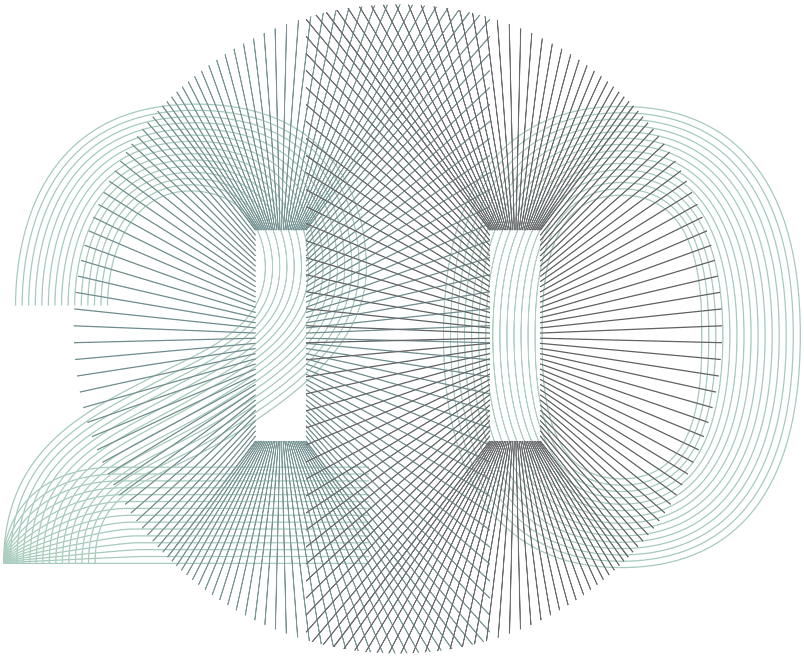
Investec plc silo (excluding Investec Limited)
annual financial statements **2011**



Out of the Ordinary®

Investec

Specialist Bank and
Asset Manager

Corporate information

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Ernst & Young LLP

Investec directors

Refer to pages 136 to 138.

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Investec in perspective

Investec in perspective

Who we are

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

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

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

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

Mission statement

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

What we do

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

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

Values

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

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

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

Cast-iron integrity
- Moral strength
- Risk consciousness
- Highest ethical standards

Philosophies

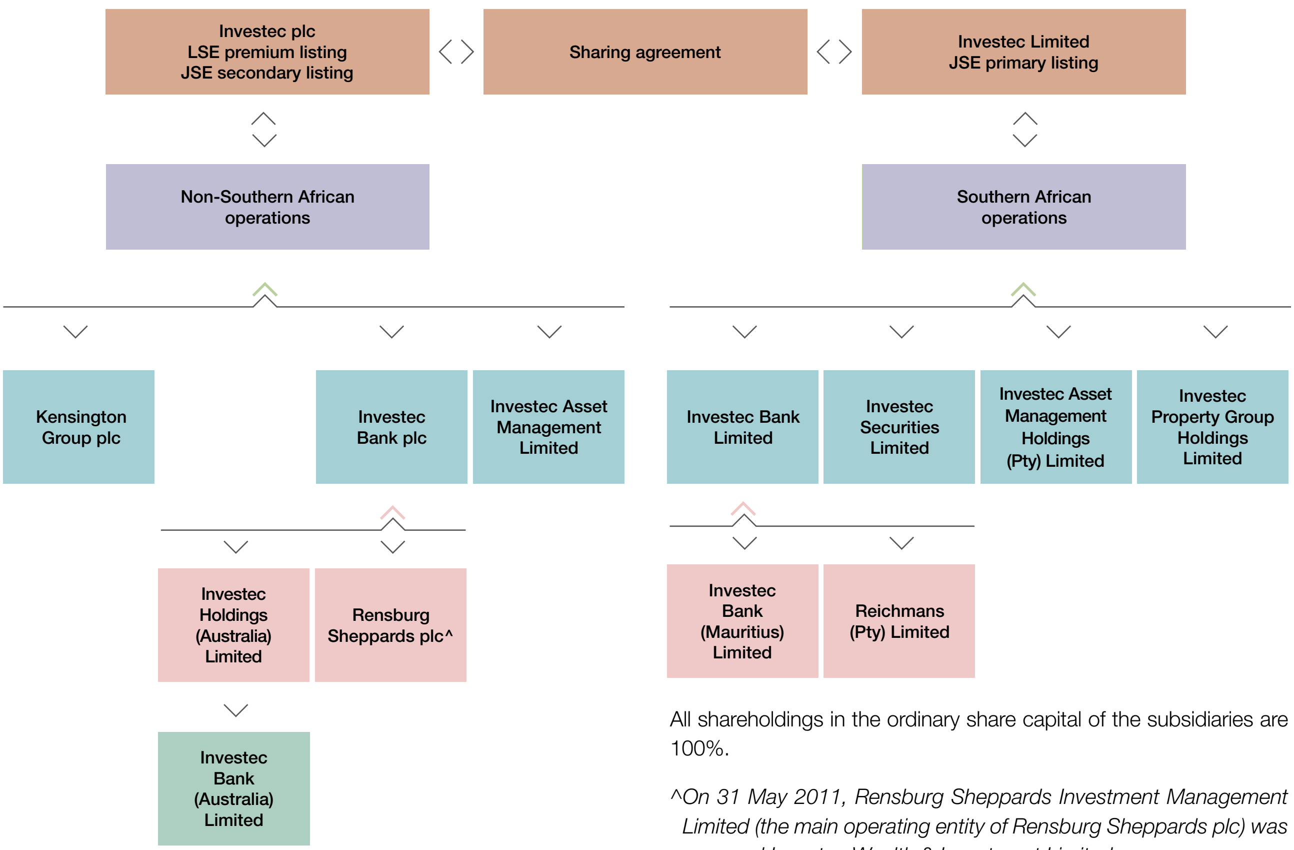
- Single organisation
- Meritocracy
- Focused businesses
- Differentiated, yet integrated
- Material employee ownership
- Creating an environment that stimulates extraordinary performance.

