposures | 3 748 | 3 748 |
| Equity risk – standardised approach | 7 547 | 7 337 |
| Listed equities | 578 | 368 |
| Unlisted equities | 6 969 | 6 969 |
| Market risk – portfolios subject to internal models approach | 1 618 | 956 |
| Interest rate | 325 | 325 |
| Foreign exchange | 326 | 326 |
| Commodities | 13 | 13 |
| Equities | 954 | 292 |
| Operational risk – standardised approach | 18 125 | 12 246 |
| Capital adequacy ratio | 15.6% | 15.5% |
| Tier 1 ratio | 12.1% | 11.7% |
| Capital adequacy ratio – pre operational risk | 17.7% | 17.0% |
| Tier 1 ratio – pre operational risk | 13.8% | 12.9% |

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

## Analysis of rated counterparties in each standardised credit exposure class

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

| Credit quality steps | Risk weight | 31 March 2011 Exposure R'mn | 31 March 2011 Exposure after credit risk mitigation R'mn | 31 March 2010 Exposure R'mn | 31 March 2010 Exposure after credit risk mitigation R'mn |
|---|---|---|---|---|---|
| Central banks and sovereigns | | | | | |
| 1 | 0% | 35 074 | 35 074 | 21 363 | 21 363 |
| 2 | 20% | – | – | – | – |
| 3 | 50% | 46 | 46 | 43 | 43 |
| 4 | 100% | – | – | – | – |
| 5 | 100% | – | – | – | – |
| 6 | 150% | – | – | – | – |
| Institutions original effective maturity of more than three months | | | | | |
| 1 | 20% | 2 993 | 2 993 | – | – |
| 2 | 50% | 9 088 | 9 088 | 6 303 | 6 303 |
| 3 | 50% | 6 540 | 6 384 | 5 624 | 5 480 |
| 4 | 100% | – | – | – | – |
| 5 | 100% | – | – | – | – |
| 6 | 150% | – | – | – | – |
| Short term claims on institutions | | | | | |
| 1 | 20% | 1 375 | 1 375 | 3 986 | 3 986 |
| 2 | 20% | 743 | 743 | 6 067 | 6 067 |
| 3 | 20% | 2 038 | 783 | 2 023 | 2 023 |
| 4 | 50% | – | – | – | – |
| 5 | 50% | – | – | – | – |
| 6 | 150% | – | – | – | – |
| Corporates | | | | | |
| 1 | 20% | 188 | 188 | 40 | 40 |
| 2 | 50% | 57 | 57 | 133 | 133 |
| 3 | 100% | 330 | 262 | 157 | 145 |
| 4 | 100% | 116 | 116 | – | – |
| 5 | 150% | – | – | – | – |
| 6 | 150% | 55 | 55 | – | – |
| Securitisation positions | | | | | |
| 1 | 20% | 2 017 | 2 017 | 1 042 | 1 042 |
| 2 | 50% | 1 963 | 1 963 | 2 147 | 2 147 |
| 3 | 100% | 1 150 | 1 150 | 820 | 820 |
| 4 | 350% | 600 | 600 | 500 | 500 |
| 5 | 1 250% | 583 | 583 | 638 | 638 |
| Total rated counterparty exposure | | 64 956 | 63 477 | 50 886 | 50 730 |

# 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 Limited | Investec Bank Limited – a subsidiary of Investec Limited |
|---|---|---|---|
| Fitch | Individual rating | C | C |
| | Support rating | 5 | 2 |
| | Foreign currency | | |
| | Short-term | F3 | F3 |
| | Long-term | BBB | BBB |
| | National | | |
| | Short-term | | F1 (zaf) |
| | Long-term | | A+(zaf) |
| Moody's | Bank financial strength rating | | C- |
| | Foreign currency | | |
| | Short-term deposit rating | | Prime-2 |
| | Long-term deposit rating | | A3 |
| | National | | |
| | Short-term | | P1 (za) |
| | Long-term | | Aa2 (za) |
| Global Credit Ratings | Local currency | | |
| | Short-term rating | | A1+(za) |
| | Long-term rating | | AA-(za) |

# Internal audit

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. 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 including the requirements of King III in South Africa. The audit teams comprise well-qualified, experienced staff to ensure that the function has the competence to match Investec's diverse requirements. Where specific specialist skills or additional resources are required, these are obtained from third parties. Internal audit resources are subject to review by the respective audit committees.

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.

# 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.

Investec is subject to extensive supervisory and regulatory governance in the countries in which we operate. The banking supervision department of the South African Reserve Bank (SARB) is our lead regulator. Significant business developments in any of our operations must be approved by SARB as well as by the business home country regulatory authority.

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.

## Year in review

### Anti-money laundering and terror financing

Compliance with the Financial Intelligence Centre Act (FICA), as amended, and the Protection of Constitutional Democracy against Terrorist and Related Activities Act is ongoing. The requirements provided by this regulation are set out in the group anti-money laundering and anti-terror financing policy which incorporates Investec's client acceptance policy.

The anti-money laundering (AML) system, which calculates the risk rating of clients taken on by the business and monitors any changes to the risk ratings of existing clients, continues to be used to implement the customer acceptance policy. Clients are risk weighted according to the money laundering and/or terror financing risks they potentially pose. This risk rating includes cross referencing clients against international databases of adverse client information (including persons named on the United Nations lists). Clients assessed as being high risk, either at client take-on or during the course of the client relationship, are required to satisfy enhanced due diligence processes.

The automated suspicious activity monitoring (ASAM) system, an enhancement to the AML system to address suspicious activity reporting, is operational in the higher risk businesses. ASAM uses a client's risk weighting together with profiles of the client's transactional behaviour across business unit systems to determine potentially suspicious activities. Such activities are further investigated to determine whether they need to be reported to the financial intelligence centre (FIC) as required by legislation. ASAM has been further enhanced to automate cash threshold reporting, a FICA requirement from December 2010.

The initiative for all business units to implement both the AML and ASAM systems is ongoing. Business units not currently using the AML and ASAM systems have alternative controls in place to manage the risks.

In accordance with the amended FICA requirements, all Investec divisions that are 'accountable institutions' have been registered with the FIC. All cash threshold reports (CTRs) and suspicious transaction reports (STRs) are made in accordance with the accountable institution where they arose.

Group Compliance continues to oversee the implementation of the NCA in the affected areas, which are limited.

## Consumer protection

Consumer protection regulation continues to be a key focus into 2011 with ongoing monitoring and reporting of compliance with the requirements of the Financial Advisory and Intermediary Services Act (FAIS), the National Credit Act (NCA) and, as of 1 April 2011, the Consumer Protection Act (CPA).

To better regulate the quality of financial advice, the FSB has introduced amendments to the FAIS 'fit and proper' requirements, which deal with the qualifications and experience needed to perform a representative or key individual role for a financial services provider (FSP). Compliance and Human Resources have developed a system to monitor the 'fit and proper' status of representatives and key individuals of all licensed Investec FSPs. The FSB has additionally introduced regulatory examinations which all FAIS representatives must pass to be deemed 'fit and proper'. Compliance has provided training material and exam readiness, facilitated through an external provider, to ensure that all representatives are appropriately qualified by the deadline date.

The CPA was enacted to promote a fair, accessible and sustainable marketplace for consumer products and services, promote responsible consumer behaviour, improve standards of consumer information and prohibit unfair marketing and business practices. Although the CPA came into effect on 1 April 2011, the regulations have not yet been finalised and as such the full impact of the CPA remains unclear.

Further drafts of the Protection of Personal Information Act (POPI) have been circulated to the industry for comment; however a promulgation date has still not been set. Once enacted POPI will have a material impact on all aspects of Investec's business that concern the processing of personal information in respect of Investec's clients and employees, as well as information relating to the Investec group and subsidiaries.

## Market conduct, including conflicts of interest

The conflicts index matrix for the South African business has been captured into a specific module of the enterprise risk assessor (ERA) system. As such, ERA now contains an outline of the types of conflicts applicable to the business, and an indication of which business areas they are applicable to and/or occur between, the current mitigations and controls in place to manage the respective conflicts, and a record indicating where enhanced controls are necessary. ERA COI provides an additional monitoring programme to enable conflicts of interest monitoring.

Amendments to the FAIS general code, with implementation dates between July 2010 and April 2011, highlighted and detailed the conflict of interest management requirements of FSPs. These include enhanced disclosures of existing conflicts, a board approved policy on how the FSP identifies, avoids and (where avoidance is not possible) manages conflicts and stringent provisions on what financial interests representatives can receive.

# Compliance (continued)

## Risk-based monitoring

Annual reassessments continue to be performed for all relevant legislation loaded on the ERA. The reassessment programme includes a re-evaluation of all the risks, controls, treatments and monitoring tests to ensure that these are still relevant. There has been continued focus on thematic monitoring across business areas and on streamlining the monitoring reports to management.

## Training

The compliance awareness induction programme (CAIP) has continued to run successfully throughout the year. All new employees are required to attend the face to face version of CAIP and are required to complete and pass an online assessment. CAIP incorporates modules on:

- Compliance and the regulatory framework
- AML and terror financing
- Consumer protection
- Market conduct, including conflicts of interest.

eCAIP, the online version of the training module, was successfully launched in 2010. As expected, it has broadened both access to and the audience of the CAIP programme.

# Corporate governance

## Introduction

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.

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 group is responsible for acting in accordance with sound corporate governance practices.

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.

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

## Governance framework

Investec Limited and Investec plc, together with their subsidiaries, are merged as a single economic enterprise as a result of the Dual Listed Companies (DLC).

The group has adopted a risk and governance structure which allows for the operation of the various committees and forums at group level. Investec's governance framework is depicted on page 37. This avoids the necessity of having to duplicate various committees and forums at group subsidiary levels. Due to the DLC structure, we have combined board committees of Investec Limited and Investec plc. Full disclosure of the functioning and responsibilities of these board committees can be found in the Investec group's 2011 annual report.

## Board statement

The board, management and employees of Investec are committed to complying with the JSE Limited (JSE) listings requirements, regulatory requirements and the King Code of Governance Principles for South Africa 2009 (King III), whereby all stakeholders are assured that we are being managed ethically and in compliance with the latest legislation, regulations and best practices.

## Governance requirements

### King III

King III distinguishes between statutory provisions, voluntary principles and recommended practices. The King III Report provides best practice recommendations, whereas the King III Code provides the principles that all entities should apply.

The majority of the principles of King III are being applied and is evidenced in the various sections of the Investec group's 2011 annual report. Prior to the March 2010 year end we undertook a detailed exercise to benchmark Investec's practices against the principles required under King III, and in order to demonstrate that the principles are being applied, we included a schedule referencing the relevant principles to sections in the Investec group's 2010 annual report. The 2011 schedule referencing the relevant principles to sections in the Investec group's 2011 annual report can be found on our website.

The following principles of King III are currently not being applied by Investec:

- Companies should disclose the remuneration of certain senior executives
  - We do disclose the remuneration of the executive directors and the group's remuneration process in the remuneration report included in the Investec group's 2011 annual report. We have not applied the recommended practice to disclose the salaries of the three most highly paid employees who are not directors

- Sustainability reporting and disclosure should be independently assured
  - We do not believe that this is necessary given the nature of our business and level of sustainability reporting required
  - The audit committees have overseen the integrated report, including sustainability disclosures, which have been verified by the Internal Audit division.

## Financial reporting and going concern

The directors are required to confirm that they are satisfied that Investec Limited 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 Limited financial statements, accounting policies and the information contained in the annual report.

Our financial statements are prepared on a going concern basis.

The board is of the opinion, based on its knowledge of the group, key processes in operation and specific enquiries, that there are adequate resources to support the group as a going concern for the foreseeable future. Further information on our liquidity and capital position is provided on pages 78 to 84 and pages 90 to 101.

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

## Board of directors

The composition of the board of Investec Limited is set on pages 120 to 122.

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 group within a framework of prudent and effective controls which allows risks to be assessed and managed.

The combined boards of Investec Limited and Investec plc 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.

For more information on the board's objectives, role and responsibilities please refer to the Investec group's 2011 annual report.

### Composition, structure and process

At the end of the year under review, the board, excluding the chairman, comprised four executive directors and 12 non-executive directors. Biographical details of the directors are set out on pages 120 to 122.

Refer to the Investec group's 2011 annual report for disclosures on:

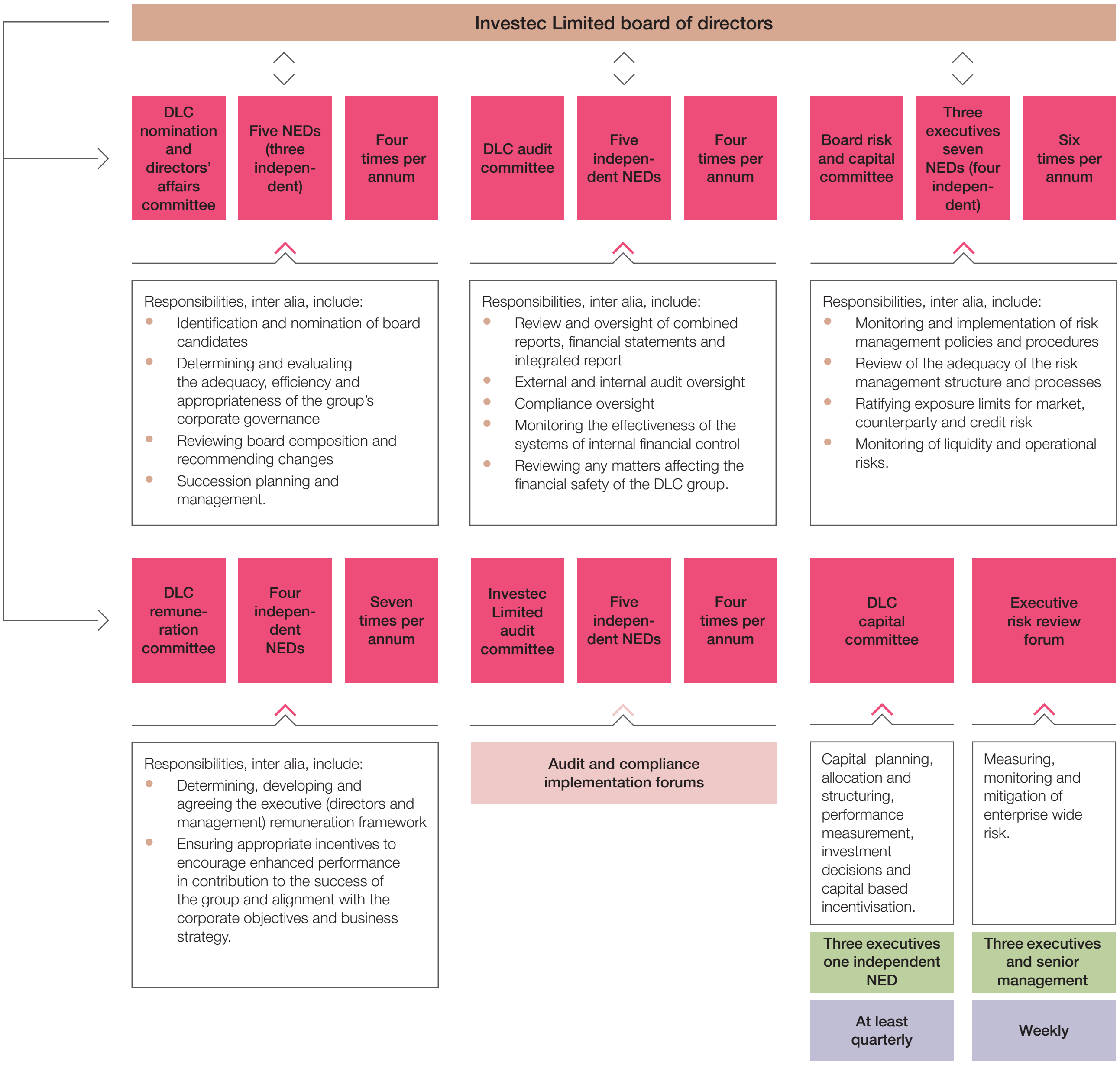
- Board changes during the past year
- Independence of board members
- Terms of appointment
- Ongoing training and development
- Remuneration
- The role of the chairman and chief executive officer
- Board meetings

- Dealings in securities
- Directors dealings

## Board committees

In exercising control of the group, 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. These are the combined board committees of both Investec Limited and Investec plc.




The report to shareholders by the chairman of the Audit committee can be found in the Investec group's 2011 annual report.

## Management and succession planning

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

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

Matters of succession are considered regularly 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 group risk management function, which is independent of operational management. The board recognises its responsibility for the overall risk and control framework and for reviewing its effectiveness.

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

Internal Audit reports any control recommendations to senior management, group Risk Management and the relevant audit committee. Appropriate processes, including review by the audit and compliance implementation forums, ensure that timely corrective action is taken on matters raised by Internal Audit. Significant risks are reviewed regularly by the executive risk review forum (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 South African Companies Act, as amended. 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

Investec's external auditors are Ernst & Young Inc. and KPMG Inc. 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 Directive 6/2008 of the South African Banks Act, 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 one being the Banking Supervision Department (BSD) of the South African Reserve Bank (SARB). Some of our businesses are subject to supervision by the South African Financial Services Board, South African National Credit Regulator and the South African Financial Intelligence Centre.

## 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 group.

We endeavour to present a balanced and understandable assessment of our position by addressing material matters of significant interest and concern. We seek to highlight the key risks to which we consider ourselves exposed and our responses to minimise the impact of these risks. Another objective is to show a balance between the positive and negative aspects of our activities in order to achieve a comprehensive and fair account of our performance.

## Values and code of conduct

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

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

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

## Annexure 1: Summary employment equity progress report as at 31 March 2011

Every designated employer that is a public company is required in terms of Section 22 of the Employment Equity Act to publish a summary report of their employment equity progress in their annual report. Investec Limited's progress in this regard is reported in the table below.

| Occupational levels | Male | | | |
|---|---|---|---|---|
| | A | C | I | W |
| Top management | 6 | 1 | 3 | 78 |
| Senior management | 5 | 4 | 12 | 107 |
| Professionally qualified and experienced specialists and mid-management | 107 | 31 | 66 | 550 |
| Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents | 136 | 35 | 54 | 152 |
| Semi-skilled and discretionary decision making | 81 | 11 | 1 | 7 |
| Unskilled and defined decision making | – | – | – | – |
| Total permanent employees | 335 | 82 | 136 | 894 |
| Temporary employees | 27 | 4 | 12 | 33 |
| Grand total | 362 | 86 | 148 | 927 |

*Where: A = African, C = Coloured, I = Indian and W = White*

## Annexure 2: Homeloan Mortgage Disclosure as at 31 March 2011

In terms of the Home Loan Mortgage Disclosure Act 63 of 2003, all financial institutions are required to disclose information regarding the provision of home loans. Investec offers home loans to individuals through its Private Banking division. The information required to be disclosed by the Act can be seen in the tables below.

| Status | Total number of applications | Total rand amount |
|---|---|---|
| Received | 11 637 | R24 876 526 644 |
| Approved | 8 128 | R16 506 418 943 |
| Expired (approved - not taken up) | 1 847 | R4 321 762 411 |
| Declined | 223 | R465 758 003 |
| New instruction | 1 439 | R3 582 587 287 |
| Disbursed/paid out | 4 544 | R8 229 465 716 |

| Analysis by race group | African | | Coloured | |
|---|---|---|---|---|
| | Number of applications | Rand amount | Number of applications | Rand amount |
| Received | 941 | 1 374 233 860 | 233 | 345 396 350 |
| Approved | 577 | 821 646 130 | 157 | 225 328 780 |
| Expired (approved - not taken up) | 168 | 255 481 276 | 45 | 58 580 297 |
| Declined | 40 | 66 911 821 | 4 | 9 806 302 |
| New instruction | 156 | 230 194 633 | 27 | 57 680 971 |
| Disbursed/paid out | 387 | 378 442 292 | 111 | 122 575 354 |

| | Female | | | | Foreign Nationals | | |
|---|---|---|---|---|---|---|---|
| | A | C | I | W | Male | Female | Total |
| | – | – | – | 18 | 1 | – | 107 |
| | 5 | 5 | 6 | 74 | 2 | 1 | 221 |
| | 172 | 87 | 126 | 504 | 12 | 11 | 1 666 |
| | 204 | 134 | 111 | 384 | 2 | 3 | 1 215 |
| | 34 | 8 | – | 4 | – | – | 146 |
| | – | – | – | – | – | – | – |
| | 415 | 234 | 243 | 984 | 17 | 15 | 3 355 |
| | 30 | 11 | 14 | 40 | 1 | 1 | 173 |
| | 445 | 245 | 257 | 1 024 | 18 | 16 | 3 528 |

| | Indian | | White | | Other | | Unknown | |
|---|---|---|---|---|---|---|---|---|
| | Number of applications | Rand amount | Number of applications | Rand amount | Number of applications | Rand amount | Number of applications | Rand amount |
| | 720 | 1 124 630 546 | 6 448 | 11 835 682 412 | 73 | 134 102 204 | 3 222 | 10 062 481 272 |
| | 453 | 711 646 468 | 4 536 | 8 236 250 649 | 50 | 85 833 812 | 2 355 | 6 425 713 104 |
| | 170 | 265 516 517 | 1 082 | 2 004 761 222 | 13 | 21 682 612 | 369 | 1 715 740 488 |
| | 11 | 12 011 672 | 126 | 232 291 793 | 1 | 1 155 700 | 41 | 143 580 715 |
| | 86 | 135 455 889 | 704 | 1 362 378 748 | 9 | 25 430 080 | 457 | 1 777 446 966 |
| | 315 | 384 182 207 | 2 806 | 4 028 462 083 | 34 | 51 701 742 | 891 | 3 264 102 038 |

## Annexure 2: Homeloan Mortgage Disclosure as at 31 March 2011 (continued)

| | Eastern Cape | | Free State | |
|---|---|---|---|---|
| Analysis by region | Number of applications | Rand amount | Number of applications | Rand amount |
| Received | 429 | 681 532 485 | 69 | 120 290 381 |
| Approved | 307 | 483 237 685 | 54 | 96 178 621 |
| Expired (approved - not taken up) | 80 | 120 055 016 | 5 | 5 345 100 |
| Declined | 9 | 10 379 918 | 1 | 2 007 980 |
| New instruction | 33 | 67 859 866 | 9 | 16 758 680 |
| Disbursed/paid out | 168 | 281 216 444 | 34 | 53 838 223 |

| | North West | | Northern Cape | |
|---|---|---|---|---|
| Analysis by region (continued) | Number of applications | Rand amount | Number of applications | Rand amount |
| Received | 81 | 157 994 665 | 20 | 20 894 398 |
| Approved | 58 | 129 609 165 | 12 | 9 824 008 |
| Expired (approved - not taken up) | 10 | 11 830 750 | 5 | 9 415 390 |
| Declined | 1 | 417 000 | – | – |
| New instruction | 12 | 16 137 750 | 3 | 1 655 000 |
| Disbursed/paid out | 40 | 55 982 334 | 11 | 5 817 004 |

| | Gauteng | | Kwazulu Natal | | Limpopo | | Mpumalanga | |
|---|---|---|---|---|---|---|---|---|
| | Number of applications | Rand amount | Number of applications | Rand amount | Number of applications | Rand amount | Number of applications | Rand amount |
| | 6 377 | 13 308 828 608 | 1 333 | 2 884 635 857 | 27 | 35 994 500 | 123 | 223 189 488 |
| | 4 353 | 8 748 711 406 | 967 | 2 004 103 659 | 15 | 21 458 100 | 99 | 174 389 526 |
| | 1 079 | 2 407 226 613 | 121 | 280 795 704 | 5 | 9 765 700 | 7 | 9 362 800 |
| | 155 | 319 993 097 | 12 | 15 039 364 | – | – | – | – |
| | 790 | 1 832 897 492 | 233 | 584 697 130 | 7 | 4 770 700 | 17 | 39 437 162 |
| | 2 450 | 4 298 742 155 | 509 | 1 030 478 523 | 16 | 17 743 000 | 47 | 77 993 597 |

| | Western Cape | | Unknown | |
|---|---|---|---|---|
| | Number of applications | Rand amount | Number of applications | Rand amount |
| | 2 919 | 6 922 566 833 | 259 | 520 599 428 |
| | 2 093 | 4 552 854 733 | 170 | 286 052 039 |
| | 498 | 1 375 570 895 | 37 | 92 394 443 |
| | 40 | 107 963 876 | 5 | 9 956 768 |
| | 288 | 886 177 329 | 48 | 132 196 178 |
| | 1 185 | 2 301 089 239 | 84 | 106 565 196 |

# 5 Additional Information

# Additional information

## Investec ordinary shares

As at 31 March 2011 Investec Limited had 272.8 million ordinary shares in issue.