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

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

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

Our DLC structure and main operating subsidiaries as at 31 March 2011



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

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

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

Salient features of the DLC structure

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

Overview of the activities of Investec plc

Overview of the activities of Investec plc

Investec plc's structure comprises six principal business units:

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

The activities conducted by the significant 'operating' subsidiaries of Investec plc 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.

Our operation in the UK was launched in 1998, following Investec's acquisition of Guinness Flight Hambro. This provided us with, as at the date of the acquisition, approximately £7 billion of additional assets, and the infrastructure of Guinness Flight Hambro's operations. During 1999 and 2000, the product platform was redesigned to focus on the creation of a domestic franchise in the UK for both the institutional and mutual fund businesses. We emerged from the restructuring as a multi-specialist investment manager with key strengths in UK and global equities and UK and global fixed income. Today, we have a strong brand in the UK and European mutual funds market and continue to penetrate the UK institutional market. As at 31 March 2011, UK and international assets under management amounted to £30.8 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. Investec Bank plc

Wealth and Investment (previously Rensburg Sheppards)

The acquisition of Rensburg Sheppards plc was effective on 25 June 2010 although the business only became a wholly owned subsidiary of Investec Bank plc on 31 March 2011. Rensburg Sheppards Investment Management Limited (the main operating entity of Rensburg Sheppards plc) was rebranded Investec Wealth & Investment on 31 May 2011.

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

We provide the following services:

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

Property Activities

Our focus is on property fund management and property investments.

Private Banking

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

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

Private Banking focuses on the following activities:

Banking

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

Growth and acquisition finance

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

Specialised lending

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

Structured property finance

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

Trust and fiduciary

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

Investment Banking

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

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

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

UK and Europe

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

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

Australia

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

Hong Kong

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

Capital Markets

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

We focus on the following activities:

Asset and liability management (Treasury)

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

Treasury products and distribution

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

Interest rates

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

Structured equity

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

Financial products

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

Principal finance

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

Structured and asset finance

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

Project finance

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

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

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

Commodities and resource finance

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

Debt capital markets

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

Corporate and leveraged debt

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

Group Services and Other Activities

Group Services includes the central services and central funding functions.

Central Services

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

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

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

Central Funding

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

3. Investec Bank (Australia) Limited

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

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

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

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

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

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

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

4. Kensington Group plc

Kensington Mortgage Company (Kensington) is a leading specialist lender, offering prime self certified and buy to let mortgages. Investec plc acquired the business in August 2007 as a platform to enhance the securitisation activities of the Capital Markets division in the UK. Unfortunately a shift in the market environment post the acquisition has constrained the ability of the Capital Markets division to securitise Kensington's assets. As a result, Kensington's business model has been reshaped to adapt to the challenging market environment.

Financial review

Snapshot of the year and strategic focus

Highlights

2011: Focused on reshaping the business…

- Investec plc recorded a 5.3% decrease in operating profit after non-controlling interests to £134.3 million. Five out of the group's six divisions recorded 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 24.1% to £46.2 billion
  - Operating profit from these businesses rose significantly to £78.0 million
  - Together they accounted for 58.1% of Investec plc's operating profit (2010: 26.1%)
- Activity levels in Specialist Banking showed improvement; the Capital Markets business recorded a significant increase in operating profit and the Corporate Finance and Hong Kong Principal Investments businesses performed well
- Strong capital and liquidity position:
  - Tier 1 ratio of 11.6%
  - Cash and near cash balances of £4.5 billion
  - Customer deposits increased 13.1% to £10.2 billion
  - The ratio of core loans (excluding own originated securitised assets) to deposits improved from 74.3% to 70.0%
  - Low gearing ratios; core loans and advances to equity fell to 3.7 times (2010: 4.4 times)
- The credit loss ratio was higher than last year at 2.05%; the group expects this ratio to decrease during the forthcoming financial year
- Investment in the Investec brand continues.

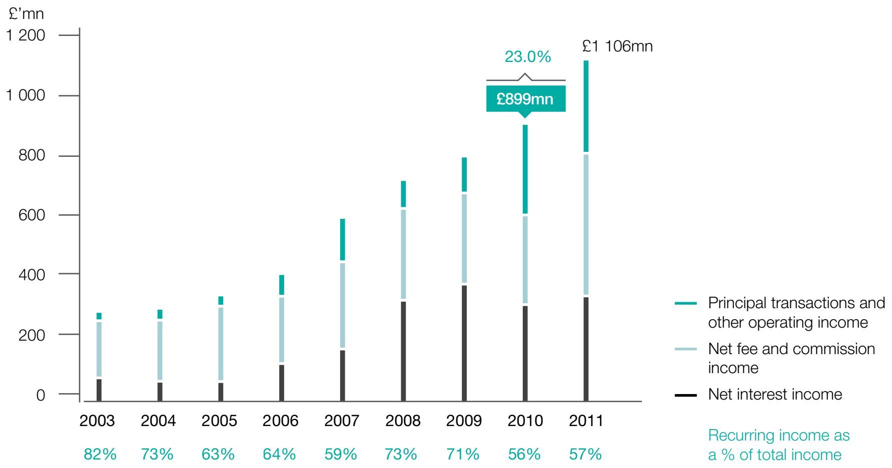
2012: Foundation for growth in place

Financial features

	31 March 2011	31 March 2010	% change
Operating profit before amortisation of acquired intangibles, non-operating items, taxation and after non controlling interests (£'000)	134 337	141 887	(5.3%)
Earnings attributable to ordinary shareholders (£'000)	164 092	128 585	27.6%
Cost to income ratio	67.1%	62.8%	
Total capital resources (including subordinated liabilities) (£'000)	2 731 430	2 251 195	21.3%
Total shareholders' equity (£'000)	2 063 160	1 649 619	25.1%
Total assets (£'000)	23 065 420	21 883 737	5.4%
Net core loans and advances (£'000)	7 651 693	7 253 321	5.5%
Customer accounts (deposits) (£'000)	10 244 943	9 059 074	13.1%
Cash and near cash balances (£'000)	4 501 813	4 755 196	(5.3%)
Third party assets under management (£'000)	46 199 000	37 230 000	24.1%
Capital adequacy ratio	16.8%	15.9%	
Tier 1 ratio	11.6%	11.3%	