### Spread of ordinary shareholders as at 31 March 2011

Investec Limited ordinary shares in issue

| Number of shareholders | Holdings | % of total shareholders | Number of shares in issue | % of issued share capital |
|---|---|---|---|---|
| 3 988 | 1 to 500 | 41.0% | 963 715 | 0.4% |
| 1 996 | 501 – 1 000 | 20.5% | 1 555 715 | 0.6% |
| 2 342 | 1 001 – 5 000 | 24.1% | 5 375 226 | 2.0% |
| 463 | 5 001 – 10 000 | 4.8% | 3 394 435 | 1.2% |
| 555 | 10 001 – 50 000 | 5.7% | 12 998 973 | 4.8% |
| 148 | 50 001 – 100 000 | 1.5% | 10 771 170 | 3.9% |
| 230 | 100 001 and over | 2.4% | 237 777 434 | 87.1% |
| 9 722 | | 100.0% | 272 836 668 | 100.0% |

### Shareholder classification as at 31 March 2011

| | Investec Limited number of shares | % holding |
|---|---|---|
| Public* | 207 689 384 | 76.2% |
| Non-public | 65 147 284 | 23.8% |
| Non-executive directors of Investec Limited** | 1 161 295 | 0.4% |
| Executive directors of Investec Limited | 7 252 146 | 2.7% |
| Investec staff share schemes | 23 178 288 | 8.5% |
| PEU INL Investment 1 (Pty) Ltd ** | 5 555 555 | 2.0% |
| Entrepreneurial Development Trust | 14 000 000 | 5.1% |
| Tiso INL Investments (Pty) Ltd | 14 000 000 | 5.1% |
| Total | 272 836 668 | 100.0% |

* *As per the JSE listing requirements.*

** *In November 2003, Investec implemented an empowerment transaction. The shareholding held by MP Malungani (non-executive director of Investec) is shown under the holding of PEU INL Investment 1 (Pty) Ltd.*

# Additional information (continued)

## Largest ordinary shareholders as at 31 March 2011

In accordance with the terms provided for in Section 140A of the South African Companies Act, 1973, the group has conducted investigations into the registered holders of its ordinary shares (including nominee and asset management companies) and the results are as disclosed below.

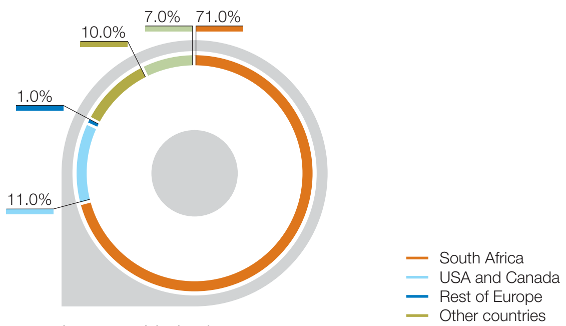
Investec Limited

| | Shareholder analysis by manager group | Number of shares | % holding |
|---|---|---|---|
| 1 | Public Investment Corporation (ZA) | 38 960 478 | 14.3% |
| 2 | Investec Staff Share Scheme (ZA) | 23 178 288 | 8.5% |
| 3 | Old Mutual Investment Group (ZA) | 16 344 808 | 6.0% |
| 4 | Entrepreneurial Development Trust (ZA)* | 14 000 000 | 5.1% |
| 5 | Tiso INL Investments (Pty) Ltd (ZA)* | 14 000 000 | 5.1% |
| 6 | Sanlam Investment Management (ZA) | 9 737 186 | 3.6% |
| 7 | Stanlib (ZA) | 9 108 116 | 3.3% |
| 8 | BlackRock Inc (US) | 7 732 057 | 2.8% |
| 9 | Dimensional Fund Advisors (US) | 7 295 183 | 2.7% |
| 10 | RMB Asset Management (ZA) | 6 711 992 | 2.5% |
| | Cumulative total | 147 068 108 | 53.9% |

The top 10 shareholders account for 53.9% of the total shareholding in Investec Limited. This information is based on a threshold of 20 000 shares. Some major fund managers hold additional shares below this, which may cause the above figures to be marginally understated.

* *In November 2003, Investec Limited implemented an empowerment transaction in which empowerment partners and an employee share scheme acquired 25.1% of the equity shareholding in Investec Limited.*

## Geographic holding by beneficial ordinary share owner as at 31 March 2011




Investec Limited

## Investec Limited ordinary shares in issue

| For the year ended 31 March | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|---|---|
| Closing market price per share (Rands) | | | | | | | |
| – year end | 52.80 | 62.49 | 38.86 | 57.43 | 93.30 | 62.60 | 35.60 |
| – highest | 65.50 | 65.40 | 63.19 | 104.40 | 94.60 | 66.50 | 38.00 |
| – lowest | 49.49 | 37.51 | 27.20 | 50.90 | 59.06 | 34.10 | 21.56 |
| Number of ordinary shares in issue (million) | 272.8 | 269.8 | 268.4 | 234.3 | 227.7 | 220.0 | 220.0 |
| Market capitalisation (R'million)[1] | 42 768 | 46 299 | 27 715 | 37 766 | 56 848 | 37 121 | 21 111 |
| Market capitalisation (£'million) | 3 872 | 3 993 | 2 083 | 2 229 | 4 009 | 3 488 | 1 844 |
| Daily average volume of shares traded ('000) | 793.6 | 1 068.2 | 1 167.8 | 840.6 | 619.7 | 478.0 | 510.5 |

1. *The JSE Limited have agreed to use the total number of shares in issue for the combined group, comprising Investec plc and Investec Limited, in calculating market capitalisation i.e. a total of 810.0 million shares in issue.*

# Investec perpetual preference shares

Investec Limited and Investec Bank Limited have issued perpetual preference shares, the details of which can be found on page 194.

## Spread of perpetual preference shareholders as at 31 March 2011

Investec Limited perpetual preference shareholders

| Number of shareholders | Holdings | % of total shareholders | Number of preference shares in issue | % of issued preference share capital |
|---|---|---|---|---|
| 813 | 1 to 500 | 15.3% | 264 225 | 0.9% |
| 1 445 | 501 – 1 000 | 27.2% | 1 290 862 | 4.5% |
| 2 225 | 1 001 – 5 000 | 41.9% | 5 326 192 | 18.5% |
| 445 | 5 001 – 10 000 | 8.4% | 3 282 616 | 11.4% |
| 324 | 10 001 – 50 000 | 6.1% | 6 021 261 | 21.0% |
| 26 | 50 001 – 100 000 | 0.5% | 1 901 876 | 6.6% |
| 33 | 100 001 and over | 0.6% | 10 638 499 | 37.1% |
| 5 311 | | 100.0% | 28 725 531 | 100.0% |

Investec Bank Limited perpetual preference shareholders

| Number of shareholders | Holdings | % of total shareholders | Number of preference shares in issue | % of issued preference share capital |
|---|---|---|---|---|
| 722 | 1 to 500 | 18.3% | 214 216 | 1.4% |
| 1 265 | 501 – 1 000 | 32.0% | 1 161 091 | 7.5% |
| 1 486 | 1 001 – 5 000 | 37.6% | 3 586 541 | 23.2% |
| 269 | 5 001 – 10 000 | 6.8% | 2 016 194 | 13.0% |
| 181 | 10 001 – 50 000 | 4.6% | 3 494 279 | 22.6% |
| 13 | 50 001 – 100 000 | 0.3% | 997 256 | 6.5% |
| 13 | 100 001 and over | 0.4% | 3 987 086 | 25.8% |
| 3 949 | | 100.0% | 15 456 663 | 100.0% |

## Largest perpetual preference shareholders as at 31 March 2011

Shareholders holding beneficial interests in excess of 5% of the issued preference shares are as follows:

Investec Limited

Agulhas Nominees (Pty) Ltd (Sanlam Private Investments) 5.41%

Investec Bank Limited

Agulhas Nominees (Pty) Ltd (Sanlam Private Investments) 9.81%

# Directorate Investec Limited

## Executive directors

| Name | Age at 31 March 2011 | Qualifications | Current directorships | Investec committee membership | Brief biography |
|---|---|---|---|---|---|
| Stephen Koseff (chief executive officer) | 59 | BCom CA(SA) H Dip BDP MBA | The Bidvest Group Limited, Rensburg Sheppards plc and a number of Investec subsidiaries | Board risk and capital committee and DLC capital committee | Stephen joined Investec in 1980. He has had diverse experience within Investec as chief accounting officer and general manager of banking, treasury and merchant banking. |
| Bernard Kantor (managing director) | 61 | CTA | Phumelela Gaming and Leisure Limited, Rensburg Sheppards plc and a number of Investec subsidiaries | Board risk and capital committee and DLC capital committee | Bernard joined Investec in 1980. He has had varied experience within Investec as a manager of the trading division, marketing manager and chief operating officer. |
| Glynn R Burger (group risk and finance director) | 54 | BAcc CA(SA) H Dip BDP MBL | Investec Bank Limited and a number of Investec subsidiaries | Board risk and capital committee and DLC capital committee | Glynn joined Investec in 1980. His positions within Investec have included chief accounting officer, group risk manager and joint managing director for South Africa. |
| Hendrik du Toit (Investec Asset Management chief executive officer) | 49 | BCom Law BCom (Hons) (cum laude) (MCom) (cum laude) MPhil (Cambridge) | Investec Asset Management Holdings (Pty) Limited and Investec Asset Management Limited as well as their subsidiaries | | After lecturing economics at the University of Stellenbosch, Hendrik joined the Investment division of Old Mutual from where he moved to Investec in 1991 as portfolio manager and later chief executive officer of Investec Asset Management. |

## Non-executive directors

| Name | Age at 31 March 2011 | Qualifications | Current directorships | Investec committee membership | Brief biography |
|---|---|---|---|---|---|
| Hugh S Herman (non-executive chairman) | 70 | BA LLB LLD | Growthpoint Properties Limited, Metaf Investment Holdings (Pty) Ltd, Pick 'n Pay Holdings Limited, Pick 'n Pay Stores Limited and a number of Investec subsidiaries | DLC nominations and directors' affairs committee | Hugh practised as an attorney before joining Pick 'n Pay, a leading South African retail group, where he became managing director. |
| Sam E Abrahams | 72 | FCA CA(SA) | Investec Bank Limited, Foschini Limited and a number of Investec subsidiaries | DLC audit committee, Investec plc audit committee, Investec Limited audit committee, DLC nominations and directors' affairs committee, board risk and capital committee and DLC capital committee and global credit committee | Sam is a former international partner and South African managing partner of Arthur Andersen. |
| George FO Alford | 62 | BSc (Econ) FCIS FIPD MSI | Investec Bank plc | DLC audit committee, Investec plc audit committee, Investec Limited audit committee, DLC remuneration committee and board risk and capital committee | George is a former head of private banking and personnel at Kleinwort Benson Group and was a senior adviser to the UK Financial Services Authority. |

| Name | Age at 31 March 2011 | Qualifications | Current directorships | Investec committee membership | Brief biography |
|---|---|---|---|---|---|
| Cheryl A Carolus | 52 | BA (Law) B Ed | De Beers Consolidated Mines Limited, Gold Fields Limited, South African Airways (Pty) Limited, Mercedes-Benz South Africa (Pty) Limited, WWF South Africa and International, The IQ Business Group (Pty) Limited, Fenner Conveyor Belting South Africa (Pty) Limited, Ponahalo Capital (Pty) Ltd, Investec Asset Management Holdings (Pty) Ltd, Executive Chairperson of Peotona Group Holdings (Pty) Limited and director of a number of the Peotona group companies | – | Cheryl acted as the South African high commissioner to London between 1998 and 2001 and was chief executive officer of South African tourism. She is chairperson of South African National Parks. |
| Peregrine KO Crosthwaite | 62 | MA (Hons) in modern languages | Investec Bank plc, Jupiter Green Investment Trust, Melrose plc and Toluna plc | DLC remuneration committee | Perry is a former chairman of Investec Investment Banking Securities Limited and director of Investec Bank plc |
| Olivia C Dickson | 50 | MA (Oxon) MSc (Lon) CDipAF | Canada Life Limited, Canada Life Group (UK) Limited, Canada Life Asset Management Limited, Invista Real Estate Investment Management Holdings plc, Invista Real Estate Investment Management Limited, trustee of the Mineworkers' Pension Scheme Limited | DLC audit committee, Investec plc audit committee, Investec Limited audit committee and DLC remuneration committee | Olivia is a non-executive director of Canada Life Limited, the senior independent director and chair of the audit committee of Invista Real Estate Investment Management Holdings plc and a trustee director and chair of the risk and assurance committee of the Mineworkers' Pension Scheme. Olivia is also a member of the Financial Reporting Council's board for actuarial standards, the Financial Services Authority's regulatory decisions committee and the Pensions Regulator's determinations panel. Most recently Olivia served as a non-executive director and chair of the risk and compliance committee of Aon Limited and prior to that as a senior adviser to the Financial Services Authority. Previously Olivia was a managing director at JP Morgan, where she served in a number of senior roles including head of European derivatives brokerage. While at JP Morgan, Olivia was a non-executive director and chair of the audit committee of the London International Financial Futures Exchange. |
| Bradley Fried | 45 | BCom CA(SA) MBA | An executive director of a number of Investec subsidiaries and a non-executive director of Investec plc, Investec Wealth & Investment Limited and Grovepoint Capital LLP | Board risk and capital committee | Bradley joined Investec in 1999 and has held the positions of joint head of investment banking and chief executive of Investec Bank plc. He is on the audit committee of HM Treasury and is the chief executive in residence at Judge business school. |
| Haruko Fukuda OBE | 64 | MA (Cantab) DSc | Director of Aberdeen Asian Smaller Companies Investment Trust PLC. She is an adviser to Metro AG | – | Haruko was previously chief executive officer of the World Gold Council, and senior adviser at Lazard. She is former vice chairman of Nikko Europe plc and a partner of James Capel & Co and a former director of AB Volvo and of Foreign and Colonial Investment Trust plc. |

# Directorate Investec Limited (continued)

| Name | Age at 31 March 2011 | Qualifications | Current directorships | Investec committee membership | Brief biography |
|---|---|---|---|---|---|
| Ian R Kantor | 64 | BSc (Eng) MBA | Insinger de Beaufort Holdings SA (in which Investec Limited indirectly holds a 8.6% interest), Investec Bank plc, Bank Insinger de Beaufort NV where he is chairman of the management board | – | Former chief executive of Investec Limited. |
| M Peter Malungani | 53 | BCom MAP LDP | Phumelela Gaming and Leisure Limited (Chairman), Investec Bank Limited, Investec Asset Management Holdings (Pty) Limited, Peu Group (Pty) Limited and a number of Peu subsidiaries | Board risk and capital committee | Peter is chairman and founder of Peu Group (Pty) Limited. |
| Sir David Prosser (senior independent director) | 67 | BSc (Hons) FIA | Pippbrook Limited, Epsom Downs Racecourse Limited and The Royal Automobile Club Limited | DLC audit committee, Investec plc audit committee, Investec Limited audit committee, DLC remuneration committee, DLC nominations and directors' affairs committee and board risk and capital committee | Sir David was previously chief executive of Legal & General Group PLC, joining Legal & General in 1988 as group director (investments) becoming deputy chief executive in January 1991 and group executive in September 1991. Sir David was previously chairman of the Financial Services Skills Council. |
| Peter RS Thomas | 66 | CA(SA) | Investec Bank Limited, various Investec companies, JCI Limited and various unlisted companies | DLC audit committee, Investec plc audit committee, Investec Limited audit committee, board risk and capital committee, DLC nominations and directors' affairs committee and global credit committee | Peter was the former managing director of The Unisec Group Limited. |
| Fani Titi | 48 | BSc (Hons) MA MBA | Investec Bank Limited (Chairman), AECI Limited, Tshiya Group (Pty) Limited, Investec Employee Benefits Limited and Investec Asset Management Holdings (Pty) Ltd | Board risk and capital committee, DLC nominations and directors' affairs committee and global credit committee | Fani is chairman of Investec Bank Limited and was the former chairman of Tiso Group Limited. |

# Financial statements

# Directors' responsibility statement

The annual financial statements and the group annual financial statements of Investec Limited, as set out on pages 130 to 202, are prepared to present the financial position, results and cash flows of Investec Limited and its directly owned subsidiaries in the manner required by the Companies Act of South Africa, as if Investec Limited were a standalone component of the Dual Listed Companies structure of Investec Limited and Investec plc, as explained in the paragraph of the Directors' report headed: Purpose and basis of preparation of financial statements, and are prepared in accordance with International Financial Reporting Standards on this basis.

The directors consider that in preparing the financial statements, the company and group have used appropriate accounting policies supported by reasonable and prudent judgement and estimates.

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group and to enable them to ensure that the financial statements comply with the Companies Act of South Africa. They are also responsible for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Approval of group annual financial statements and company annual financial statements

The group annual financial statements and company annual financial statements of Investec Limited, as identified in the first paragraph, were approved by the board of directors on 24 June 2011 and signed on its behalf by

Hugh Herman
Chairman

Stephen Koseff
Chief Executive Officer

# Declaration by the company secretary

The South African Companies Act, 71 of 2008, as amended, came into operation on 1 May 2011. The annual financial statements of Investec Limited and its subsidiaries for the financial year ended 31 March 2011 have been prepared in accordance with the South African Companies Act, 61 of 1973, as amended.

In terms of Section 268G(d) of the South African Companies Act, 61 of 1973, as amended, I hereby certify that, to the best of my knowledge and belief, Investec Limited has lodged with the Registrar of Companies, for the financial year ended 31 March 2011, all such returns as are required of a public company in terms of the South African Companies Act and that all such returns are true, correct and up to date.

Benita Coetsee
Company Secretary, Investec Limited

24 June 2011

# Independent auditors' report to the members of Investec Limited

We have audited the consolidated and separate annual financial statements of Investec Limited, which comprise, the balance sheets at 31 March 2011, the income statements, statements of comprehensive income, the statements of changes in equity and cash flow statements for the year then ended, a summary of significant accounting policies and other explanatory notes, and the Directors' report, as set out on pages 126 to 202.

## Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards as if Investec Limited were a standalone component of the Dual Listed Companies structure of Investec Limited and Investec plc, as explained in the paragraph of the Directors' report headed: Purpose and basis of preparation of financial statements. The directors' responsibility includes such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, these financial statements are prepared to present, in all material respects, the consolidated and separate financial position of Investec Limited at 31 March 2011, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, as if Investec Limited were a standalone component of the Dual Listed Companies structure of Investec Limited and Investec plc, as explained in the Directors' report.

For an understanding of the combined consolidated financial position of the Dual Listed Companies structure of Investec Limited and Investec plc at 31 March 2011, and their combined consolidated financial performance and combined consolidated cash flows for the year then ended, the user is referred to the combined consolidated financial statements contained in the 2011 annual report of Investec Limited and Investec plc.

KPMG Inc.

KPMG Inc.
Registered Auditor

Per Gavin De Lange
Chartered Accountant (SA)
Registered Auditor
Director

24 June 2011

KPMG Crescent
85 Empire Road
Parktown
Johannesburg

Ernst & Young Inc.

Ernst & Young Inc.
Registered Auditor

Per Farouk Mohideen
Chartered Accountant (SA)
Registered Auditor
Director

24 June 2011

Wanderers Office Park
52 Corlett Drive
Illovo
Johannesburg

# Directors' report

## Extended business review

We are an international, specialist bank and asset manager that provides a diverse range of financial products and services to a niche client base in Southern Africa. We are organised into six principal business divisions: Asset Management, 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 as well as other activities, such as trade finance.

The financial review on pages 18 to 32 provides an overview of our strategic position, performance during the financial year and outlook for the business.

## Authorised and issued share capital

Details of the share capital are set out in note 35 to the financial statements.

During the year the following shares were issued:

- Allotment and issue on 20 May 2010 of 130 000 non-redeemable, non-cumulative, non-participating preference shares of R0.01 each at a premium of R93.99 per share (total issue price of R94.00 per share)
- Allotment and issue on 4 June 2010 of 107 848 ordinary shares of R0.0002 each at a premium of R40.2198 per share (total issue price of R40.22 per share)
- Allotment and issue on 4 June 2010 of 777 114 special convertible redeemable preference shares of R0.0002 each
- Allotment and issue on 4 June 2010 of 543 478 non-redeemable, non-cumulative, non-participating preference shares of R0.01 each at a premium of R91.99 per share (total issue price of R92.00 per share)
- Allotment and issue on 18 June 2010 of 1 792 759 special convertible redeemable preference shares of R0.0002 each
- Allotment and issue on 24 June 2010 of 37 907 652 special convertible redeemable preference shares of R0.0002 each
- Allotment and issue on 30 June 2010 of 139 664 non-redeemable, non-cumulative, non-participating preference shares of R0.01 at a premium of R89.49 per share (total issue price of R89.50 per share)
- Allotment and issue on 2 July 2010 of 2 961 888 ordinary shares of R0.0002 each at a premium of R55.4998 per share (total issue price of R55.50 per share)
- Allotment and issue on 2 July 2010 of 3 575 650 special convertible redeemable preference shares of R0.0002 each
- Allotment and issue on 6 August 2010 of 22 000 000 special convertible redeemable preference shares of R0.0002 each
- Allotment and issue on 10 August 2010 of 1 703 special convertible redeemable preference shares of R0.0002 each
- Allotment and issue on 13 August 2010 of 1 357 special convertible redeemable preference shares of R0.0002 each
- Allotment and issue on 24 August 2010 of 495 320 non-redeemable, non-cumulative, non-participating preference shares at R0.01 each at a premium of R90.84 per share (total issue price of R90.85 per share)
- Allotment and issue on 4 February 2011 of 3 462 special convertible redeemable preference shares of R0.0002 each
- Allotment and issue on 22 February 2011 of 3 328 special convertible redeemable preference shares of R0.0002 each.

## Financial results

The results of Investec Limited are set out in the financial statements and accompanying notes for the year ended 31 March 2011.

## Ordinary dividends

An interim dividend of 90.0 cents per ordinary share (2009: 100.0 cents) was declared to shareholders registered on 10 December 2010 and was paid on 21 December 2010.

The directors have proposed a final dividend of 102.0 cents per ordinary share (2010: 89.0 cents) to shareholders registered on 29 July 2011 to be paid on 8 August 2011. The final dividend is subject to the approval of members of Investec Limited at the annual general meeting scheduled for 4 August 2011.

## Preference dividends

### Non-redeemable, non-cumulative, non-participating preference shares

Preference dividend number 12 for the period 1 April 2010 to 30 September 2010 amounting to 348.95 cents per share was declared to members holding preference shares registered on 3 December 2010 and was paid on 14 December 2010.

Preference dividend number 13 for the period 1 October 2010 to 31 March 2011 amounting to 318.84 cents per share was declared to members holding preference shares registered on 17 June 2011 and will be paid on 30 June 2011.

### Redeemable cumulative preference shares

Dividends amounting to R26 634 914 were paid on the redeemable cumulative preference shares.

## Directors and secretaries

Details of directors and secretaries of Investec Limited are reflected on pages 120 to 122 and at the beginning of the annual report. In accordance with the Articles of Association, one-third of the directors are required to retire by rotation. Further, all those directors serving for longer than nine years are required to stand for annual re-election. In addition, the UK Corporate Governance Code (the Code), recommends that all directors of FTSE 350 companies should be subject to annual re-election. Accordingly, going forward, all members of the board will offer themselves for annual re-election, in accordance with the Code.

H J du Toit, appointed on 15 December 2010 and O C Dickson, appointed on 31 March 2011, whose appointments terminate at the end of the annual general meeting convened for 4 August 2011, offered themselves for re-election.

## Directors and their interests

Directors' shareholdings and options to acquire shares are set out in the Investec group's 2011 annual report. The register of directors' interests contains full details of directors' shareholdings and options to acquire shares.

## Corporate governance

The group's corporate governance board statement and governance framework are set out on page 37 and pages 106 to 110.

## Share incentive trusts

Details regarding options granted during the year are set out in the Investec group's 2011 annual report.

## Audit committee

The audit committee comprising non-executive directors meets regularly with senior management, the external auditors, Operational Risk, Internal Audit, Compliance and the Finance division, to consider the nature and scope of the audit reviews and the effectiveness of our risk and control systems. Further details on the role and responsibility of the audit committee are set out in the Investec group's 2011 annual report.

## Auditors

Ernst & Young Inc. and KPMG Inc. have indicated their willingness to continue in office as auditors of Investec Limited.

A resolution to re-appoint them as auditors will be proposed at the next annual general meeting scheduled to take place on 4 August 2011.

## Contracts

Refer to the Investec group's 2011 annual report.

## Subsidiary and associated companies

Details of principal subsidiary and associated companies are reflected on pages 183, 188 and 189.

## Major shareholders

The largest shareholders of Investec Limited are reflected on page 117.

## Special resolutions

At the annual general meeting held on 12 August 2010, the following special resolutions were passed in terms of which:

- A renewable authority was granted to Investec Limited and its subsidiaries to acquire its own ordinary and non-redeemable, non-cumulative, non-participating preference shares in terms of sections 85 to 89 of the South African Companies Act No 61 of 1973
- An amendment was made to the Articles of Association by inserting a new Article 40: closure of register
- An amendment was made to the Articles of Association by inserting a new Article 53: lack of quorum
- An amendment was made to the Articles of Association by inserting a new Article 65: chairman's casting vote.

## Accounting policies and disclosure

Accounting policies are set having regard to commercial practice and comply with applicable South African law and International Financial Reporting Standards. These policies are set out on pages 136 to 149.

### Purpose and basis of preparation of financial statements

Under the contractual arrangements implementing the Dual Listed Companies (DLC) structure, Investec Limited and Investec plc, the latter a company incorporated in the United Kingdom, effectively form a single economic enterprise, in which the economic and voting rights of shareholders are equalised. In accordance with this structure the appropriate presentation under International Financial Reporting Standards is achieved by combining the results and the financial position of both companies using merger accounting principles. Those combined consolidated financial statements have been separately prepared.

The Companies Act of South Africa does not specifically envisage a reporting structure such as the DLC structure. The combined consolidated financial statements of Investec Limited and Investec plc are considered the statutory financial statements of Investec Limited and Investec plc. The attached annual financial statements and the group annual financial statements of Investec Limited are prepared to present the financial position, results and cash flows of Investec Limited and its directly owned subsidiaries in the manner required by the Companies Act of South Africa, in the absence of a DLC structure, and are prepared in accordance with International Financial Reporting Standards as if Investec Limited were a standalone component of the DLC structure, but with earnings per share disclosed in the DLC combined consolidated financial statements by virtue of the sharing arrangement. For an understanding of the financial position, results and cash flows of the Investec DLC structure the user is referred to the combined consolidated financial statements of Investec Limited and Investec plc.

## Financial instruments

Detailed information on the group's risk management process and policy can be found in the risk management report on pages 34 to 102. Information on the group's hedge accounting policy and the use of derivatives and hedges can be found on pages 143 and 144 and in notes 15 and 45.

## Creditor payment policy

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

## Employees

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

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

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

## Donations

During the year, Investec Limited made donations for charitable purposes, totalling R38.4 million.

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

## Environment

We are committed to pursuing sound environmental policies in all aspects of our business and seek to encourage and promote good environmental practice among our employees and within the community in which we operate.

Further information can be found in the Investec group's 2011 annual report.

## Subsequent events

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

Benita Coetsee
Company secretary
Investec Limited

24 June 2011

# Income statements

| For the year to 31 March | | Group | | Company | |
|---|---|---|---|---|---|
| R'million | Notes | 2011 | 2010* | 2011 | 2010 |
| Interest income | | 15 257 | 16 031 | 100 | 46 |
| Interest expense | | (11 481) | (12 275) | (27) | (31) |
| Net interest income | | 3 776 | 3 756 | 73 | 15 |
| Fee and commission income | | 3 711 | 3 252 | 2 | – |
| Fee and commission expense | | (84) | (115) | – | – |
| Principal transactions | 2 | 1 825 | 2 315 | 1 617 | 1 390 |
| Operating loss from associates | 20 | (17) | (47) | – | – |
| Investment income on assurance activities | 29 | 720 | 1 139 | – | – |
| Premiums and reinsurance recoveries on insurance contracts | 29 | 68 | 359 | – | – |
| Other operating income | 3 | 59 | 59 | – | – |
| Other income | | 6 282 | 6 962 | 1 619 | 1 390 |
| Claims and reinsurance premiums on insurance business | 29 | (642) | (1 418) | – | – |
| Total operating income net of insurance claims | | 9 416 | 9 300 | 1 692 | 1 405 |
| Impairment losses on loans and advances | 18 | (860) | (863) | – | – |
| Operating income | | 8 556 | 8 437 | 1 692 | 1 405 |
| Operating costs | 4 | (5 251) | (4 809) | (38) | (12) |
| Operating profit before goodwill impairment | | 3 305 | 3 628 | 1 654 | 1 393 |
| Impairment of goodwill | 25 | (77) | (41) | – | – |
| Profit before taxation | | 3 228 | 3 587 | 1 654 | 1 393 |
| Taxation | 6 | (541) | (835) | (18) | (14) |
| Profit after taxation | | 2 687 | 2 752 | 1 636 | 1 379 |
| Losses/(earnings) attributable to non-controlling interests | | 1 | (5) | – | – |
| Earnings attributable to shareholders | | 2 688 | 2 747 | 1 636 | 1 379 |

* *As restated for restatements detailed in the accounting policies of the financial statements.*

# Statements of comprehensive income

| For the year to 31 March | | Group | | Company | |
|---|---|---|---|---|---|
| R'million | Notes | 2011 | 2010 | 2011 | 2010 |
| Profit after taxation | | 2 687 | 2 752 | 1 636 | 1 379 |
| Other comprehensive income: | | | | | |
| Cash flow hedge movements taken directly to other comprehensive income | 6 | 82 | 18 | – | – |
| Gain on realisation of available-for-sale assets recycled to the income statement | 6 | – | (40) | – | – |
| Fair value movements on available-for-sale assets | 6 | 30 | 55 | – | – |
| Foreign currency adjustments on translating foreign operations | 6 | (141) | (462) | – | – |
| Total comprehensive income | | 2 658 | 2 323 | 1 636 | 1 379 |
| Total comprehensive income attributable to non-controlling interests | | (1) | 5 | – | – |
| Total comprehensive income attributable to ordinary shareholders | | 2 659 | 2 318 | 1 636 | 1 379 |
| Total comprehensive income | | 2 658 | 2 323 | 1 636 | 1 379 |

# Balance sheets

| At 31 March | | Group | | Company | |
|---|---|---|---|---|---|
| R'million | Notes | 2011 | 2010* | 2011 | 2010* |
| **Assets** | | | | | |
| Cash and balances at central banks | | 6 813 | 3 660 | – | – |
| Loans and advances to banks | | 6 132 | 14 625 | 27 | 27 |
| Cash equivalent advances to customers | | 5 829 | 6 455 | – | – |
| Reverse repurchase agreements and cash collateral on securities borrowed | 13 | 11 615 | 4 676 | – | – |
| Trading securities | 14 | 48 611 | 43 268 | 97 | 288 |
| Derivative financial instruments | 15 | 11 489 | 7 850 | – | – |
| Investment securities | 16 | 13 924 | 3 163 | – | – |
| Loans and advances to customers | 18 | 115 234 | 111 932 | 1 | 1 |
| Securitised assets | 19 | 8 286 | 9 996 | – | – |
| Interests in associated undertakings | 20 | 135 | 180 | – | – |
| Deferred taxation assets | 21 | 404 | 403 | – | 18 |
| Other assets | 22 | 4 915 | 7 319 | 1 | 1 |
| Property and equipment | 23 | 467 | 188 | – | – |
| Investment properties | 24 | 4 127 | 3 033 | – | – |
| Goodwill | 25 | 203 | 280 | – | – |
| Intangible assets | 26 | 111 | 98 | – | – |
| Investments in subsidiaries | 28 | – | – | 11 854 | 10 747 |
| | | 238 295 | 217 126 | 11 980 | 11 082 |
| Other financial instruments at fair value through profit or loss in respect of | | | | | |
| - Liabilities to customers | 29 | 69 180 | 59 946 | – | – |
| - Assets related to reinsurance contracts | 29 | – | 32 | – | – |
| | | 307 475 | 277 104 | 11 980 | 11 082 |
| **Liabilities** | | | | | |
| Deposits by banks | | 10 956 | 9 554 | – | – |
| Derivative financial instruments | 15 | 10 495 | 7 144 | – | – |
| Other trading liabilities | 30 | 3 417 | 3 491 | – | – |
| Repurchase agreements and cash collateral on securities lent | 13 | 10 733 | 6 281 | – | – |
| Customer accounts (deposits) | | 154 504 | 143 121 | – | – |
| Debt securities in issue | 31 | 5 142 | 5 950 | 400 | 400 |
| Liabilities arising on securitisation | 19 | 7 553 | 8 152 | – | – |
| Current taxation liabilities | 32 | 1 634 | 1 348 | 227 | 186 |
| Deferred taxation liabilities | 21 | 823 | 861 | – | – |
| Other liabilities | 33 | 5 390 | 7 292 | 59 | 72 |
| | | 210 647 | 193 194 | 686 | 658 |
| Liabilities to customers under investment contracts | 29 | 69 152 | 59 899 | – | – |
| Insurance liabilities, including unit-linked liabilities | 29 | 28 | 47 | – | – |
| Reinsured liabilities | 29 | – | 32 | – | – |
| | | 279 827 | 253 172 | 686 | 658 |
| Subordinated liabilities | 34 | 6 866 | 5 341 | – | – |
| | | 286 693 | 258 513 | 686 | 658 |
| **Equity** | | | | | |
| Ordinary share capital | 35 | 1 | 1 | 1 | 1 |
| Share premium | 37 | 9 184 | 8 899 | 9 208 | 8 942 |
| Treasury shares | 38 | (807) | (1 140) | – | – |
| Other reserves | | (111) | (176) | 62 | 62 |
| Retained income | | 10 971 | 9 474 | 2 023 | 1 419 |
| Shareholders' equity excluding non-controlling interests | | 19 238 | 17 058 | 11 294 | 10 424 |
| Non-controlling interests | 39 | 1 544 | 1 533 | – | – |
| - Perpetual preferred securities issued by subsidiaries | | 1 534 | 1 518 | – | – |
| - Non-controlling interests in partially held subsidiaries | | 10 | 15 | – | – |
| Total shareholders' equity | | 20 782 | 18 591 | 11 294 | 10 424 |
| Total liabilities and equity | | 307 475 | 277 104 | 11 980 | 11 082 |

* *As restated for reclassifications detailed in the accounting policies of the financial statements.*

# Statements of changes in equity

| R'million | Ordinary share capital | Share premium | Treasury shares |
|---|---|---|---|
| Group | | | |
| At 1 April 2009 | 1 | 8 372 | (1 758) |
| Movement in reserves 1 April 2009 - 31 March 2010 | | | |
| Profit after taxation | – | – | – |
| Cash flow hedge movements taken directly to other comprehensive income | – | – | – |
| Gain on realisation of available-for-sale assets recycled to the income statement | – | – | – |
| Fair value movements on available-for-sale assets | – | – | – |
| Foreign currency adjustments on translating foreign operations | – | – | – |
| Total comprehensive income | – | – | – |
| Issue of ordinary shares | * | 73 | – |
| Issue of perpetual preference shares | – | 454 | – |
| Movement of treasury shares | – | – | 247 |
| Share-based payments adjustments | – | – | – |
| Transfer from share-based payments reserve to treasury shares | – | – | 371 |
| Transfer from retained income to regulatory general risk reserve | – | – | – |
| Movement in non-controlling interests due to acquisitions and disposals | – | – | – |
| Dividends paid to ordinary shareholders | – | – | – |
| Dividends paid to perpetual preference shareholders | – | – | – |
| Dividends paid to non-controlling interests | – | – | – |
| At 31 March 2010 | 1 | 8 899 | (1 140) |
| | | | |
| Movement in reserves 1 April 2010 - 31 March 2011 | | | |
| Profit after taxation | – | – | – |
| Cash flow hedge movements taken directly to other comprehensive income | – | – | – |
| Fair value movements on available-for-sale assets | – | – | – |
| Foreign currency adjustments on translating foreign operations | – | – | – |
| Total comprehensive income | – | – | – |
| Issue of ordinary shares | * | 169 | – |
| Issue of perpetual preference shares | – | 116 | – |
| Movement of treasury shares | – | – | (15) |
| Share-based payments adjustments | – | – | – |
| Transfer from share-based payments reserve to treasury shares | – | – | 348 |
| Transfer from retained income to regulatory general risk reserve | – | – | – |
| Dividends paid to ordinary shareholders | – | – | – |
| Dividends paid to perpetual preference shareholders | – | – | – |
| Dividends paid to non-controlling interests | – | – | – |
| At 31 March 2011 | 1 | 9 184 | (807) |

* *Less than R1 million.*

| Capital reserve account | Available-for-sale reserve | Regulatory general risk reserve | Foreign currency reserve | Cash flow hedge reserve | Retained income | Shareholders' equity excluding non-controlling interests | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| Other reserves | | | | | | | | |
| 62 | (52) | 93 | 83 | (1) | 7 859 | 14 659 | 1 510 | 16 169 |
| – | – | – | – | – | 2 747 | 2 747 | 5 | 2 752 |
| – | – | – | – | 18 | – | 18 | – | 18 |
| – | (40) | – | – | – | – | (40) | – | (40) |
| – | 55 | – | – | – | – | 55 | – | 55 |
| – | – | – | (462) | – | – | (462) | – | (462) |
| – | 15 | – | (462) | 18 | 2 747 | 2 318 | 5 | 2 323 |
| – | – | – | – | – | – | 73 | – | 73 |
| – | – | – | – | – | – | 454 | 27 | 481 |
| – | – | – | – | – | – | 247 | – | 247 |
| – | – | – | – | – | 394 | 394 | – | 394 |
| – | – | – | – | – | (371) | – | – | – |
| – | – | 68 | – | – | (68) | – | – | – |
| – | – | – | – | – | – | – | (3) | (3) |
| – | – | – | – | – | (734) | (734) | – | (734) |
| – | – | – | – | – | (353) | (353) | – | (353) |
| – | – | – | – | – | – | – | (6) | (6) |
| 62 | (37) | 161 | (379) | 17 | 9 474 | 17 058 | 1 533 | 18 591 |
| | | | | | | | | |
| – | – | – | – | – | 2 688 | 2 688 | (1) | 2 687 |
| – | – | – | – | 82 | – | 82 | – | 82 |
| – | 30 | – | – | – | – | 30 | – | 30 |
| – | – | – | (141) | – | – | (141) | – | (141) |
| – | 30 | – | (141) | 82 | 2 688 | 2 659 | (1) | 2 658 |
| – | – | – | – | – | – | 169 | – | 169 |
| – | – | – | – | – | – | 116 | 16 | 132 |
| – | – | – | – | – | – | (15) | – | (15) |
| – | – | – | – | – | 435 | 435 | – | 435 |
| – | – | – | – | – | (348) | – | – | – |
| – | – | 94 | – | – | (94) | – | – | – |
| – | – | – | – | – | (864) | (864) | – | (864) |
| – | – | – | – | – | (320) | (320) | – | (320) |
| – | – | – | – | – | – | – | (4) | (4) |
| 62 | (7) | 255 | (520) | 99 | 10 971 | 19 238 | 1 544 | 20 782 |

# Statements of changes in equity (continued)

| R'million | Ordinary share capital | Share premium | Capital reserve account | Retained income | Total equity |
|---|---|---|---|---|---|
| Company | | | | | |
| At 1 April 2009 | 1 | 8 480 | 62 | 1 000 | 9 543 |
| Movement in reserves 1 April 2009 - 31 March 2010 | | | | | |
| Profit after taxation | – | – | – | 1 379 | 1 379 |
| Total comprehensive income | – | – | – | 1 379 | 1 379 |
| Issue of ordinary shares | * | 8 | – | – | 8 |
| Issue of perpetual preference shares | – | 454 | – | – | 454 |
| Share-based payments adjustments | – | – | – | 24 | 24 |
| Dividends paid to ordinary shareholders | – | – | – | (780) | (780) |
| Dividends paid to perpetual preference shareholders | – | – | – | (204) | (204) |
| At 31 March 2010 | 1 | 8 942 | 62 | 1 419 | 10 424 |
| | | | | | |
| Movement in reserves 1 April 2010 - 31 March 2011 | | | | | |
| Profit after taxation | – | – | – | 1 636 | 1 636 |
| Total comprehensive income | – | – | – | 1 636 | 1 636 |
| Issue of ordinary shares | * | 266 | – | – | 266 |
| Share-based payments adjustments | – | – | – | 87 | 87 |
| Dividends paid to ordinary shareholders | – | – | – | (914) | (914) |
| Dividends paid to perpetual preference shareholders | – | – | – | (205) | (205) |
| At 31 March 2011 | 1 | 9 208 | 62 | 2 023 | 11 294 |

* *Less than R1 million.*

# Cash flow statements

| For the year to 31 March | | Group | | Company | |
|---|---|---|---|---|---|
| R'million | Notes | 2011 | 2010 | 2011 | 2010 |
| **Cash flows from operating activities** | | | | | |
| Operating profit adjusted for non-cash items | 41 | 4 175 | 4 615 | 1 741 | 1 404 |
| Taxation paid | | (304) | (581) | 41 | – |
| (Increase)/decrease in operating assets | 41 | (28 808) | (30 088) | 191 | (25) |
| Increase/(decrease) in operating liabilities | 41 | 26 687 | 29 185 | (13) | 5 |
| **Net cash inflow from operating activities** | | 1 750 | 3 131 | 1 960 | 1 384 |
| **Cash flows from investing activities** | | | | | |
| Net cash flow on acquisition of group operations | | – | (16) | – | – |
| Cash flow on net acquisition of associates | | 3 | – | – | – |
| Cash flow on acquisition and disposal of property, equipment and intangible assets | | (407) | (141) | – | – |
| **Net cash outflow from investing activities** | | (404) | (157) | – | – |
| **Cash flows from financing activities** | | | | | |
| Dividends paid to ordinary shareholders | | (864) | (734) | (914) | (780) |
| Dividends paid to other equity holders | | (324) | (359) | (205) | (204) |
| Proceeds on issue of shares, net of related costs | | 169 | 527 | 266 | 462 |
| Proceeds on (acquisition)/issue of treasury shares, net of related costs | | (15) | 247 | – | – |
| Proceeds on issue of other equity instruments | | 132 | 27 | – | – |
| Proceeds on subordinated debt raised | | 1 525 | 250 | – | – |
| Net decrease in subsidiaries and loans to group companies | | – | – | (1 107) | (864) |
| **Net cash inflow/(outflow) from financing activities** | | 623 | (42) | (1 960) | (1 386) |
| **Effects of exchange rates on cash and cash equivalents** | | (21) | (47) | – | – |
| **Net increase/(decrease) in cash and cash equivalents** | | 1 948 | 2 885 | – | (2) |
| Cash and cash equivalents at the beginning of the year | | 13 734 | 10 849 | 27 | 29 |
| **Cash and cash equivalents at the end of the year** | | 15 682 | 13 734 | 27 | 27 |
| Cash and cash equivalents is defined as including: | | | | | |
| Cash and balances at central banks | | 6 813 | 3 660 | – | – |
| On demand loans and advances to banks | | 3 040 | 3 619 | 27 | 27 |
| Cash equivalent advances to customers | | 5 829 | 6 455 | – | – |
| **Cash and cash equivalents at the end of the year** | | 15 682 | 13 734 | 27 | 27 |

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

# Accounting policies

## Investec Limited group and company – significant accounting policies

### Basis of presentation

Both group and company financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

The group and company financial statements are prepared in accordance with AC500 standards as issued by the Accounting Practices Board, in addition to IFRS, the Companies Act 61 of 1973 and Companies Act 71 of 2008 (as applicable) which came into effect on 1 May 2011.

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

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 not have any impact on the accounting policies, financial position and performance of the group and company.

- 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. This will affect the accounting for all business combinations that occur post 1 April 2010.

- IFRS 2 Share-based payment: Group Cash-settled Share-based Payments 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 Payments
  - 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 and corporate governance section on pages 34 to 115.

Certain disclosures required under IAS 24, Related Party Disclosures have been included in the section marked as audited in the Remuneration report as included in the combined consolidated financial statements of Investec Limited and Investec plc.

## Restatements

### Net interest income

On review, it was detected that the gross interest income and expense, as reported at 31 March 2010, had not appropriately netted certain intergroup interest income and expense between the two line items. Whilst net interest income was correctly reported, the restatement to interest income and expense is noted below:

| For the year to 31 March 2010<br>R'million | Restated | As previously reported | Changes to previously reported |
|---|---|---|---|
| Group | | | |
| Interest income | 16 031 | 24 325 | (8 294) |
| Interest expense | (12 275) | (20 569) | 8 294 |
| Net interest income | 3 756 | 3 756 | – |

The above change has no impact to the income statement (other than as noted above), balance sheet or cash flow statement.

## Reclassifications

### Cumulative redeemable preference shares

The group had previously included cumulative redeemable preference shares as a component of other liabilities. For improved disclosure, the presentation has been amended to include the cumulative redeemable preference shares as a component of debt securities in issue.

| 31 March<br>R'million | Restated | As previously reported | Changes to previously reported |
|---|---|---|---|
| Group | | | |
| 2010 | | | |
| Debt securities in issue | 5 950 | 1 559 | 4 391 |
| Other liabilities | 7 292 | 11 683 | (4 391) |
| 2009 | | | |
| Debt securities in issue | 4 495 | 954 | 3 541 |
| Other liabilities | 7 799 | 11 340 | (3 541) |

The above change has no impact to the income statement, balance sheet (other than as noted above) or cash flow statement.

| 31 March<br>R'million | Restated | As previously reported | Changes to previously reported |
|---|---|---|---|
| Company | | | |
| 2010 | | | |
| Debt securities in issue | 400 | – | 400 |
| Other liabilities | 72 | 472 | (400) |
| 2009 | | | |
| Debt securities in issue | 400 | – | 400 |
| Other liabilities | 67 | 467 | (400) |

The above change has no impact to the income statement, balance sheet (other than as noted above) or cash flow statement.

## Basis of consolidation

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

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

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

In circumstances where associates or joint venture holdings arise in which the group has no strategic intention, these investments are classified as "venture capital" holdings and are designated as held at fair value through profit or loss.

Subsidiaries are held in the company at the lower of cost (including loan advances to subsidiaries) and impaired value.

All intergroup balances, transactions and unrealised gains and losses within the group that do not reflect an impairment to the asset, are eliminated in full regarding subsidiaries and to the extent of the interest in an associate.

## Segmental reporting

An operating segment is a component of the group or company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the group or company's other components, whose operating results are reviewed regularly by the board and for which discrete financial information is available.

The group and company'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.

For further detail on the group's segmental reporting basis refer to pages 5 to 32 of the Overview of the activities 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.

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 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 and company 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 and company'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 South African Rand, being the functional currency in which the group mainly operates, except Mauritius which is USD.

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

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

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

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 group and company'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 are gains on realisation of dealing properties and rental income.

## Financial instruments

Financial instruments are initially recognised at their fair value plus, 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. 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 and company'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 or 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 and company 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

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 and company intends to trade in, which are classified as held-for-trading, and those that the group and company designates as at fair value through profit or loss
- Those that the group and company 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.

Subsequent to initial recognition, loans and receivables are measured at amortised cost, using the effective interest rate method, less impairment losses. The effective interest rate represents the rate that exactly discounts future projected cash flows, 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 and company. Further, certain loans and receivables that are held at fair value due to being quoted in 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.

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

## 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 and company would not receive cash flows according to the original contractual terms. Financial assets are assessed for objective evidence of impairment at least at each balance sheet reporting date.

The test for impairment is based either on specific financial assets or collectively on a portfolio of similar, homogeneous assets. Over and above individual collective impairments raised at specific portfolio levels, the group has implemented a collective impairment allowance at a central level (within the Group Services and Other business segment) that takes into account macro economic factors, mainly driven by data related to the prevailing credit markets and which indicate incurred but not specifically identified losses across the loan portfolios (that is, exposures in all business segments). Assets specifically identified as impaired are excluded from the collective assessment.

Impairments are credited to an allowance account which is carried against the carrying value of financial assets. Interest continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the group and company. 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 and company's rights to cash flows has expired or when the group and company has transferred its rights to cash flows relating to the financial assets and either (a) the group and company has transferred substantially all the risk and rewards associated with the financial assets or (b) the group and company 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. It may also reclassify, in certain circumstances, financial instruments out of the available-for-sale category and into the loans and receivables category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

## Derivative instruments

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

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

## Hedge accounting

The group and company 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 and company ensures that all of the following conditions are met:

- At inception of the hedge the group and company 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 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 the income statement. 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 way similar to cash flow hedges. Changes in the fair value of the hedging instrument relating to the effective portion of the hedge are recognised in 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 gains or losses 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 stand alone 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 to realise the asset and settle the liability simultaneously and there is an enforceable legal right to offset.

## Issued debt and equity financial instruments

Financial instruments issued by the group and company are classified as liabilities if they contain an obligation to deliver cash or another financial asset. Financial instruments issued by the group and company are classified as equity where they confer on the holder a residual interest in the group and company, and the group and company has no obligation to deliver either cash or another financial asset to the holder. The components of compound issued financial instruments are accounted for separately with the liability component separated first and any residual amount being allocated to the equity component.

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

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

Treasury shares represent issued equity repurchased by the group which 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 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 balance sheet. Proceeds received are recorded as a liability on balance sheet under "Repurchase agreements and cash collateral on securities lent". Securities that are purchased under a commitment to resell the securities at a future date are not recognised on the balance sheet. The consideration paid is recognised as an asset under "Reverse repurchase agreements and cash collateral on securities borrowed". The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method.

Securities borrowing transactions that are not cash collateralised are not included in the balance sheet. Securities lending and borrowing transactions which are cash collateralised are accounted for in the same manner as securities sold or purchased subject to repurchase commitments.

### Financial guarantees

Financial guarantee contracts issued by the group are those contracts that require a payment to be made to re-imburse 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 finance lease.

Where classified as a finance lease, amounts outstanding on these contracts, net of unearned finance charges, are included in loans and advances where 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 and company 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 and company.

## Investment property

Properties held by the group and company which are held for capital appreciation or rental yield are classified as investment properties. Investment properties are carried on balance sheet at fair value, with fair value gains and losses recognised in the income statement under “principal transactions”.

The fair value of investment property is calculated by taking into account the expected rental stream associated with the property, and is supported by market evidence.

## 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 and company reviews the carrying value of non-financial assets, other than investment properties 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 and company 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 nor company, 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 taxation 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 taxation assets or liabilities are measured using the taxation rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred taxation asset can be utilised.

Items recognised directly in other comprehensive income are net of related current and deferred taxation.

## Insurance contracts

Insurance contracts are those contracts in which the group and company assumes significant insurance risk. The deposit components of insurance contracts are unbundled and accounted for separately.

Insurance premiums are recognised in income in the period in which the group and company is entitled to the premium. Insurance claims are recognised in the income statement in the period in which a contractual obligation arises for the group and company to make payment under an insurance contract.

Reinsurance assets and liabilities and associated premiums/claims are not offset in the income statement or balance sheet.

Insurance liabilities are measured at their actuarial values, and are tested for adequacy on an annual basis. Any deficiency identified is recognised in the income statement.

## Employee benefits

The group and company operates various defined contribution schemes.

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

The group and company has no liabilities for other post retirement benefits.

## Intangible assets

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

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

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

## Borrowing costs

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

## Provisions, contingent liabilities and contingent assets

Provisions are liabilities of uncertain timing or amount, and are recognised as soon as the group and company 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 and company. These standards and interpretations have not been applied in these financial statements. The group and company intends to comply with these standards from the effective dates.

## New standards

### IFRS 9 – Financial Instruments

IFRS 9 as issued reflects the first 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. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the Board will address impairment and 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 and company's financial assets. The group and company are currently assessing the impact of adopting IFRS 9. However, the impact of adoption depends on the assets held by the group and company at the date of adoption, and it is not practical to quantify the effect.

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

### Revised IFRS 7 – Financial Instruments: Disclosures

The main changes to the standard that affects the group and company'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 and company for the year commencing 1 April 2011 and is not expected to have a significant impact on the group and company.

### 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 revised standard introduces a partial exemption of disclosure requirements for government-related entities. The group and company does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

The standard will be effective for the group and company 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 and company.

The interpretation will be effective for the group and company 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 qualifies as consideration paid. The equity instruments issued are measured at their fair value. In the case that 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 and company.

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

### Improvements to IFRSs (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 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 and company, however, expect 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 and company 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 14 (Trading securities) and note 16 (Investment securities) with further analysis contained in the risk management section on pages 65 to 67
- Valuation of investment properties is performed twice annually by directors that are qualified valuators. The valuation is performed by capitalising the budgeted net income of a property at the market related yield applicable at the time. Refer to note 24 for the carrying value of investment property with further analysis contained in the risk management section on pages 65 to 67
- 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 38 to 64 in the risk management section for further analysis of 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.

# Notes to the financial statements

| For the year to 31 March<br>R'million | Asset Management | Wealth and Investment | Property Activities |
|---|---|---|---|
| **1. Combined consolidated segmental analysis** | | | |
| Group | | | |
| Business analysis 2011 | | | |
| Net interest income | 36 | 19 | (86) |
| Fee and commission income | 1 785 | 598 | 222 |
| Fee and commission expense | – | (19) | – |
| Principal transactions | – | 5 | 521 |
| Operating loss from associates | – | – | – |
| Investment income on assurance activities | – | – | – |
| Premiums and reinsurance recoveries on insurance contracts | – | – | – |
| Other operating income | 25 | – | 19 |
| Other income | 1 810 | 584 | 762 |
| Claims and reinsurance premiums on insurance business | – | – | – |
| Total operating income net of insurance business | 1 846 | 603 | 676 |
| Impairment losses on loans and advances | – | – | – |
| Operating income | 1 846 | 603 | 676 |
| Operating costs | (1 014) | (429) | (228) |
| Operating profit before goodwill | 832 | 174 | 448 |
| Impairment of goodwill | (77) | – | – |
| Profit before taxation | 755 | 174 | 448 |
| Cost to income ratio | 54.9% | 71.1% | 33.7% |
| Total assets | 2 005 | 4 130 | 1 933 |

| | Private Banking | Investment Banking | Capital Markets | Group Services and Other Activities | Total |
|---|---|---|---|---|---|
| | 1 908 | 63 | 1 154 | 682 | 3 776 |
| | 495 | 303 | 344 | (36) | 3 711 |
| | (23) | (21) | (21) | – | (84) |
| | 139 | 924 | 428 | (192) | 1 825 |
| | – | – | – | (17) | (17) |
| | – | – | – | 720 | 720 |
| | – | – | – | 68 | 68 |
| | 1 | – | – | 14 | 59 |
| | 612 | 1 206 | 751 | 557 | 6 282 |
| | – | – | – | (642) | (642) |
| | 2 520 | 1 269 | 1 905 | 597 | 9 416 |
| | (1 047) | 3 | 154 | 30 | (860) |
| | 1 473 | 1 272 | 2 059 | 627 | 8 556 |
| | (1 442) | (536) | (1 048) | (554) | (5 251) |
| | 31 | 736 | 1 011 | 73 | 3 305 |
| | – | – | – | – | (77) |
| | 31 | 736 | 1 011 | 73 | 3 228 |
| | 57.2% | 42.2% | 55.0% | 92.8% | 55.8% |
| | 64 078 | 3 151 | 140 621 | 91 557 | 307 475 |

| For the year to 31 March<br>R'million | Asset Management | Wealth and Investment | Property Activities |
|---|---|---|---|
| **1. Combined consolidated segmental analysis (continued)** | | | |
| Group | | | |
| Business analysis 2010 | | | |
| Net interest income | 38 | 28 | (86) |
| Fee and commission income | 1 518 | 488 | 142 |
| Fee and commission expense | – | (33) | – |
| Principal transactions | 2 | 13 | 504 |
| Operating loss from associates | – | – | – |
| Investment income on assurance activities | – | – | – |
| Premiums and reinsurance recoveries on insurance contracts | – | – | – |
| Other operating income | 59 | – | (4) |
| Other income | 1 579 | 468 | 642 |
| Claims and reinsurance premiums on insurance business | – | – | – |
| Total operating income net of insurance business | 1 617 | 496 | 556 |
| Impairment losses on loans and advances | – | – | – |
| Operating income | 1 617 | 496 | 556 |
| Operating costs | (912) | (320) | (192) |
| Operating profit before goodwill | 705 | 176 | 364 |
| Impairment of goodwill | (41) | – | – |
| Profit before taxation | 664 | 176 | 364 |
| Cost to income ratio | 56.4% | 64.5% | 34.5% |
| Total assets | 1 844 | 5 728 | 1 418 |

| Private Banking | Investment Banking | Capital Markets | Group Services and Other Activities | Total |
|---|---|---|---|---|
| 1 781 | 37 | 1 272 | 686 | 3 756 |
| 394 | 334 | 397 | (21) | 3 252 |
| (12) | (17) | (35) | (18) | (115) |
| 62 | 689 | 364 | 681 | 2 315 |
| – | – | – | (47) | (47) |
| – | – | – | 1 139 | 1 139 |
| – | – | – | 359 | 359 |
| – | – | – | 4 | 59 |
| 444 | 1 006 | 726 | 2 097 | 6 962 |
| – | – | – | (1 418) | (1 418) |
| 2 225 | 1 043 | 1 998 | 1 365 | 9 300 |
| (497) | (29) | (113) | (224) | (863) |
| 1 728 | 1 014 | 1 885 | 1 141 | 8 437 |
| (1 379) | (457) | (1 017) | (532) | (4 809) |
| 349 | 557 | 868 | 609 | 3 628 |
| – | – | – | – | (41) |
| 349 | 557 | 868 | 609 | 3 587 |
| 62.0% | 43.8% | 50.9% | 39.0% | 51.7% |
| 60 035 | 2 751 | 126 183 | 79 145 | 277 104 |

| For the year to 31 March<br>R'million | 2011 | 2010 |
|---|---|---|
| **1. Combined consolidated segmental analysis (continued)** | | |
| A further analysis of business line operating profit before goodwill, non-operating items and taxation is shown below: | | |
| Asset Management | 832 | 705 |
| Wealth and Investment | 174 | 176 |
| Property Activities | 448 | 364 |
| Private Banking | 31 | 349 |
| Investment Banking | | |
| Corporate Finance | 81 | 65 |
| Institutional Research, Sales and Trading | (57) | 20 |
| Principal Investments | 712 | 472 |
| | 736 | 557 |
| Capital Markets | 1 011 | 868 |
| Group Services and Other Activities | | |
| International Trade Finance | 77 | 58 |
| Central Funding | 430 | 979 |
| Central Costs | (434) | (428) |
| | 73 | 609 |
| Total | 3 305 | 3 628 |

No geographical analysis has been presented as Investec Limited group only operates in one geographical segment, namely Southern Africa.

The company's activities mainly comprises of central funding activities within the Group Services and Other Activities segment.

Net assets by class of business is not disclosed as the directors do not view it to be meaningful to provide the information by class of business since the economic capital of certain significant businesses of the group is not held in, or allocated to, these businesses, but is centrally held.

| For the year to 31 March | Group | | Company | |
|---|---|---|---|---|
| R'million | 2011 | 2010 | 2011 | 2010 |
| **2. Principal transactions** | | | | |
| Dividend income | 248 | 242 | 1 620 | 1 361 |
| Fair value movements on investment properties | 610 | 449 | – | – |
| Funding costs | (1 135) | (549) | – | – |
| Income from trading assets and liabilities | 1 436 | 1 861 | – | – |
| Realised income on available-for-sale assets | – | 46 | – | – |
| Net fair value adjustments | 666 | 266 | (3) | 29 |
| | 1 825 | 2 315 | 1 617 | 1 390 |

| For the year to 31 March | Group | |
|---|---|---|
| R'million | 2011 | 2010 |
| **3. Other operating income** | | |
| Rental income from properties | 15 | – |
| Gains on realisation of properties | 14 | – |
| Operating income of non-core businesses | 30 | 59 |
| | 59 | 59 |

| For the year to 31 March | Group | | Company | |
|---|---|---|---|---|
| R'million | 2011 | 2010 | 2011 | 2010 |
| **4. Operating costs** | | | | |
| Staff costs | 3 477 | 3 098 | 37 | 11 |
| - Salaries and wages (including directors' remuneration)^ | 2 862 | 2 562 | – | – |
| - Share-based payments expense | 447 | 394 | 37 | 11 |
| - Social security costs | 29 | 20 | – | – |
| - Pensions and provident fund contributions | 139 | 122 | – | – |
| Premises (excluding depreciation) | 423 | 378 | – | – |
| Equipment (excluding depreciation) | 331 | 363 | – | – |
| Business expenses* | 708 | 642 | 1 | 1 |
| Marketing expenses | 197 | 196 | – | – |
| Depreciation, amortisation and impairment of property, equipment and intangibles | 115 | 132 | – | – |
| | 5 251 | 4 809 | 38 | 12 |
| | | | | |
| The following amounts were paid to the auditors: | | | | |
| Audit fees | 40 | 35 | 4 | – |
| Other services | 2 | 3 | – | – |
| | 42 | 38 | 4 | – |
| | | | | |
| Fees by audit firms: | | | | |
| Ernst & Young Inc. | 20 | 19 | 4 | – |
| KPMG Inc. | 20 | 19 | – | – |
| Other | 2 | – | – | – |
| | 42 | 38 | 4 | – |
| | | | | |
| Minimum operating lease payments recognised in operating costs | 314 | 245 | – | – |

^ *Details of the directors' emoluments, pensions and their interests are disclosed in the remuneration report in the combined consolidated financial statements of Investec plc and Investec Limited.*

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

## 5. Share-based payments

The group operates share option and share purchase schemes for employees, which are on an equity-settled basis. The purpose of the staff share schemes is to promote an 'esprit de corps' within the organisation, create an awareness of Investec's performance and provide an incentive to maximise individual and group performance by allowing all staff to share in the risks and rewards of the group. Further information on the group share options and long-term incentive plans are provided in the Remuneration report of the combined consolidated financial statements of Investec plc and Investec Limited and on our website.

| Expense charged to income statement (included in operating costs)<br>For the year to 31 March<br>R'million | AM* | WI* | PA* | PB* | IB* | CM* | GSO* | Total group |
|---|---|---|---|---|---|---|---|---|
| 2011 | 36 | 33 | 23 | 91 | 46 | 93 | 125 | 447 |
| 2010 | 28 | 26 | 18 | 86 | 40 | 78 | 118 | 394 |

* *AM = Asset Management, WI = Wealth and Investment, PA = Property Activities, PB = Private Banking, IB = Investment Banking, CM = Capital Markets, GSO = Group Services and Other Activities.*

| | Group | | | |
|---|---|---|---|---|
| | 2011 | | 2010 | |
| Details of options outstanding during the year | Number of share options | Weighted average exercise price R | Number of share options | Weighted average exercise price R |
| Outstanding at the beginning of the year | 33 651 198 | 1.98 | 31 401 201 | 4.08 |
| Granted during the year | 17 903 599 | – | 12 930 830 | – |
| Exercised during the year* | (7 013 570) | 4.42 | (8 906 518) | 6.10 |
| Expired during the year | (1 556 805) | 2.59 | (1 774 315) | 4.19 |
| **Outstanding at the end of the year** | 42 984 422 | 0.74 | 33 651 198 | 1.98 |
| **Exercisable at the end of the year** | 1 115 836 | 28.35 | 1 557 437 | 38.42 |

* *The weighted average share price during the year was R56.95 (2010: R52.83).*

## 5. Share-based payments (continued)

| Details of options outstanding during the year | 2011 | 2010 |
|---|---|---|
| The exercise price range and weighted average remaining contractual life for the options outstanding, were as follows: | | |
| Options with strike prices | | |
| Exercise price range | R20.28 - R57.60 | R32 - R57.60 |
| Weighted average remaining contractual life | 0.53 Years | 1.16 Years |
| Weighted average fair value of options granted at measurement date | R39.21 | R34.29 |
| | | |
| Long term incentive grants with no strike price | | |
| Weighted average remaining contractual life | 3.32 Years | 3.03 Years |
| | | |
| The fair values of options granted where calculated using a Black-Scholes option pricing model. For options granted during the year, the inputs into the model were as follows: | | |
| - Share price at date of grants | R52.55 - R55.40 | R44.25 - R56.00 |
| - Exercise price | R0 | R0 |
| - Expected volatility | 30% - 36% | 33% - 45% |
| - Option life | 5 Years | 5 Years |
| - Expected dividend yield | 2.85% - 4.61% | 3.24% |
| - Average risk-free rate | 6.75% - 7.31% | 8.55% - 8.75% |

Expected volatility was determined based on the implied volatility levels quoted by the equity derivatives' trading desk. The expected volatility is based on the respective share price movement over the last six months, but also includes an element of forward expectation.

For information on the share options granted to directors, refer to the Remuneration report in the combined consolidated financial statements of Investec plc and Investec Limited.

| For the year to 31 March | Group | | Company | |
|---|---|---|---|---|
| R'million | 2011 | 2010 | 2011 | 2010 |
| **6. Taxation** | | | | |
| Income statement taxation charge | | | | |
| South Africa | | | | |
| - Current taxation | 546 | 712 | – | 32 |
| - in respect of current year | 707 | 712 | – | 32 |
| - in respect of prior year adjustments | (161) | – | – | – |
| - Capital gains taxation | 11 | 7 | – | – |
| - Deferred taxation | (42) | 92 | 18 | (18) |
| Total South African taxation | 515 | 811 | 18 | 14 |
| | | | | |
| Foreign taxation | | | | |
| - Mauritius | 12 | 10 | – | – |
| - Botswana | 4 | 6 | – | – |
| Total foreign taxation | 16 | 16 | – | – |
| | | | | |
| Taxation on income | 531 | 827 | 18 | 14 |
| | | | | |
| Secondary taxation on companies | 10 | 8 | – | – |
| Total taxation charge as per income statement | 541 | 835 | 18 | 14 |
| | | | | |
| Tax rate reconciliation: | | | | |
| Profit before taxation as per income statement | 3 228 | 3 587 | 1 654 | 1 393 |
| | | | | |
| Total taxation charge as per income statement | 541 | 835 | 18 | 14 |
| Less: secondary taxation on companies | (10) | (8) | – | – |
| Total taxation on income | 531 | 827 | 18 | 14 |
| | | | | |
| Effective rate of taxation | 16.4% | 23.1% | 1.1% | 1.0% |
| The standard rate of South African normal taxation has been affected by: | | | | |
| - Dividend income | 11.4% | 1.9% | 27.4% | 27.4% |
| - Foreign earnings* | (1.5%) | 0.2% | – | – |
| - Capital gains | (0.4%) | 0.2% | – | – |
| - Prior year taxation adjustments | 4.9% | – | – | – |
| - Assessed losses utilised | 1.0% | – | – | – |
| - Other permanent differences | (3.8%) | 2.6% | (0.5%) | (0.4%) |
| | 28.0% | 28.0% | 28.0% | 28.0% |

* *Includes the effect of cumulative tax losses and other permanent differences relating to foreign subsidiaries.*

| For the year to 31 March R'million | Group 2011 | Group 2010 | Company 2011 | Company 2010 |
|---|---|---|---|---|
| **6. Taxation (continued)** | | | | |
| Other comprehensive income taxation effects | | | | |
| Cash flow hedge movements taken directly to other comprehensive income | 82 | 18 | – | – |
| – Pre taxation | 114 | 25 | – | – |
| – Income taxation effect | (32) | (7) | – | – |
| Gains on realisation or impairment of available-for-sale assets recycled through the income statement | – | (40) | – | – |
| – Pre taxation | – | (46) | – | – |
| – Income taxation effect | – | 6 | – | – |
| Fair value movements on available-for-sale assets | 30 | 55 | – | – |
| – Pre taxation | 39 | 63 | – | – |
| – Income taxation effect | (9) | (8) | – | – |
| Foreign currency adjustments on translating foreign operations | (141) | (462) | – | – |
| – Pre taxation | (141) | (462) | – | – |
| – Income taxation effect | – | – | – | – |

| | Group | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | | 2010 | | 2011 | | 2010 | |
| For the year to 31 March | Cents per share | Total (R'million) | Cents per share | Total (R'million) | Cents per share | Total (R'million) | Cents per share | Total (R'million) |
| **7. Dividends** | | | | | | | | |
| Ordinary dividend | | | | | | | | |
| Final dividend in prior year* | 89.00 | 431 | 66.00 | 324 | 89.00 | 456 | 66.00 | 339 |
| Interim dividend for current year* | 90.00 | 433 | 100.00 | 410 | 90.00 | 458 | 100.00 | 441 |
| Total dividend attributable to ordinary shareholders recognised in current financial year | 179.00 | 864 | 166.00 | 734 | 179.00 | 914 | 166.00 | 780 |

The directors have proposed a final dividend in respect of the financial year ended 31 March 2011 of 102.0 cents (2010: 89.0 cents) per ordinary share. The final dividend will be payable on 8 August 2011 to shareholders on the register at the close of business on 29 July 2011 The annual general meeting at which the proposed dividend will be considered for approval is scheduled to take place on 4 August 2011.

* *This includes the dividend paid by Investec limited on DAS share equivalent for South African resident shareholders of Investec plc.*

| For the year to 31 March | Group | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | | 2010 | | 2011 | | 2010 | |
| | Cents per share | Total (R'million) | Cents per share | Total (R'million) | Cents per share | Total (R'million) | Cents per share | Total (R'million) |
| **7. Dividends (continued)** | | | | | | | | |
| Perpetual preference dividend | | | | | | | | |
| Final dividend in prior year | 757.97 | 163 | 1 074.59 | 198 | 365.92 | 103 | 518.77 | 115 |
| Interim dividend for current year | 722.82 | 157 | 826.31 | 155 | 348.95 | 102 | 398.91 | 89 |
| Total dividend attributable to perpetual preference shareholders recognised in current financial year | 1 480.79 | 320 | 1 900.90 | 353 | 714.87 | 205 | 917.68 | 204 |

The directors have declared a final dividend in respect of the financial year ended 31 March 2011 of 318.84 cents (2010: 365.92 cents) per perpetual preference share (Investec Limited) and 341.61 cents (2010: 392.05 cents) per perpetual preference share (Investec Bank Limited). The final dividend will be payable on 30 June 2011 to shareholders on the register at the close of business on 17 June 2011.

| For the year to 31 March<br>R'million | Group | | Company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| **8. Headline earnings** | | | | |
| Headline earnings attributable to ordinary shareholders | | | | |
| Calculation of headline earnings | | | | |
| Earnings attributable to shareholders | 2 688 | 2 747 | 1 636 | 1 379 |
| Dividends paid to perpetual preference shareholders | (320) | (353) | (205) | (204) |
| Earnings attributable to ordinary shareholders | 2 368 | 2 394 | 1 431 | 1 175 |
| Headline adjustments: | (244) | (253) | – | – |
| Goodwill impairment | 77 | 41 | – | – |
| Revaluation of investment properties, net of taxation* | (346) | (254) | – | – |
| Impairment of associate | 25 | – | – | – |
| Gain on disposal of available-for-sale instruments, net of taxation* | – | (40) | – | – |
| Headline earnings attributable to ordinary shareholders | 2 124 | 2 141 | 1 431 | 1 175 |

* *Taxation on headline earnings adjustments amounted to R134.6 million (2010: R105.3 million), with no impact on earnings attributable to non-controlling interests.*

For information on the earnings per share of the combined consolidated Investec plc and Investec Limited entities, refer to the notes to the financial statements in the combined consolidated financial statements of Investec plc and Investec Limited.

| For the year to 31 March<br>R'million | At fair value through profit or loss<br>Trading | <br>Designated at inception |
|---|---|---|
| **9. Analysis of income and expenses by category of financial instrument** | | |
| Group | | |
| 2011 | | |
| Net interest income | 844 | 2 057 |
| Fee and commission income | 212 | 31 |
| Fee and commission expense | – | (1) |
| Principal transactions | 726 | 896 |
| Operating loss from associates | – | – |
| Investment income on assurance activities | – | – |
| Premiums and reinsurance recoveries on insurance contracts | – | – |
| Other operating income | – | 24 |
| Other income including net interest income | 1 782 | 3 007 |
| Claims and reinsurance recoveries on insurance contracts | – | – |
| Total operating income net of insurance claims | 1 782 | 3 007 |
| Impairment losses on loans and advances | – | – |
| Operating income | 1 782 | 3 007 |
| | | |
| 2010 | | |
| Net interest income | 159 | 757 |
| Fee and commission income | 227 | 117 |
| Fee and commission expense | – | (9) |
| Principal transactions | 441 | 991 |
| Operating loss from associates | – | – |
| Investment income on assurance activities | – | – |
| Premiums and reinsurance recoveries on insurance contracts | – | – |
| Other operating income | – | 59 |
| Other income including net interest income | 827 | 1 915 |
| Claims and reinsurance recoveries on insurance contracts | – | – |
| Total operating income net of insurance claims | 827 | 1 915 |
| Impairment losses on loans and advances | – | – |
| Operating income | 827 | 1 915 |

| Held-to-maturity | Loans and receivables | Available-for-sale | Financial liabilities at amortised cost | Insurance related | Non-financial instruments | Other fee income | Total |
|---|---|---|---|---|---|---|---|
| 215 | 11 532 | 121 | (11 013) | – | – | 20 | 3 776 |
| – | 438 | – | (6) | – | 212 | 2 824 | 3 711 |
| – | (36) | – | (2) | – | – | (45) | (84) |
| (9) | 7 | – | – | – | 144 | 61 | 1 825 |
| – | – | – | – | – | (17) | – | (17) |
| – | – | – | – | 720 | – | – | 720 |
| – | – | – | – | 68 | – | – | 68 |
| – | 1 | – | – | – | 34 | – | 59 |
| 206 | 11 942 | 121 | (11 021) | 788 | 373 | 2 860 | 10 058 |
| – | – | – | – | (642) | – | – | (642) |
| 206 | 11 942 | 121 | (11 021) | 146 | 373 | 2 860 | 9 416 |
| – | (860) | – | – | – | – | – | (860) |
| 206 | 11 082 | 121 | (11 021) | 146 | 373 | 2 860 | 8 556 |
| | | | | | | | |
| 390 | 15 101 | – | (12 651) | – | – | – | 3 756 |
| – | 411 | – | (1) | – | 100 | 2 398 | 3 252 |
| – | (19) | – | (1) | – | 2 | (88) | (115) |
| – | – | 172 | – | – | 482 | 229 | 2 315 |
| – | – | – | – | – | (47) | – | (47) |
| – | – | – | – | 1 139 | – | – | 1 139 |
| – | – | – | – | 359 | – | – | 359 |
| – | – | – | – | – | – | – | 59 |
| 390 | 15 493 | 172 | (12 653) | 1 498 | 537 | 2 539 | 10 718 |
| – | – | – | – | (1 418) | – | – | (1 418) |
| 390 | 15 493 | 172 | (12 653) | 80 | 537 | 2 539 | 9 300 |
| – | (863) | – | – | – | – | – | (863) |
| 390 | 14 630 | 172 | (12 653) | 80 | 537 | 2 539 | 8 437 |

| For the year to 31 March<br>R'million | At fair value through profit or loss<br>Trading | <br>Designated at inception |
|---|---|---|
| **9. Analysis of income and expenses by category of financial instrument (continued)** | | |
| Company | | |
| 2011 | | |
| Net interest income | – | – |
| Fee and commission income | – | – |
| Principal transactions | – | (3) |
| Other income including net interest income | – | (3) |
| Impairment losses on loans and advances | – | – |
| Operating income | – | (3) |
| | | |
| 2010 | | |
| Net interest income | – | – |
| Principal transactions | – | 29 |
| Other income including net interest income | – | 29 |
| Impairment losses on loans and advances | – | – |
| Operating income | – | 29 |

| | Held-to-maturity | Loans and receivables | Available-for-sale | Financial liabilities at amortised cost | Insurance related | Non-financial instruments | Other fee income | Total |
|---|---|---|---|---|---|---|---|---|
| | – | 73 | – | – | – | – | – | 73 |
| | – | 2 | – | – | – | – | – | 2 |
| | – | – | – | – | – | 1 620 | – | 1 617 |
| | – | 75 | – | – | – | 1 620 | – | 1 692 |
| | – | – | – | – | – | – | – | – |
| | – | 75 | – | – | – | 1 620 | – | 1 692 |
| | – | 15 | – | – | – | – | – | 15 |
| | – | – | – | – | – | 1 361 | – | 1 390 |
| | – | 15 | – | – | – | 1 361 | – | 1 405 |
| | – | – | – | – | – | – | – | – |
| | – | 15 | – | – | – | 1 361 | – | 1 405 |

| At 31 March<br>R'million | At fair value through profit or loss<br>Trading | <br>Designated at inception |
|---|---|---|
| **10. Analysis of financial assets and liabilities by measurement basis** | | |
| Group | | |
| 2011 | | |
| Assets | | |
| Cash and balances at central banks | – | – |
| Loans and advances to banks | – | 216 |
| Cash equivalent advances to customers | – | – |
| Reverse repurchase agreements and cash collateral on securities borrowed | 6 555 | 1 631 |
| Trading securities | 14 241 | 34 370 |
| Derivative financial instruments* | 11 489 | – |
| Investment securities | – | 4 |
| Loans and advances to customers | – | 13 072 |
| Securitised assets | – | 1 085 |
| Interests in associated undertakings | – | – |
| Deferred taxation assets | – | – |
| Other assets | 789 | – |
| Property and equipment | – | – |
| Investment properties | – | – |
| Goodwill | – | – |
| Intangible assets | – | – |
| | 33 074 | 50 378 |
| Financial instruments at fair value through profit or loss in respect of | | |
| - Liabilities to customers | – | – |
| - Assets related to reinsurance contracts | – | – |
| | 33 074 | 50 378 |
| Liabilities | | |
| Deposits by banks | – | – |
| Derivative financial instruments* | 10 495 | – |
| Other trading liabilities | 3 417 | – |
| Repurchase agreements and cash collateral on securities lent | 5 732 | – |
| Customer accounts (deposits) | 17 | 9 854 |
| Debt securities in issue | – | – |
| Liabilities arising on securitisation | – | 1 087 |
| Current taxation liabilities | – | – |
| Deferred taxation liabilities | – | – |
| Other liabilities | 990 | 324 |
| | 20 651 | 11 265 |
| Liabilities to customers under investment contracts | – | – |
| Insurance liabilities, including unit-linked liabilities | – | – |
| Reinsured liabilities | – | – |
| | 20 651 | 11 265 |
| Subordinated liabilities | – | – |
| | 20 651 | 11 265 |

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges. For more information on hedges refer to note 45.*

| Available-for-sale | Total instruments at fair value | Held-to-maturity | Loans and receivables | Financial liabilities at amortised cost | Total instruments at amortised cost | Insurance related | Non-financial instruments | Total |
|---|---|---|---|---|---|---|---|---|
| – | – | – | 6 813 | – | 6 813 | – | – | 6 813 |
| – | 216 | – | 5 916 | – | 5 916 | – | – | 6 132 |
| – | – | – | 5 829 | – | 5 829 | – | – | 5 829 |
| – | 8 186 | – | 3 429 | – | 3 429 | – | – | 11 615 |
| – | 48 611 | – | – | – | – | – | – | 48 611 |
| – | 11 489 | – | – | – | – | – | – | 11 489 |
| 2 778 | 2 782 | 11 142 | – | – | 11 142 | – | – | 13 924 |
| – | 13 072 | – | 102 162 | – | 102 162 | – | – | 115 234 |
| – | 1 085 | – | 7 201 | – | 7 201 | – | – | 8 286 |
| – | – | – | – | – | – | – | 135 | 135 |
| – | – | – | – | – | – | – | 404 | 404 |
| – | 789 | – | 2 214 | – | 2 214 | – | 1 912 | 4 915 |
| – | – | – | – | – | – | – | 467 | 467 |
| – | – | – | – | – | – | – | 4 127 | 4 127 |
| – | – | – | – | – | – | – | 203 | 203 |
| – | – | – | – | – | – | – | 111 | 111 |
| 2 778 | 86 230 | 11 142 | 133 564 | – | 144 706 | – | 7 359 | 238 295 |
| – | – | – | – | – | – | 69 180 | – | 69 180 |
| – | – | – | – | – | – | – | – | – |
| 2 778 | 86 230 | 11 142 | 133 564 | – | 144 706 | 69 180 | 7 359 | 307 475 |
| – | – | – | – | 10 956 | 10 956 | – | – | 10 956 |
| – | 10 495 | – | – | – | – | – | – | 10 495 |
| – | 3 417 | – | – | – | – | – | – | 3 417 |
| – | 5 732 | – | – | 5 001 | 5 001 | – | – | 10 733 |
| – | 9 871 | – | – | 144 633 | 144 633 | – | – | 154 504 |
| – | – | – | – | 5 142 | 5 142 | – | – | 5 142 |
| – | 1 087 | – | – | 6 466 | 6 466 | – | – | 7 553 |
| – | – | – | – | – | – | – | 1 634 | 1 634 |
| – | – | – | – | – | – | – | 823 | 823 |
| – | 1 314 | – | – | 2 427 | 2 427 | – | 1 649 | 5 390 |
| – | 31 916 | – | – | 174 625 | 174 625 | – | 4 106 | 210 647 |
| – | – | – | – | – | – | 69 152 | – | 69 152 |
| – | – | – | – | – | – | 28 | – | 28 |
| – | – | – | – | – | – | – | – | – |
| – | 31 916 | – | – | 174 625 | 174 625 | 69 180 | 4 106 | 279 827 |
| – | – | – | – | 6 866 | 6 866 | – | – | 6 866 |
| – | 31 916 | – | – | 181 491 | 181 491 | 69 180 | 4 106 | 286 693 |

| At 31 March<br>R'million | At fair value through profit or loss | |
|---|---|---|
| | Trading | Designated at inception |
| **10. Analysis of financial assets and liabilities by measurement basis (continued)** | | |
| Group | | |
| 2010 | | |
| Assets | | |
| Cash and balances at central banks | – | – |
| Loans and advances to banks | – | 305 |
| Cash equivalent advances to customers | – | – |
| Reverse repurchase agreements and cash collateral on securities borrowed | 3 707 | – |
| Trading securities | 17 849 | 25 419 |
| Derivative financial instruments* | 7 850 | – |
| Investment securities | 1 | 4 |
| Loans and advances to customers | – | 15 149 |
| Securitised assets | – | 1 120 |
| Interests in associated undertakings | – | – |
| Deferred taxation assets | – | – |
| Other assets | 1 646 | 3 |
| Property and equipment | – | – |
| Investment properties | – | – |
| Goodwill | – | – |
| Intangible assets | – | – |
| | 31 053 | 42 000 |
| Financial instruments at fair value through profit or loss in respect of | | |
| - Liabilities to customers | – | – |
| - Assets related to reinsurance contracts | – | – |
| | 31 053 | 42 000 |
| Liabilities | | |
| Deposits by banks | – | – |
| Derivative financial instruments* | 7 144 | – |
| Other trading liabilities | 3 491 | – |
| Repurchase agreements and cash collateral on securities lent | 3 281 | – |
| Customer accounts (deposits) | 26 | 15 248 |
| Debt securities in issue** | – | – |
| Liabilities arising on securitisation | – | 1 514 |
| Current taxation liabilities | – | – |
| Deferred taxation liabilities | – | – |
| Other liabilities** | 659 | 294 |
| | 14 601 | 17 056 |
| Liabilities to customers under investment contracts | – | – |
| Insurance liabilities, including unit-linked liabilities | – | – |
| Reinsured liabilities | – | – |
| | 14 601 | 17 056 |
| Subordinated liabilities | – | – |
| | 14 601 | 17 056 |

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges. For more information on hedges refer to note 45.*

** *As restated for reclassifications detailed in the accounting policies of the financial statements.*

| Available-for-sale | Total instruments at fair value | Held-to-maturity | Loans and receivables | Financial liabilities at amortised cost | Total instruments at amortised cost | Insurance related | Non-financial instruments | Total |
|---|---|---|---|---|---|---|---|---|
| – | – | – | 3 660 | – | 3 660 | – | – | 3 660 |
| – | 305 | – | 14 320 | – | 14 320 | – | – | 14 625 |
| – | – | – | 6 455 | – | 6 455 | – | – | 6 455 |
| – | 3 707 | – | 969 | – | 969 | – | – | 4 676 |
| – | 43 268 | – | – | – | – | – | – | 43 268 |
| – | 7 850 | – | – | – | – | – | – | 7 850 |
| 29 | 34 | 3 129 | – | – | 3 129 | – | – | 3 163 |
| – | 15 149 | 118 | 96 665 | – | 96 783 | – | – | 111 932 |
| – | 1 120 | – | 8 876 | – | 8 876 | – | – | 9 996 |
| – | – | – | – | – | – | – | 180 | 180 |
| – | – | – | – | – | – | – | 403 | 403 |
| – | 1 649 | – | 3 742 | – | 3 742 | – | 1 928 | 7 319 |
| – | – | – | – | – | – | – | 188 | 188 |
| – | – | – | – | – | – | – | 3 033 | 3 033 |
| – | – | – | – | – | – | – | 280 | 280 |
| – | – | – | – | – | – | – | 98 | 98 |
| 29 | 73 082 | 3 247 | 134 687 | – | 137 934 | – | 6 110 | 217 126 |
| – | – | – | – | – | – | 59 946 | – | 59 946 |
| – | – | – | – | – | – | 32 | – | 32 |
| 29 | 73 082 | 3 247 | 134 687 | – | 137 934 | 59 978 | 6 110 | 277 104 |
| – | – | – | – | 9 554 | 9 554 | – | – | 9 554 |
| – | 7 144 | – | – | – | – | – | – | 7 144 |
| – | 3 491 | – | – | – | – | – | – | 3 491 |
| – | 3 281 | – | – | 3 000 | 3 000 | – | – | 6 281 |
| – | 15 274 | – | – | 127 847 | 127 847 | – | – | 143 121 |
| – | – | – | – | 5 950 | 5 950 | – | – | 5 950 |
| – | 1 514 | – | – | 6 638 | 6 638 | – | – | 8 152 |
| – | – | – | – | – | – | – | 1 348 | 1 348 |
| – | – | – | – | – | – | – | 861 | 861 |
| – | 953 | – | – | 4 491 | 4 491 | – | 1 848 | 7 292 |
| – | 31 657 | – | – | 157 480 | 157 480 | – | 4 057 | 193 194 |
| – | – | – | – | – | – | 59 899 | – | 59 899 |
| – | – | – | – | – | – | 47 | – | 47 |
| – | – | – | – | – | – | 32 | – | 32 |
| – | 31 657 | – | – | 157 480 | 157 480 | 59 978 | 4 057 | 253 172 |
| – | – | – | – | 5 341 | 5 341 | – | – | 5 341 |
| – | 31 657 | – | – | 162 821 | 162 821 | 59 978 | 4 057 | 258 513 |

| At 31 March<br>R'million | At fair value through profit or loss<br>Designated at inception | Total instruments at fair value |
|---|---|---|
| **10. Analysis of financial assets and liabilities by measurement basis (continued)** | | |
| Company | | |
| 2011 | | |
| Assets | | |
| Loans and advances to banks | – | – |
| Trading securities | 97 | 97 |
| Loans and advances to customers | – | – |
| Other assets | – | – |
| Investment in subsidiaries | – | – |
| | 97 | 97 |
| Liabilities | | |
| Debt securities in issue | – | – |
| Current taxation liabilities | – | – |
| Other liabilities | – | – |
| | – | – |
| 2010 | | |
| Assets | | |
| Loans and advances to banks | – | – |
| Trading securities | 288 | 288 |
| Loans and advances to customers | – | – |
| Deferred taxation assets | – | – |
| Other assets | – | – |
| Investment in subsidiaries | – | – |
| | 288 | 288 |
| Liabilities | | |
| Debt securities in issue* | – | – |
| Current taxation liabilities | – | – |
| Other liabilities* | – | – |
| | – | – |

* *As restated for reclassifications detailed in the accounting policies of the financial statements.*

| Loans and receivables | Financial liabilities at amortised cost | Total instruments at amortised cost | Non-financial instruments | Total |
|---|---|---|---|---|
| 27 | – | 27 | – | 27 |
| – | – | – | – | 97 |
| 1 | – | 1 | – | 1 |
| 1 | – | 1 | – | 1 |
| – | – | – | 11 854 | 11 854 |
| 29 | – | 29 | 11 854 | 11 980 |
| | | | | |
| – | 400 | 400 | – | 400 |
| – | – | – | 227 | 227 |
| – | 59 | 59 | – | 59 |
| – | 459 | 459 | 227 | 686 |
| | | | | |
| 27 | – | 27 | – | 27 |
| – | – | – | – | 288 |
| 1 | – | 1 | – | 1 |
| – | – | – | 18 | 18 |
| 1 | – | 1 | – | 1 |
| – | – | – | 10 747 | 10 747 |
| 29 | – | 29 | 10 765 | 11 082 |
| | | | | |
| – | 400 | 400 | – | 400 |
| – | – | – | 186 | 186 |
| – | 72 | 72 | – | 72 |
| – | 472 | 472 | 186 | 658 |

## 11. Fair value hierarchy

For financial assets and financial liabilities carried at fair value, the table below provides details of the basis used for determining the fair value according to the following hierarchy:

Level 1 – quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (ie derived from prices)

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Assets and liabilities related to the long-term assurance business attributable to policyholders have been excluded from the analysis as the change in fair value of related assets is attributable to policyholders.

| At 31 March<br>R'million | Total instruments at fair value | Valuation technique applied | | |
|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 |
| 2011 | | | | |
| Group | | | | |
| Assets | | | | |
| Loans and advances to banks | 216 | – | 216 | – |
| Reverse repurchase agreements and cash collateral on securities borrowed | 8 186 | 7 558 | 628 | – |
| Trading securities | 48 611 | 30 460 | 18 040 | 111 |
| Derivative financial instruments | 11 489 | – | 11 472 | 17 |
| Investment securities | 2 782 | 1 970 | 812 | – |
| Loans and advances to customers | 13 072 | – | 13 072 | – |
| Securitised assets | 1 085 | – | 1 085 | – |
| Other assets | 789 | 786 | 3 | – |
| | 86 230 | 40 774 | 45 328 | 128 |
| Liabilities | | | | |
| Derivative financial instruments | 10 495 | – | 10 495 | – |
| Other trading liabilities | 3 417 | 3 417 | – | – |
| Repurchase agreements and cash collateral on securities lent | 5 732 | 5 732 | – | – |
| Customer accounts (deposits) | 9 871 | – | 9 871 | – |
| Liabilities arising on securitisation | 1 087 | – | 1 087 | – |
| Other liabilities | 1 314 | 856 | 400 | 58 |
| | 31 916 | 10 005 | 21 853 | 58 |

## 11. Fair value hierarchy (continued)

| At 31 March<br>R'million | Total instruments at fair value | Valuation technique applied | | |
|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 |
| **2010** | | | | |
| **Group** | | | | |
| **Assets** | | | | |
| Loans and advances to banks | 305 | – | 305 | – |
| Reverse repurchase agreements and cash collateral on securities borrowed | 3 707 | 3 234 | 473 | – |
| Trading securities | 43 268 | 25 603 | 17 474 | 191 |
| Derivative financial instruments | 7 850 | 3 | 7 832 | 15 |
| Investment securities | 34 | 34 | – | – |
| Loans and advances to customers | 15 149 | – | 15 149 | – |
| Securitised assets | 1 120 | – | 1 120 | – |
| Other assets | 1 649 | 1 633 | 16 | – |
| | 73 082 | 30 507 | 42 369 | 206 |
| **Liabilities** | | | | |
| Derivative financial instruments | 7 144 | – | 7 144 | – |
| Other trading liabilities | 3 491 | 3 491 | – | – |
| Repurchase agreements and cash collateral on securities lent | 3 281 | 3 281 | – | – |
| Customer accounts (deposits) | 15 274 | – | 15 274 | – |
| Liabilities arising on securitisation | 1 514 | – | 1 514 | – |
| Other liabilities | 953 | 807 | 146 | – |
| | 31 657 | 7 579 | 24 078 | – |

| At 31 March<br>R'million | Total instruments at fair value | Valuation technique applied | | |
|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 |
| **2011** | | | | |
| **Company** | | | | |
| **Assets** | | | | |
| Trading securities | 97 | – | 97 | – |
| | 97 | – | 97 | – |
| **2011** | | | | |
| **Company** | | | | |
| **Assets** | | | | |
| Trading securities | 288 | – | 288 | – |
| | 288 | – | 288 | – |

## 11. Fair value hierarchy (continued)

Transfers between level 1 and 2

The following table shows transfers between level 1 and level 2 of the fair value hierarchy for financial assets and liabilities which are recorded at fair value:

| At 31 March 2010<br>R'million | Transfers from level 1 to level 2 |
|---|---|
| **Assets** | |
| Derivative financial instruments | 286 |
| Securitised assets | 1 120 |
| | |
| **Liabilities** | |
| Derivative financial instruments | 26 |
| Liabilities arising on securitisation | 1 514 |

There were no transfers between level 1 and level 2 for the year ended 31 March 2011.

The following table shows a reconciliation from the net opening balances to the net closing balances for fair value measurements in net level 3 of the fair value hierarchy:

| For the year to 31 March | Group | |
|---|---|---|
| R'million | 2011 | 2010 |
| Net level 3 instruments at fair value through the income statement | | |
| **Group** | | |
| Net opening balance at 1 April | 206 | 474 |
| Total gains or losses recognised in the current year | 4 | (38) |
| Purchases | 18 | – |
| Sales | (102) | (11) |
| Settlements | – | (8) |
| Transfers out of level 3 | (155) | (211) |
| Transfers in to level 3 | 104 | – |
| Foreign exchange adjustments | (5) | – |
| | | |
| Net closing balance at 31 March | 70 | 206 |

Instruments were transferred out of level 3 to level 2 due to improved levels of observable inputs, becoming available for valuation methodologies.

The following table quantifies the gains and losses recognised on level 3 financial instruments:

| For the year to 31 March | Group | |
|---|---|---|
| R'million | 2011 | 2010 |
| Total gains or losses included in the income statement for the year | | |
| Net interest income | – | 4 |
| Fee and commission income | 3 | 26 |
| Principal transactions | 1 | (68) |
| | 4 | (38) |

## 11. 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.

| | 2011 | | 2010 | |
|---|---|---|---|---|
| For the year to 31 March<br>R'million | Favorable changes | Unfavorable changes | Favorable changes | Unfavorable changes |
| Group | | | | |
| Reflected in income statement | | | | |
| Assets | | | | |
| Trading securities | 62 | 27 | 44 | (35) |
| Derivative financial instruments | 16 | 5 | 24 | (21) |
| Liabilities | | | | |
| Other liabilities | 6 | (3) | – | – |

## 12. Fair value of financial assets and liabilities at amortised cost

| At 31 March<br>R'million | 2011<br>Total instruments at amortised cost | 2011<br>Fair value | 2010<br>Total instruments at amortised cost | 2010<br>Fair value |
|---|---|---|---|---|
| **Group** | | | | |
| **Assets** | | | | |
| Cash and balances at central banks | 6 813 | 6 813 | 3 660 | 3 660 |
| Loans and advances to banks | 5 916 | 5 916 | 14 320 | 14 320 |
| Cash equivalent advances to customers | 5 829 | 5 829 | 6 455 | 6 455 |
| Reverse repurchase agreements and cash collateral on securities borrowed | 3 429 | 3 429 | 969 | 969 |
| Investment securities | 11 142 | 11 043 | 3 129 | 2 975 |
| Loans and advances to customers | 102 162 | 102 101 | 96 783 | 96 787 |
| Securitised assets | 7 201 | 7 201 | 8 876 | 8 876 |
| Other assets | 2 214 | 2 820 | 3 742 | 3 747 |
| | 144 706 | 145 152 | 137 934 | 137 789 |
| **Liabilities** | | | | |
| Deposits by banks | 10 956 | 10 963 | 9 554 | 9 566 |
| Repurchase agreements and cash collateral on securities lent | 5 001 | 5 001 | 3 000 | 3 000 |
| Customer accounts | 144 633 | 144 638 | 127 847 | 128 368 |
| Debt securities in issue | 5 142 | 5 169 | 5 950 | 5 954 |
| Liabilities arising on securitisation | 6 466 | 6 484 | 6 638 | 6 661 |
| Other liabilities | 2 427 | 2 427 | 4 491 | 4 489 |
| Subordinated liabilities | 6 866 | 7 058 | 5 341 | 5 529 |
| | 181 491 | 181 740 | 162 821 | 163 567 |
| **Company** | | | | |
| **Assets** | | | | |
| Loans and advances to banks | 27 | 27 | 27 | 27 |
| Loans and advances to customers | 1 | 1 | 1 | 1 |
| Other assets | 1 | 1 | 1 | 1 |
| | 29 | 29 | 29 | 29 |
| **Liabilities** | | | | |
| Debt securities in issue | 400 | 400 | 400 | 400 |
| Other liabilities | 57 | 57 | 72 | 72 |
| | 457 | 457 | 472 | 472 |

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.

### Assets 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. These assumptions also apply to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

## 12. Fair value of financial assets and liabilities at amortised cost (continued)

Fixed rate financial instruments

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

| At 31 March<br>R'million | Group 2011 | Group 2010 |
|---|---|---|
| **13. Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent** | | |
| Assets | | |
| Reverse repurchase agreements | 7 527 | 3 199 |
| Cash collateral on securities borrowed | 4 088 | 1 477 |
| | 11 615 | 4 676 |
| As part of the reverse repurchase and securities borrowing agreements, the group has received securities that it is allowed to sell or re-pledge. The fair value of the securities accepted under these terms as at 31 March 2011 amounts to R7.5 billion (2010: R3.2 billion). | | |
| Liabilities | | |
| Repurchase agreements | 10 733 | 6 281 |
| | 10 733 | 6 281 |

| | Group | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | | 2010 | | 2011 | | 2010 | |
| At 31 March | Fair value | Cumulative unrealised gains/ (losses) | Fair value | Cumulative unrealised gains/ (losses) | Fair value | Cumulative unrealised gains/ (losses) | Fair value | Cumulative unrealised gains/ (losses) |
| **14. Trading securities** | | | | | | | | |
| Listed equities | 4 109 | (231) | 5 524 | (1 666) | 97 | – | 288 | 66 |
| Unlisted equities | 5 862 | 2 435 | 5 778 | 2 398 | – | – | – | – |
| Promissory notes | 11 127 | 447 | 11 799 | 310 | – | – | – | – |
| Liquid asset bills | 20 982 | 2 572 | 18 213 | (293) | – | – | – | – |
| Debentures | 5 230 | 206 | – | – | – | – | – | – |
| Government and other bonds | 1 301 | (31) | 1 954 | (19) | – | – | – | – |
| | 48 611 | 5 398 | 43 268 | 730 | 97 | – | 288 | 66 |

## 15. Derivative financial instruments

### Group

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 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.

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| At 31 March<br>R'million | Notional principal amounts | Positive fair value | Negative fair value | Notional principal amounts | Positive fair value | Negative fair value |
| **Foreign exchange derivatives** | | | | | | |
| Forward foreign exchange contracts | 13 054 | 271 | 100 | 6 975 | 387 | 149 |
| Currency swaps | 73 075 | 1 414 | 685 | 38 024 | 808 | 549 |
| OTC options | 1 813 | 25 | 22 | 2 234 | 28 | 22 |
| Other foreign exchange contracts | 4 451 | 12 | 11 | 2 404 | 6 | 5 |
| OTC derivatives | 92 393 | 1 722 | 818 | 49 637 | 1 229 | 725 |
| Exchange traded futures | 588 | – | – | 1 755 | – | – |
| Exchange traded options | – | – | – | 898 | – | – |
| | 92 981 | 1 722 | 818 | 52 290 | 1 229 | 725 |
| **Interest rate derivatives** | | | | | | |
| Caps and floors | 2 850 | 20 | 22 | 1 106 | – | 16 |
| Swaps | 685 119 | 7 820 | 8 162 | 289 521 | 4 989 | 5 060 |
| Forward rate agreements | 1 185 706 | 377 | 427 | 328 570 | 332 | 351 |
| OTC options | 11 140 | 45 | 42 | 6 911 | 29 | 30 |
| Other interest rate contracts | 188 | 10 | – | 658 | 162 | 104 |
| | 1 885 003 | 8 272 | 8 653 | 626 766 | 5 512 | 5 561 |
| **Equity and stock index derivatives** | | | | | | |
| OTC options | 9 944 | 851 | 915 | 12 211 | 417 | 802 |
| OTC derivatives | 9 944 | 851 | 915 | 12 211 | 417 | 802 |
| Exchange traded futures | 7 091 | 2 | – | 15 703 | – | – |
| Exchange traded options | 23 827 | – | – | 25 205 | – | – |
| Warrants | 148 | – | – | – | – | – |
| | 41 010 | 853 | 915 | 53 119 | 417 | 802 |
| **Commodity derivatives** | | | | | | |
| OTC options | 436 | 41 | 41 | 839 | 25 | 25 |
| Commodity swaps and forwards | 782 | 141 | 2 | 1 078 | 246 | 31 |
| | 1 218 | 182 | 43 | 1 917 | 271 | 56 |
| **Credit derivatives** | | | | | | |
| Credit swaps | 1 | 1 | – | 142 | 2 | – |
| Credit linked notes | 87 | – | 66 | 37 | – | – |
| | 88 | 1 | 66 | 179 | 2 | – |
| **Embedded derivatives*** | | 459 | – | | 419 | – |
| **Derivatives per balance sheet** | | 11 489 | 10 495 | | 7 850 | 7 144 |

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

| At 31 March<br>R'million | Group<br>2011 | <br>2010 |
|---|---|---|
| **16. Investment securities** | | |
| At fair value through profit or loss | | |
| Listed equities | 4 | 5 |
| | 4 | 5 |
| Available-for-sale | | |
| Listed equities | 37 | 29 |
| Bonds | 1 930 | – |
| Commercial paper | 811 | – |
| | 2 778 | 29 |
| Held–to–maturity | | |
| Bonds | 11 063 | 3 129 |
| Other investments | 79 | – |
| | 11 142 | 3 129 |
| Total | 13 924 | 3 163 |

## 17. Designated at fair value: loans and receivables and financial liabilities

| At 31 March<br>R'million | Carrying value | Fair value adjustment<br>Year to date | Fair value adjustment<br>Cumulative | Maximum exposure to credit risk |
|---|---|---|---|---|
| **Group** | | | | |
| **Loans and receivables** | | | | |
| **2011** | | | | |
| Loans and advances to banks | 216 | (11) | (4) | 216 |
| Reverse repurchase agreements and cash collateral on securities borrowed | 1 631 | 21 | 21 | – |
| Loans and advances to customers | 13 072 | 7 | 650 | 13 072 |
| | 14 919 | 17 | 667 | 13 288 |
| **2010** | | | | |
| Loans and advances to banks | 305 | (79) | (7) | 305 |
| Loans and advances to customers | 15 149 | (4) | 789 | 15 149 |
| | 15 454 | (83) | 782 | 15 454 |

Year to date and cumulative fair value adjustments to loans and receivables attributable to credit risk were Rnil (2010: Rnil), due to lack of observable credit spreads on the above we are not able to accurately identify the credit elements of the fair value adjustments.

| At 31 March<br>R'million | Carrying value | Remaining contractual amount to be repaid at maturity | Fair value adjustment<br>Year to date | Fair value adjustment<br>Cumulative |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| **2011** | | | | |
| Customer accounts (deposits) | 9 854 | 9 681 | (186) | 174 |
| Liabilities arising on securitisation | 1 087 | 1 087 | – | – |
| Other liabilities | 324 | 387 | 102 | (63) |
| | 11 265 | 11 155 | (84) | 111 |
| **2010** | | | | |
| Customer accounts (deposits) | 15 248 | 16 912 | (41) | (1 663) |
| Liabilities arising on securitisation | 1 514 | 1 120 | – | 395 |
| Other liabilities | 294 | 279 | 26 | 15 |
| | 17 056 | 18 311 | (15) | (1 253) |

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

Year to date and cumulative changes in fair value of financial liabilities attributable to credit risk were Rnil (2010: Rnil), due to lack of observable credit spreads on the above, we are not able to accurately identify the credit elements of the fair value adjustments.

| At 31 March<br>R'million | Group 2011 | Group 2010 | Company 2011 | Company 2010 |
|---|---|---|---|---|
| **18. Loans and advances to customers** | | | | |
| Loans and advances to customers (post impairments) | 115 234 | 111 932 | 1 | 1 |
| Specific and portfolio impairments included above | 1 456 | 858 | – | – |
| Gross loans and advances to customers | 116 690 | 112 790 | 1 | 1 |
| Less: warehouse facilities and warehouse assets arising from securitisation and principal finance activities | (860) | (1 108) | – | – |
| Own originated securitised assets (refer to note 19) | 6 343 | 7 255 | – | – |
| Gross core loans and advances to customers | 122 173 | 118 937 | 1 | 1 |
| | | | | |
| For further analysis on gross core loans and advances refer to pages 52 to 54 in the risk management section. | | | | |
| | | | | |
| Specific and portfolio impairments | | | | |
| | | | | |
| Reconciliation of movements in specific and portfolio impairments: | | | | |
| | | | | |
| Specific impairment | | | | |
| Balance at beginning of year | 538 | 994 | – | – |
| Charge to the income statement | 816 | 472 | – | – |
| Reversals recognised in the income statement | (192) | – | – | – |
| Recoveries | (2) | – | – | – |
| Utilised | (23) | (928) | – | – |
| Balance at end of year | 1 137 | 538 | – | 462 |
| | | | | |
| Portfolio impairment | | | | |
| Balance at beginning of year | 320 | 87 | – | – |
| Charge to the income statement | – | 234 | – | – |
| Exchange adjustment | (1) | (1) | – | – |
| Balance at end of year | 319 | 320 | – | – |
| | | | | |
| Total impairments | 1 456 | 858 | – | – |
| | | | | |
| Reconciliation of income statement charge: | | | | |
| Total impairment on loans and advances | 624 | 706 | – | – |
| Specific impairment charged to income statement | 624 | 472 | – | – |
| Portfolio impairment charged to income statement | – | 234 | – | – |
| | | | | |
| Total impairment on securitised assets | (2) | 27 | – | – |
| Specific impairment charged to income statement | (4) | 27 | – | – |
| Portfolio impairment charged to income statement | 2 | – | – | – |
| | | | | |
| Net bad debts written off directly to the income statement | 238 | 130 | – | – |
| | | | | |
| Total income statement charge | 860 | 863 | – | – |

| At 31 March<br>R'million | Group<br>2011 | <br>2010 |
|---|---|---|
| **19. Securitised assets and liabilities arising on securitisation** | | |
| **Securitised assets are made up of the following categories of assets:** | | |
| Loans and advances to banks | 710 | 633 |
| Trading securities | 1 085 | 1 120 |
| Loans and advances to customers | 6 500 | 8 299 |
| | 8 295 | 10 052 |
| Impairment of loans and advances to customers | (9) | (56) |
| **Total securitised assets** | **8 286** | **9 996** |
| | | |
| **Analysis of securitised assets by risk exposure** | | |
| Gross core loans and advances to customers | 6 343 | 7 255 |
| Securitisation exposures arising from securitisation/principal finance activities | – | 91 |
| Total credit and counterparty exposure | 6 343 | 7 346 |
| | | |
| Loans and advances to customers deemed to have no legal credit exposure | 1 943 | 2 650 |
| Gross loans and advances | 1 952 | 2 706 |
| Impairment of loans and advances to customers | (9) | (56) |
| **Total securitised assets** | **8 286** | **9 996** |
| | | |
| **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 | 53 | 26 |
| Charge to the income statement | (2) | 27 |
| Reversals | (3) | – |
| Disposals | (44) | – |
| **Balance at end of year** | **4** | **53** |
| | | |
| **Portfolio Impairment** | | |
| Balance at beginning of year | 3 | 3 |
| Charge to the income statement | 2 | – |
| **Balance at end of year** | **5** | **3** |
| | | |
| **Total impairments** | **9** | **56** |
| | | |
| The associated liabilities are recorded on balance sheet in "Liabilities arising on securitisation". | | |
| | | |
| **Carrying value at 31 March** | **7 553** | **8 152** |

**Liabilities arising on securitisation**

Securitised liabilities include bonds, medium-term notes repayable and commercial paper. Bonds that are listed on the Johannesburg Stock Exchange of South Africa have maturity dates as follows:

R25.7 million – final legal maturity on 10 January 2018
R2.0 billion – final legal maturity on 15 November 2036
R2.6 billion – final legal maturity on 15 December 2035
R798.5 million – final legal maturity on 20 April 2024
R267.0 million – final legal maturity on 20 December 2025

| At 31 March<br>R'million | Group 2011 | Group 2010 |
|---|---|---|
| **20. Interests in associated undertakings** | | |
| Interests in associated undertakings consist of: | | |
| Net asset value | 135 | 180 |
| Investment in associated undertaking | 135 | 180 |
| | | |
| Analysis of the movement in our share of net assets: | | |
| At beginning of year | 180 | 166 |
| Acquisitions | 7 | 24 |
| Impairment | (25) | – |
| Loan to associate | (10) | 37 |
| Share of associate losses | (17) | (47) |
| Share of net asset value at end of year | 135 | 180 |
| | | |
| Associated undertakings: | | |
| Unlisted | 135 | 180 |
| | 135 | 180 |

The group holds 23.94% (2010: 23.94%) of the shareholding of Global Ethanol Holdings Limited. The directors' valuation of the investment in associate approximates its carrying value. The group's holding in Dolphin Coast Marina Estate Limited is 34.54% (2010: 40.00%).

| Summarised financial information at 31 March | 2011 | 2010 |
|---|---|---|
| **Global Ethanol Holdings Limited** | | |
| Total assets | 1 360 | 1 494 |
| Total liabilities | 1 300 | 1 440 |
| Total revenue for the year | 1 943 | 2 493 |
| Total loss before tax for the year | (83) | (533) |
| | | |
| **Dolphin Coast Marina Estate Limited** | | |
| Total assets | 50 | 83 |
| Total liabilities | 13 | 1 |
| Total revenue for the year | 3 | – |
| Total profit/(loss) before tax for the year | 2 | (4) |

| At 31 March<br>R'million | Group 2011 | Group 2010 | Company 2011 | Company 2010 |
|---|---|---|---|---|
| **21. Deferred taxation** | | | | |
| Deferred taxation assets | 404 | 403 | – | 18 |
| Deferred taxation liabilities | (823) | (861) | – | – |
| Net deferred tax (liabilities)/assets | (419) | (458) | – | 18 |
| | | | | |
| The net deferred taxation (liabilities)/assets arises from: | | | | |
| Income and expenditure accruals | 726 | 852 | – | 18 |
| Revaluation on investment properties | (80) | (75) | – | – |
| Unrealised fair value adjustments on financial instruments | (1 065) | (1 235) | – | – |
| | (419) | (458) | – | 18 |
| | | | | |
| Reconciliation of net deferred taxation liabilities: | | | | |
| Opening balance | (458) | (362) | 18 | – |
| Charge to the income statement | 42 | (92) | (18) | 18 |
| Charged directly to other comprehensive income | (1) | 9 | – | – |
| Other | – | (13) | – | – |
| Foreign exchange adjustments | (2) | – | – | – |
| Closing balance | (419) | (458) | – | 18 |

Deferred tax assets are recognised to the extent it is likely that profits will be available in future periods. The assessment of the likelihood of future profits is based on past performance and current projections. Deferred taxation assets are not recognised in respect of capital losses as crystallisation of capital gains and the eligibility of potential capital losses is uncertain.

| At 31 March<br>R'million | Group 2011 | Group 2010 | Company 2011 | Company 2010 |
|---|---|---|---|---|
| **22. Other assets** | | | | |
| Settlement debtors | 1 937 | 2 791 | – | – |
| Dealing properties | 1 645 | 1 703 | – | – |
| Accruals and prepayments | 272 | 401 | – | – |
| Trading initial margins | 431 | 780 | – | – |
| Other debtors | 630 | 1 644 | 1 | 1 |
| | 4 915 | 7 319 | 1 | 1 |

| At 31 March<br>R'million | Freehold properties | Leasehold improve-ments | Furniture and vehicles | Equipment | Total |
|---|---|---|---|---|---|
| **23. Property and equipment** | | | | | |
| Group | | | | | |
| 2011 | | | | | |
| Cost | | | | | |
| At beginning of year | – | 19 | 158 | 377 | 554 |
| Additions | 159 | – | 10 | 208 | 377 |
| Disposals | – | – | (5) | (28) | (33) |
| At end of year | 159 | 19 | 163 | 557 | 898 |
| | | | | | |
| Accumulated depreciation and impairment | | | | | |
| At beginning of year | – | (13) | (97) | (256) | (366) |
| Disposals | – | – | 2 | 11 | 13 |
| Depreciation | (7) | (4) | (7) | (60) | (78) |
| At end of year | (7) | (17) | (102) | (305) | (431) |
| | | | | | |
| Net carrying value | 152 | 2 | 61 | 252 | 467 |
| | | | | | |
| 2010 | | | | | |
| Cost | | | | | |
| At beginning of year | – | 19 | 147 | 353 | 519 |
| Additions | – | – | 18 | 45 | 63 |
| Disposals | – | – | (7) | (21) | (28) |
| At end of year | – | 19 | 158 | 377 | 554 |
| | | | | | |
| Accumulated depreciation and impairment | | | | | |
| At beginning of year | – | (9) | (98) | (222) | (329) |
| Disposals | – | – | 4 | 5 | 9 |
| Depreciation | – | (4) | (3) | (39) | (46) |
| At end of year | – | (13) | (97) | (256) | (366) |
| | | | | | |
| Net carrying value | – | 6 | 61 | 121 | 188 |

| At 31 March<br>R'million | Group<br>2011 | <br>2010 |
|---|---|---|
| **24. Investment properties** | | |
| At beginning of year | 3 033 | 2 568 |
| Additions | 644 | 104 |
| Disposals | (160) | (88) |
| Revaluation | 610 | 449 |
| At end of year | 4 127 | 3 033 |

The group values its investment properties twice annually. The properties are valued by directors. The valuation is performed by capitalising the annual net income of a property at a market related yield applicable at the time. Investment properties are carried at fair value.

No investment properties are occupied by group companies.

| At 31 March<br>R'million | Group 2011 | Group 2010 |
|---|---|---|
| **25. Goodwill** | | |
| Cost | | |
| At beginning of year | 1 283 | 1 270 |
| Additions | – | 13 |
| At end of year | 1 283 | 1 283 |
| Accumulated impairments | | |
| At beginning of year | (1 003) | (962) |
| Impairment | (77) | (41) |
| At end of year | (1 080) | (1 003) |
| Net book value | 203 | 280 |
| Analysis of goodwill by line of business | | |
| Asset Management | 162 | 240 |
| Private Wealth | 37 | 36 |
| Property Activities | 4 | 4 |
| Total group | 203 | 280 |

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 based on pre-tax rates that reflect current market conditions, adjusted for the specific risks associated with the cash-generating unit. Growth rates are based on industry growth forecasts. Cash flow forecasts are based on most recent financial budgets for the next financial year and are extrapolated for a period of three to five years and adjusted for expected future events.

Impairment losses comprise:

- R77 million (2010: R41 million) in respect of the Asset Management segment. The impairment calculation was based on a discounted cash flow valuation, utilising a discount rate of 12.80% (2010: 12.99%).

The majority of goodwill relates to Investec Asset Management, particularly to the businesses from the Fedsure acquisition, which have been identified as a separate cash-generating unit. The goodwill relating to Fedsure has been tested for impairment, taking into account profitability, being the current year profits and the budgeted profits and funds under management.

| At 31 March<br>R'million | Acquired software | Internally generated software | Total |
|---|---|---|---|
| **26. Intangible assets** | | | |
| Group | | | |
| 2011 | | | |
| Cost or valuation | | | |
| At beginning of year | 318 | 36 | 354 |
| Additions | 48 | 12 | 60 |
| Disposals | (12) | (2) | (14) |
| Disposal of subsidiary undertaking | (1) | – | (1) |
| At end of year | 353 | 46 | 399 |
| | | | |
| Accumulated amortisation and impairments | | | |
| At beginning of year | (229) | (27) | (256) |
| Disposals | 2 | 2 | 4 |
| Amortisation | (33) | (4) | (37) |
| Disposal of subsidiary undertaking | 1 | – | 1 |
| At end of year | (259) | (29) | (288) |
| Net carrying value | 94 | 17 | 111 |
| | | | |
| 2010 | | | |
| Cost or valuation | | | |
| At beginning of year | 229 | 34 | 263 |
| Additions | 95 | 2 | 97 |
| Disposals | (6) | – | (6) |
| At end of year | 318 | 36 | 354 |
| | | | |
| Accumulated amortisation and impairments | | | |
| At beginning of year | (152) | (23) | (175) |
| Disposals | 4 | 1 | 5 |
| Amortisation | (81) | (5) | (86) |
| At end of year | (229) | (27) | (256) |
| Net carrying value | 89 | 9 | 98 |

## 27. Acquisitions and disposals

On 26 February 2010, Investec Asset Management Holdings (Pty) Ltd bought out the 24.51% non-controlling interest of Investec Asset Management Namibia (Pty) Ltd. Goodwill arising from the transaction amounted to R13 million.

There were no material acquisitions and disposals in the 2011 year.

## 28. Investment in subsidiaries

| At 31 March | Nature of business | Issued ordinary capital | % Holding | Shares at book value 2011 R'million | Shares at book value 2010 R'million | Net indebtedness 2011 R'million | Net indebtedness 2010 R'million |
|---|---|---|---|---|---|---|---|
| **Direct subsidiaries of Investec Limited** | | | | | | | |
| Investec Bank Ltd Ä | Banking | R24 584 183 | 100 | 10 555 | 9 255 | 599 | 678 |
| Investec Asset Management Holdings (Pty) Ltd Ä | Investment holding | R200 | 100 | * | * | * | * |
| Investec Assurance Ltd Ä | Insurance company | R10 000 000 | 100 | 10 | 10 | * | * |
| Investec Employee Benefits Holdings (Pty) Ltd Ä | Investment holding | R1 | 100 | * | * | 111 | 48 |
| Investec International (Gibraltor) (Ltd) § | Investment holding | £1 000 | 100 | 165 | 165 | * | * |
| Investec Securities Ltd Ä | Stockbroking | R172 000 | 100 | 132 | 132 | (36) | (36) |
| Fedsure International Ltd Ä | Investment holding | R1 012 456 | 100 | 216 | 243 | * | * |
| Investec Property Group Holdings Ltd Ä | Investment holding | R3 000 | 100 | * | * | * | * |
| Other subsidiaries^^ | | | | 149 | 120 | (47) | 132 |
| | | | | 11 227 | 9 925 | 627 | 822 |

^^ Investec Personal Financial Services (Pty) Ltd and Sibvest Limited have been included in 'Other subsidiaries'.

Loans to/(from) subsidiaries are unsecured, interest bearing, with no fixed terms of repayment.

Ä South Africa
§ Gibraltar

* *Less than R1 million*

## 28. Investment in subsidiaries (continued)

| At 31 March<br>R'million | Nature of business | Issued ordinary capital | % Holding |
|---|---|---|---|
| **Indirect subsidiaries of Investec Limited** | | | |
| Grayinvest Limited Ä | Investment holding | R100 | 100 |
| Investec Asset Management (Pty) Ltd Ä | Asset management | R50 000 | 100 |
| Investec Insurance Brokers (Pty) Ltd Ä | Insurance broking | R2 | 100 |
| Investec International Holdings (Pty) Ltd Ä | Investment holding | R102 | 100 |
| Investec Fund Managers SA Ltd Ä | Unit trust management | R8 000 000 | 100 |
| Investec Bank (Mauritius) Ltd i | Banking institution | R535 630 446 | 100 |
| Investec Property Ltd Ä | Property trading | R1 174 | 100 |
| Reichmans (Pty) Ltd Ä | Trade and asset finance | R15 | 100 |
| Investec Employee Benefits Ltd Ä | Long-term insurance | R7 544 000 | 100 |
| Traded Endowment Policies Ltd^ | Endowments trading | £28 530 788 | 100 |

Details of subsidiaries which are not material to the financial position of the group are not stated above.

Investec Limited has no equity interest in the following special purpose vehicles, but they are consolidated on the basis of the group sharing in the majority of the risks and rewards associated with the entity:

Peu II Ltd

Securitisation entities

- Private Mortgages 1 (Pty) Ltd
- Private Mortgages 2 (Pty) Ltd
- Private Mortgages 3 (Pty) Ltd
- Private Residential Mortgages (Pty) Ltd
- Private Commercial Mortgages (Pty) Ltd
- Grayston Conduit 1 (Pty) Ltd
- Corporate Finance Solutions Receivables (Pty) Ltd

The following subsidiaries are not consolidated for regulatory purposes:

Investec Assurance Ltd
Investec Employee Benefits Holdings (Pty) Ltd and its subsidiaries

There are no subsidiaries which are consolidated for regulatory but not for accounting purposes.

Ä South Africa
^ United Kingdom
i Mauritius

| At 31 March<br>R'million | Group 2011 | Group 2010 |
|---|---|---|
| **29. Long-term assurance business attributable to policyholders** | | |
| Liabilities to customers under investment contracts | 69 180 | 59 946 |
| Investec Employee Benefits Limited ('IEB') | 617 | 4 281 |
| Investec Assurance Limited | 68 535 | 55 618 |
| Insurance liabilities, including unit-linked liabilities - IEB | 28 | 47 |
| Reinsured liabilities - IEB | – | 32 |
| Total policyholder liabilities | 69 180 | 59 978 |
| | | |
| Investec Employee Benefits Limited | | |
| The assets of the long-term assurance fund attributable to policyholders are detailed below: | | |
| Investments | 623 | 4 138 |
| Reinsured assets | – | 32 |
| Other assets | 22 | 190 |
| | 645 | 4 360 |
| | | |
| Investments shown above comprise: | | |
| Interest bearing securities | 402 | 999 |
| Stocks, shares and unit trusts | 190 | 2 735 |
| Deposits | 31 | 404 |
| | 623 | 4 138 |
| | | |
| Investec Assurance Limited | | |
| The assets of the long-term assurance fund attributable to policyholders are detailed below: | | |
| Investments | 66 892 | 51 807 |
| Debtors and prepayments | 1 625 | 725 |
| Other assets | 18 | 3 086 |
| Assets of long-term assurance fund attributable to policyholders | 68 535 | 55 618 |
| | | |
| Investments shown above comprise: | | |
| Interest bearing securities | 17 932 | 9 679 |
| Stocks, shares and unit trusts | 35 791 | 27 753 |
| Deposits | 13 170 | 14 375 |
| | 66 893 | 51 807 |

The business of Investec Assurance Limited is that of linked business with retirement funds. The retirement funds hold units in a pooled portfolio of assets via a linked policy issued by the company. The assets are beneficially held by Investec Assurance Limited. Due to the nature of the linked policy, Investec Assurance Limited's liability to the policyholders is equal to the market value of the assets under the policy.

| At 31 March<br>R'million | Group 2011 | Group 2010 |
|---|---|---|
| Income statement items related to assurance activities | | |
| Investment income on assurance activities | 720 | 1 139 |
| Premiums and reinsurance recoveries on insurance contracts | 68 | 359 |
| Claims and reinsurance premiums on insurance business | (642) | (1 418) |
| Operating expenses | (12) | (30) |
| Net income before taxation | 134 | 50 |
| Taxation | (38) | (14) |
| Net income after taxation | 96 | 36 |

| At 31 March<br>R'million | Group<br>2011 | <br>2010 |
|---|---|---|
| **30. Other trading liabilities** | | |
| Short positions | | |
| - Equities | 2 922 | 2 493 |
| - Gilts | 495 | 998 |
| | 3 417 | 3 491 |

| At 31 March<br>R'million | Group<br>2011 | <br>2010* | Company<br>2011 | <br>2010* |
|---|---|---|---|---|
| **31. Debt securities in issue** | | | | |
| Repayable in: | | | | |
| Not more than three months | 1 026 | 1 441 | – | – |
| Over three months but not more than one year | 3 153 | 3 842 | – | – |
| Over one year but not more than five years | 523 | 544 | 400 | 400 |
| Greater than five years | 440 | 123 | – | – |
| | 5 142 | 5 950 | 400 | 400 |

* *As restated for reclassifications detailed in the accounting policies of the financial statements.*

| At 31 March<br>R'million | Group<br>2011 | <br>2010 | Company<br>2011 | <br>2010 |
|---|---|---|---|---|
| **32. Current taxation** | | | | |
| Income taxation payable | 1 619 | 1 278 | 227 | 186 |
| Indirect taxes payable | 15 | 70 | – | – |
| | 1 634 | 1 348 | 227 | 186 |

| At 31 March<br>R'million | Group<br>2011 | <br>2010** | Company<br>2011 | <br>2010** |
|---|---|---|---|---|
| **33. Other liabilities** | | | | |
| Settlement liabilities | 1 685 | 3 465 | – | – |
| Other non–interest bearing liabilities | 1 468 | 1 282 | 20 | 25 |
| Other creditors and accruals | 2 237 | 2 545 | 39 | 47 |
| | 5 390 | 7 292 | 59 | 72 |

** *As restated for reclassifications detailed in the accounting policies of the financial statements.*

| At 31 March | Group | |
|---|---|---|
| R'million | 2011 | 2010 |
| **34. Subordinated liabilities** | | |
| Issued by Investec Bank Limited | | |
| - a wholly owned subsidiary of Investec Limited | | |
| IV01 16% subordinated bonds 2012 | 180 | 180 |
| IV03 16% subordinated bonds 2017 | 1 508 | 1 508 |
| IV04 10.75% subordinated unsecured callable bonds | 2 062 | 2 062 |
| IV07 variable rate subordinated unsecured callable bonds | 941 | 941 |
| IV08 13.735% subordinated unsecured callable bonds | 200 | 200 |
| IV09 variable rate subordinated unsecured callable bonds | 200 | 200 |
| IV012 variable rate subordinated unsecured callable bonds | 250 | 250 |
| IV013 variable rate subordinated unsecured callable bonds | 50 | – |
| IV014 10.545% subordinated unsecured callable bonds | 125 | – |
| IV015 variable rate subordinated unsecured callable bonds | 1 350 | – |
| | 6 866 | 5 341 |
| All subordinated debt issued by Investec Limited and its subsidiaries is denominated in South African Rand | | |
| Remaining maturity: | | |
| In one year or less, or on demand | 180 | – |
| In more than one year, but not more than two years | 3 003 | 180 |
| In more than two years, but not more than five years | 825 | 3 653 |
| In more than five years | 2 858 | 1 508 |
| | 6 866 | 5 341 |

The only event of default in relation to the subordinated debt is the non-payment of principal or interest. The only remedy available to the holders of the subordinated debt in the event of default is to petition for the winding up of the company. In a winding up, no amount will be paid in respect of the subordinated debt until all other creditors have been paid in full.

**IV01 16% subordinated bonds**

R180 million (2010: R180 million) Investec Bank Limited local registered unsecured subordinated bonds due in 2012. Interest is paid six monthly in arrears on 31 March and 30 September at a rate of 16% per annum. The settlement date of the bonds is 31 March 2012.

**IV03 16% subordinated bonds**

R1 508 million (2010: R1 508 million) Investec Bank Limited local registered unsecured subordinated bonds due in 2017. Interest is paid six monthly in arrears on 31 March and 30 September at a rate of 16% per annum until 31 March 2012, whereafter the interest rate will change to a floating rate of three-month JIBAR plus 200 basis points until maturity. The settlement date of the bonds is 31 March 2017.

**IV04 10.75% subordinated unsecured callable bonds**

R2 062 million (2010: R2 062 million) Investec Bank Limited local registered unsecured subordinated bonds due in 2018. Interest is paid six monthly in arrears on 30 September and 31 March at a rate of 10.75% per annum until 31 March 2013. The settlement date is 31 March 2018, but the company has the option to call the bonds from 31 March 2013. If not called, the bonds will switch to a floating rate of three-month JIBAR plus 200 basis points payable quarterly in arrears until maturity.

**IV07 variable rate subordinated unsecured callable bonds**

R941 million (2010: R941 million) Investec Bank Limited local registered unsecured subordinated callable bonds due in 2018. Interest is paid at three-month JIBAR plus 140 basis points until 31 March 2013. Interest is payable quarterly in arrears. The maturity date is 31 March 2018, but the company has the option to call the bonds from 31 March 2013. If not called, the bonds will switch to a three-month JIBAR plus 200 basis points.

## 34. Subordinated liabilities (continued)

### IV08 13.735% subordinated unsecured callable bonds

R200 million (2010: R200 million) Investec Bank Limited local registered unsecured subordinated bonds without a maturity date. Interest is paid six monthly in arrears on 31 October and 30 April at a rate of 13.735% per annum until 30 April 2018. The company has the option to call the bonds from 30 April 2013 or on any interest payment date falling after 30 April 2018. If not called by 30 April 2018, the bonds will switch to a floating rate of three-month JIBAR plus 562.5 basis points payable quarterly in arrears until called.

### IV09 variable rate subordinated unsecured callable bonds

R200 million (2010: R200 million) Investec Bank Limited local registered unsecured subordinated bonds without a maturity date. Interest is paid quarterly in arrears on 31 July, 31 October, 31 January and 30 April at a rate equal to JIBAR plus 375 basis points until 30 April 2018. The company has the option to call the bonds from 30 April 2013 or on any interest payment date falling after 30 April 2018. If not called by 30 April 2018, the bonds will pay interest of 562.5 basis points above JIBAR payable quarterly in arrears until called.

### IV012 variable rate subordinated unsecured callable bonds

R250 million (2010: R250 million) Investec Bank Limited IV012 local registered unsecured subordinated callable bonds are due in November 2019. Interest is paid at three-month JIBAR plus 325 basis points until 26 November 2014. Interest is payable quarterly in arrears. The maturity date is 26 November 2019, but the company has the option to call the bonds from 26 November 2014. If not called, the bonds will switch to a three-month JIBAR plus 450 basis points.

### IV013 variable rate subordinated unsecured callable bonds

R50 million (2010: nil) Investec Bank Limited IV013 local registered unsecured subordinated callable bonds are due in June 2020. Interest is payable quarterly in arrears on 22 March, 22 June, 22 September and 22 December at a rate equal to 3-month JIBAR plus 275 basis points until 22 June 2015. From and including 22 June 2015 up to and excluding 22 June 2020 interest is paid at a rate equal to three-month JIBAR plus 550 basis points. The maturity date is 22 June 2020, but the company has the option to call the bonds from 22 June 2015.

### IV014 10.545% subordinated unsecured callable bonds

R125 million (2010: nil) Investec Bank Limited IV014 local registered unsecured subordinated callable bonds are due in June 2020. Interest is payable six monthly in arrears on 22 June and 22 December at a fixed rate of 10.545% until 22 June 2015. From and including 22 June 2015 up to and excluding 22 June 2020 interest is paid quarterly in arrears on 22 June, 22 September, 22 December and 22 March at a rate equal to three-month JIBAR plus 550 basis points. The maturity date is 22 June 2020, but the company has the option to call the bonds from 22 June 2015.

### IV015 variable rate subordinated unsecured callable bonds

R1 350 million (2010: nil) Investec Bank Limited IV015 local registered unsecured subordinated callable bonds are due in September 2022. Interest is payable quarterly in arrears on 20 December, 20 March, 20 June and 20 September at a rate equal to 3-month JIBAR plus 265 basis points until 20 September 2017. From and including 20 September 2017 up to and excluding 20 September 2022 interest is paid at a rate equal to three-month JIBAR plus 400 basis points. The maturity date is 22 September 2022, but the company has the option to call the bonds from 20 September 2017.

| At 31 March<br>R'million | Group 2011 | Group 2010 | Company 2011 | Company 2010 |
|---|---|---|---|---|
| **35. Ordinary share capital** | | | | |
| Authorised | | | | |
| 450 000 000 (2010: 450 000 000) ordinary shares of R0.0002 each. | | | | |
| Issued | | | | |
| 272 836 668 (2010: 269 766 932) ordinary shares of R0.0002 each. | 1 | 1 | 1 | 1 |

In terms of the Dual Listed Companies structure, shareholders have common economic and voting rights as if Investec Limited and Investec plc were a single company. These include equivalent dividends on a per share basis, joint electorate and class right variations. The UK DAS share, UK DAN share and the special converting shares have been issued to achieve this.

The unissued shares are under the control of the directors until the next annual general meeting.

| At 31 March<br>R'million | Group 2011 | Group 2010 | Company 2011 | Company 2010 |
|---|---|---|---|---|
| **36. Perpetual preference shares** | | | | |
| Company | | | | |
| Authorised | | | | |
| 100 000 000 (2010:100 000 000) non-redeemable, non-cumulative, non-participating preference shares of one cent each. | | | | |
| Issued | | | | |
| 28 719 858 (2010: 27 411 396) non-redeemable, non-cumulative, non-participating preference shares of one cent each, issued at various premiums. | 2 880 | 2 762 | 2 880 | 2 762 |
| - Perpetual preference share capital | * | * | * | * |
| - Perpetual preference share premium | 2 880 | 2 762 | 2 880 | 2 762 |

* *Less than R1 million*

Preference shareholders will be entitled to receive dividends if declared, at a rate of 70% of prime on R100 being the deemed value of the issue price of the preference share held. Preference shareholders receive dividends in priority to any payment of dividends to the holder of any other class of shares in the capital of the company not ranking prior or pari passu with the preference shares.

An ordinary dividend will not be declared by Investec Limited unless the preference dividend has been declared. If declared, preference dividends are payable semi-annually at least seven business days prior to the date on which Investec Limited pays its ordinary dividends, if any, but shall be payable no later than 120 business days after 31 March and 30 September respectively.

| At 31 March<br>R'million | Group 2011 | Group 2010 | Company 2011 | Company 2010 |
|---|---|---|---|---|
| **37. Share premium** | | | | |
| Share premium on ordinary shares | 6 304 | 6 137 | 6 328 | 6 180 |
| Share premium on perpetual preference shares | 2 880 | 2 762 | 2 880 | 2 762 |
| | 9 184 | 8 899 | 9 208 | 8 942 |

| At 31 March | Group 2011 | Group 2010 |
|---|---|---|
| **38. Treasury shares** | | |
| Treasury shares held by subsidiaries of Investec Limited | R'million | R'million |
| Investec Limited ordinary shares | 807 | 1 142 |
| Premium paid on options held to acquire Investec Limited shares | - | (2) |
| | 807 | 1 140 |
| Number of Investec Limited ordinary shares held by subsidiaries | 23 178 288 | 28 860 461 |
| Reconciliation of treasury shares | Number | Number |
| At beginning of year | 28 860 461 | 43 651 785 |
| Purchase of own shares by subsidiary companies | 16 504 201 | 3 414 165 |
| Shares disposed of by subsidiaries | (22 186 374) | (18 205 489) |
| At end of year | 23 178 288 | 28 860 461 |
| | R'million | R'million |
| Market value of treasury shares | 1 228 | 1 812 |

| At 31 March<br>R'million | Group 2011 | Group 2010 |
|---|---|---|
| **39. Non-controlling interests** | | |
| Non-controlling interests in partially held subsidiaries | 10 | 15 |
| Perpetual preference shares issued by Investec Bank Limited | 1 534 | 1 518 |
| **Authorised**<br>70 000 000 (2010: 70 000 000) non-redeemable, non-cumulative, non-participating preference shares of 1 cent each. | | |
| **Issued**<br>15 447 630 (2010: 15 276 630) non-redeemable, non-cumulative, non-participating preference shares of 1 cent each, issued at a premium within a range of R96.46 to R99.99 per share. | | |
| Preference shareholders will be entitled to receive dividends, if declared, at a rate of 75% of the South African prime interest rate on the issue price of the preference share held. Preference shareholders receive dividends in priority to any payment of dividends to the holder of any other class of shares in the capital of the company not ranking prior or pari passu with the preference shares. | | |
| An ordinary dividend will not be declared by Investec Bank Limited unless the preference dividend has been declared. If declared, preference dividends are payable semi-annually at least seven business days prior to the date on which Investec Bank Limited pays its ordinary dividends, if any, but shall be payable no later than 120 business days after 31 March and 30 September respectively. | | |
| | 1 544 | 1 533 |

| At 31 March<br>R'million | Group | | | |
|---|---|---|---|---|
| | 2011 | | 2010 | |
| | Total future minimum payments | Present value | Total future minimum payments | Present value |
| **40. Finance lease disclosures** | | | | |
| Finance lease receivables included in loans and advances to customers | | | | |
| Lease receivables in: | | | | |
| Less than 1 year | 363 | 292 | 771 | 607 |
| 1 - 5 years | 403 | 353 | 969 | 837 |
| Greater than 5 years | – | – | 1 | 1 |
| | 766 | 645 | 1 741 | 1 445 |

Unearned finance income amounted to R120 million (2010: R296 million). At 31 March 2011 and 31 March 2010, there were no unguaranteed residual values. There were no finance lease receivables in Investec Limited company at 31 March 2011 and 31 March 2010.

| At 31 March | Group | | Company | |
|---|---|---|---|---|
| R'million | 2011 | 2010 | 2011 | 2010 |
| **41. Notes to cash flow statement** | | | | |
| Cash generated from operating activities is derived as follows: | | | | |
| Profit before taxation | 3 228 | 3 587 | 1 654 | 1 393 |
| Adjustment for non-cash items: | | | | |
| Impairment of goodwill | 77 | 41 | – | – |
| Depreciation, amortisation and impairment of property, equipment and intangibles | 115 | 132 | – | – |
| Impairment of loans and advances | 860 | 863 | – | – |
| Operating loss from associates | 17 | 47 | – | – |
| Impairment of associate | 25 | – | – | – |
| Share-based payments charges | 435 | 394 | 87 | 11 |
| Fair value gains on investment properties | (582) | (449) | – | – |
| Operating profit adjusted for non cash items | 4 175 | 4 615 | 1 741 | 1 404 |
| | | | | |
| Increase/(decrease) in operating assets | | | | |
| Loans and advances to banks | 7 832 | (1 489) | – | – |
| Reverse repurchase agreements and cash collateral on securities borrowed | (6 942) | 3 712 | – | – |
| Trading securities | (5 351) | (16 323) | 191 | (25) |
| Derivative financial instruments | (3 578) | 2 122 | – | – |
| Investment securities | (10 738) | (2 519) | – | – |
| Loans and advances to customers | (4 430) | (1 798) | – | – |
| Securitised assets | 1 710 | 3 017 | – | – |
| Other assets | 2 403 | (2 429) | – | – |
| Investment properties | (512) | (16) | – | – |
| Assurance assets | (9 202) | (14 365) | | |
| | (28 808) | (30 088) | 191 | (25) |
| | | | | |
| Increase/(decrease) in operating liabilities | | | | |
| Deposits by banks | 1 444 | (2 402) | – | – |
| Derivative financial instruments | 3 351 | (3 358) | – | – |
| Other trading liabilities | (74) | 1 419 | – | – |
| Repurchase agreements and cash collateral on securities lent | 4 452 | 3 992 | – | – |
| Customer accounts | 11 616 | 17 161 | – | – |
| Debt securities in issue | (808) | 605 | – | – |
| Securitised liabilities | (599) | (2 948) | – | – |
| Other liabilities | (1 897) | 351 | (13) | 5 |
| Assurance liabilities | 9 202 | 14 365 | – | – |
| | 26 687 | 29 185 | (13) | 5 |

| For the year to 31 March | Group | |
|---|---|---|
| R'million | 2011 | 2010 |
| **42. Related party transactions** | | |
| Compensation to the board of directors and other key management personnel* | | |
| Short-term employee benefits | 372 | 288 |
| Share-based payments | 92 | 72 |
| | 464 | 360 |

* *Key management personnel are board directors and members of the global operations forum.*

| For the year to 31 March<br>R'million | Group and company 2011 | Group and company 2010 |
|---|---|---|
| **42. Related party transactions (continued)** | | |
| 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 | 181 | 270 |
| Increase in loans | 168 | 125 |
| Repayment of loans | (112) | (169) |
| Exchange adjustments | (4) | (45) |
| At end of year | 233 | 181 |
| Guarantees | | |
| At beginning of year | 6 | 27 |
| Additional guarantees granted | – | 6 |
| Repayment of guarantees | (6) | (25) |
| Exchange adjustments | – | (2) |
| At end of year | – | 6 |
| Deposits | | |
| At beginning of year | (444) | (423) |
| Increase in deposits | (328) | (344) |
| Utilisation of deposits | 224 | 235 |
| Exchange adjustments | 9 | 88 |
| At end of year | (539) | (444) |
| The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment. None of these loans have been impaired. | | |
| Transactions with other related parties | | |
| Various members of key management personnel are members of the boards of directors of other companies. At 31 March 2011, Investec Limited group had the following loans outstanding from these related parties | 22 | 94 |

*Refer to note 28 for loans to/(from) subsidiaries.*

The above outstanding balance arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties.

| For the year to 31 March | Group and company | |
|---|---|---|
| R'million | 2011 | 2010 |

## 42. Related party transactions (continued)

| Transactions with Investec plc and its subsidiaries | | |
|---|---|---|
| **Assets** | | |
| Loans and advances to banks | 519 | 489 |
| Loans and advances to customers | 119 | 114 |
| Investment securities | 3 414 | 1 815 |
| Interest in associated companies | 90 | 127 |
| Derivative financial instruments | 84 | 36 |
| **Liabilities** | | |
| Deposits from banks | 128 | 323 |
| Customer accounts (deposits) | 10 | 1 |
| Repurchase agreements and cash collateral on securities lent | 796 | – |
| Derivative financial instruments | 38 | 19 |
| Other liabilities | 110 | – |

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. During the year to March 2011, interest of R103.8 million (2010: R56.9 million) was received from entities in the Investec plc group. Interest of R13.4 million (2010: R3.7 million) was paid to entities in the Investec plc group. In the normal course of business, services are rendered between Investec plc group and Investec Bank Limited entities. In the year to 31 March 2011, this resulted in a net payment by Investec plc group of R75.9 million (2010: R43.3 million). Specific transactions of an advisory nature between group entities have resulted in a net fee payment by Investec plc group of R10 million (2010: R14.9 million).

| At 31 March | Group | |
|---|---|---|
| R'million | 2011 | 2010 |

## 43. Commitments

| | | |
|---|---|---|
| Undrawn facilities | 23 293 | 21 497 |
| Other commitments | 788 | 1 173 |
| | 24 081 | 22 670 |

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 | 287 | 269 |
| 1 - 5 years | 1 230 | 1 518 |
| Later than 5 years | 2 691 | 2 773 |
| | 4 208 | 4 560 |

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 annual escalation clauses range between 7% and 13.5% percent per annum. The majority of the leases have renewal options.

| At 31 March<br>R'million | Group 2011 | Group 2010 | Company 2011 | Company 2010 |
|---|---|---|---|---|
| **44. Contingent liabilities** | | | | |
| Guarantees and assets pledged as collateral security: | | | | |
| - Guarantees and irrevocable letters of credit | 8 783 | 6 790 | 3 663 | 4 705 |
| | 8 783 | 6 790 | 3 663 | 4 705 |

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

Guarantees are issued by Investec Bank Limited on behalf of third parties and other group companies. The guarantees are issued as part of the banking business.

### Legal proceedings

Investec operates in a legal and regulatory environment that exposes it to litigation risks. As a result, Investec is involved in disputes and legal proceedings which arise in the ordinary course of business. Investec does not expect the ultimate resolution of any of the proceedings to which Investec is 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.

## 45. Hedges

### Group

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

The accounting treatment of accounting hedges is dependant on the classification between fair value hedges, cash flow hedges and in particular, accounting hedges require the identification of a direct relationship between a hedged item and hedging instrument. This relationship is established in limited circumstances based on the manner in which the group manages its risk exposure. A description of each category of accounting hedges achieved by the group follows:

## 45. Hedges (continued)

### Fair value hedges

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

| At 31 March R'million | Description of financial instrument being hedged | 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 | | | | | | |
| Interest rate swaps | Subordinated bonds | 19 | (30) | (5) | 19 | 3 |

IV014 10.545% subordinated unsecured callable bonds commenced on 22 June 2010. Hedging of these bonds commenced on 22 June 2010. Refer to note 34 for further detail relating to these bonds.

During the year, certain hedges experienced levels of ineffectiveness. As at year end the hedges were both retrospectively and prospectively effective.

| At 31 March R'million | Description of financial instrument being hedged | Fair value of hedging instrument | Cumulative gains or (losses) on hedging instrument | Current year gains or (losses) on hedging instrument | Cumulative gains or (losses) on hedged item | Current year gains or (losses) on hedged item |
|---|---|---|---|---|---|---|
| 2010 | | | | | | |
| Interest rate swaps | Subordinated bonds | 21 | (35) | (6) | 16 | – |

### 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 flow occurs and effects income statement.

| At 31 March R'million | Description of financial instrument being hedged | Fair value of hedging instrument | Period cash flows are expected to occur and effect income statement | Ineffective portion recognised in income statement |
|---|---|---|---|---|
| 2011 | | | | |
| Cross currency swap | Foreign currency credit bonds | 356 | 3 months to 5 years | – |

| At 31 March R'million | Description of financial instrument being hedged | Fair value of hedging instrument | Period cash flows are expected to occur and effect income statement | Ineffective portion recognised in income statement |
|---|---|---|---|---|
| 2010 | | | | |
| Cross currency swap | Foreign currency credit bonds | 166 | 1 - 5 years | 3 |

There are cash flow hedges during the year to mitigate interest rate and currency risk. A reconciliation of the cash flow hedge reserve can be found in the statement of changes in equity.

| At 31 March<br>R'million | Demand | Up to one month | One month to three months | Three months to six months | Six months to one year | One year to five years | Greater than five years | Total |
|---|---|---|---|---|---|---|---|---|
| **46. Liquidity analysis of financial liabilities based on undiscounted cash flows** | | | | | | | | |
| Group | | | | | | | | |
| 2011 | | | | | | | | |
| Liabilities | | | | | | | | |
| Deposits by banks | 847 | 1 503 | 930 | 912 | 6 535 | 229 | – | 10 956 |
| Derivative financial instruments | 10 371 | 5 | 9 | 14 | 15 | 81 | – | 10 495 |
| - Held-for-trading | 10 342 | – | – | – | – | – | – | 10 342 |
| - Held as hedges | 29 | 5 | 9 | 14 | 15 | 81 | – | 153 |
| Repurchase agreements and cash collateral on securities lent | 5 944 | 5 002 | – | – | – | – | – | 10 946 |
| Customer accounts (deposits) | 43 011 | 25 686 | 35 122 | 15 351 | 17 849 | 16 146 | 1 339 | 154 504 |
| Debt securities in issue | – | 644 | 382 | 425 | 2 728 | 523 | 440 | 5 142 |
| Liabilities arising on securitisation | (2) | 874 | 1 696 | 11 | 198 | 4 757 | 20 | 7 554 |
| Other liabilities including other trading liabilities | 1 677 | 4 413 | 559 | 753 | 405 | 550 | 496 | 8 853 |
| | 61 848 | 38 127 | 38 698 | 17 466 | 27 730 | 22 286 | 2 295 | 208 450 |
| Subordinated liabilities | – | – | – | – | 180 | 3 828 | 2 858 | 6 866 |
| On balance sheet liabilities | 61 848 | 38 127 | 38 698 | 17 466 | 27 910 | 26 114 | 5 153 | 215 316 |
| Off-balance sheet | – | – | – | – | – | – | – | – |
| Total liabilities | 61 848 | 38 127 | 38 698 | 17 466 | 27 910 | 26 114 | 5 153 | 215 316 |
| 2010 | | | | | | | | |
| Liabilities | | | | | | | | |
| Deposits by banks | 884 | 1 342 | 631 | 50 | 3 394 | 3 253 | – | 9 554 |
| Derivative financial instruments | 7 085 | 1 | – | 1 | 4 | 54 | – | 7 145 |
| - Held-for-trading | 7 085 | – | – | – | – | – | – | 7 085 |
| - Held as hedges | – | 1 | – | 1 | 4 | 54 | – | 60 |
| Repurchase agreements and cash collateral on securities lent | 3 281 | 3 001 | – | – | – | – | – | 6 282 |
| Customer accounts (deposits) | 40 979 | 29 727 | 32 751 | 11 243 | 18 702 | 8 587 | 1 133 | 143 122 |
| Debt securities in issue* | – | 234 | 1 206 | 1 256 | 2 587 | 544 | 123 | 5 950 |
| Liabilities arising on securitisation | 7 | 794 | 2 398 | 57 | 2 527 | 3 971 | 65 | 9 819 |
| Other liabilities including other trading liabilities* | 3 671 | 993 | 1 073 | 659 | 273 | 649 | 3 | 7 321 |
| | 55 907 | 36 092 | 38 059 | 13 266 | 27 487 | 17 058 | 1 324 | 189 193 |
| Subordinated liabilities | – | – | – | – | – | 3 833 | 1 508 | 5 341 |
| On balance sheet liabilities | 55 907 | 36 092 | 38 059 | 13 266 | 27 487 | 20 891 | 2 832 | 194 534 |
| Off-balance sheet | 10 300 | 739 | 763 | 2 286 | 5 475 | 1 134 | 1 693 | 22 390 |
| Total liabilities | 66 207 | 36 831 | 38 822 | 15 552 | 32 962 | 22 025 | 4 525 | 216 924 |

The balances in the above table will not agree directly to the balances in the consolidated balance sheet as the table incorporates all cash flows, on an undiscounted basis, relating to both principal and those associated with all future coupon payments (except for trading liabilities and trading derivatives). Furthermore, loan commitments are generally not recognised on the balance sheet. Trading liabilities and trading derivatives have been included in the "Demand" time bucket, and not by contractual maturity, because trading liabilities are typically held for short periods of time. For an unaudited analysis based on discounted cash flows, please refer to page 82.

* *As restated for reclassifications detailed in the accounting policies of the financial statements.*

# Contact details

### Mauritius, Ebéne Cyber City

Level 8C Cyber Tower II
Ebéne Cyber City
Telephone (230) 403 0400
Facsimile (230) 403 0498
e-mail info@investec.com

### Mauritius, Port Louis

6th Floor Dias Pier Building
Le Caudan Waterfront Caudan
Port Louis
Telephone (230) 207 4000
Facsimile (230) 207 4002
e-mail info@investec.com

### South Africa, Cape Town

36 Hans Strijdom Avenue
Foreshore Cape Town 8001
PO Box 1826 Cape Town 8000
Telephone (27 21) 416 1000
Facsimile (27 21) 416 1001

### South Africa, Durban

5 Richefond Circle
Ridgeside Office Park
Umhlanga Durban 4319
PO Box 25278 Gateway Durban 4321
Telephone (27 31) 575 4000
Facsimile (27 865) 009 901

### South Africa, East London

1st floor Pilot Mill House The Quarry
Selbourne East London 5247
PO Box 19484 Tacoma 5214
Telephone (27 43) 721 0660
Facsimile (27 43) 721 0664

### South Africa, Johannesburg

100 Grayston Drive
Sandown Sandton 2196
PO Box 785700 Sandton 2146
Telephone (27 11) 286 7000
Facsimile (27 11) 286 7777
e-mail, South African offices

- Recruitment queries recruitment@investec.co.za
- Client queries
  - Asset management: comcentre@investecmail.com
  - Institutional Securities: securities@investec.co.za
  - Private Client Securities: iso@investec.co.za
  - Property Group: ipg@investec.co.za
  - Private Bank: privatebank@investec.co.za
  - Capital Markets: info-tsf@investec.co.za

### South Africa, Mbombela (formerly Nelspruit)

2nd floor 2 McAdam Street
Cnr McAdam and Rothery Streets
Mbombela 1200
PO Box 19428 The Village 1218
Telephone (27 13) 756 0900
Facsimile (27 13) 756 0990

### South Africa, Port Elizabeth

6th floor Fairview Office Park
66 Ring Road
Greenacres Port Elizabeth 6045
PO Box 27416 Greenacres 6057
Telephone (27 41) 396 6700
Facsimile (27 41) 363 1667

### South Africa, Pretoria

Cnr Atterbury and Klarinet Streets
Menlo Park Pretoria 0081
PO Box 1882 Brooklyn Square 0075
Telephone (27 12) 427 8300
Facsimile (27 12) 427 8310

### South Africa, Pietermartizburg

Acacia House Redlands Estate
1 George MacFarlane Lane
Pietermaritzburg 3201
PO Box 594 Pietermaritzburg 3200
Telephone (27 33) 264 5800
Facsimile (27 33) 342 1561

### South Africa, Knysna

TH24/TH25 Long Street Ext
Thesen Harbour Town Knysna 6571
Telephone (27 44) 302 1800
Facsimile (27 44) 382 4954

### South Africa, Stellenbosch

Block D De Wagen Road Office Park
Stellentia Street Stellenbosch 7600
PO Box 516 Stellenbosch 7599
Telephone (27 21) 809 0700
Facsimile (27 21) 809 0730

# Notes

# Notes