Diversified business model… continues to support a large recurring revenue base

Total operating income

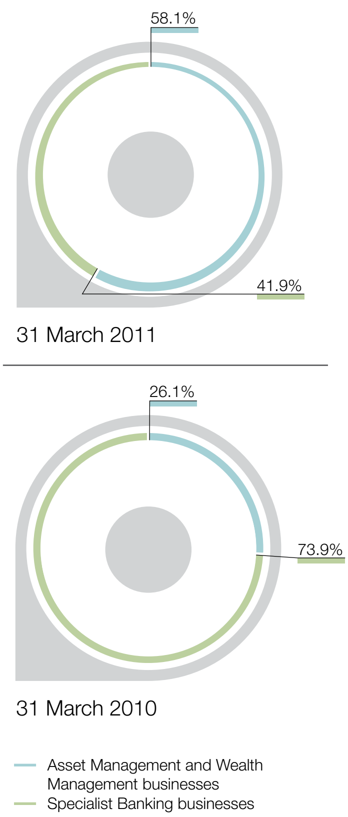


Where recurring income is net interest income and annuity fees and commissions.

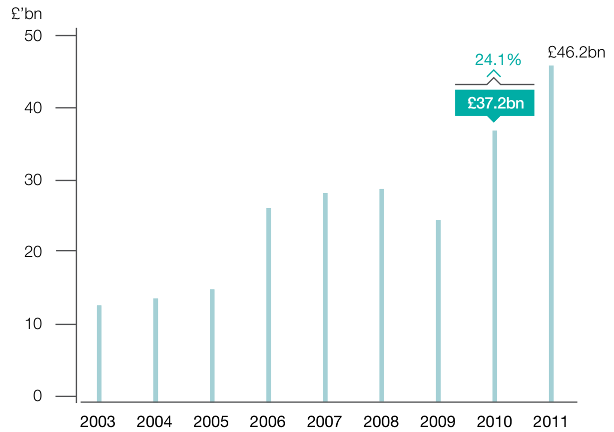
Good growth in third party assets under management… momentum in realigning our business model continues

- Consolidation of global Wealth Management businesses
- Acquisition of the balance of Rensburg Sheppards plc in the UK
- Investec Asset Management reported record net inflows of £7.3 billion for the year.

Contribution to group earnings



Third party assets under management



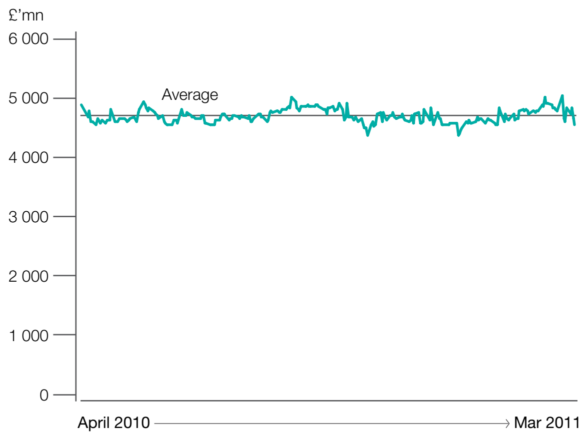
Resulting in strong contribution from Asset Management and Wealth Management businesses

Capital adequacy and Tier 1 ratios

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

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

Cash and near cash trend



Customer accounts (deposits)

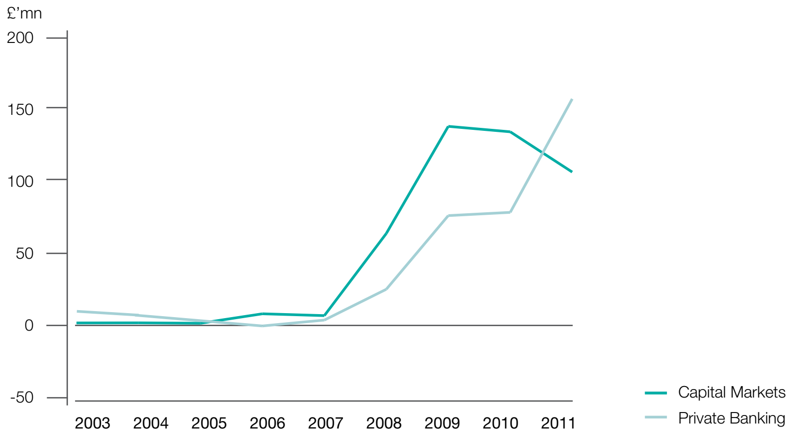
Sound capital and liquidity position maintained… achieved capital targets

- 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 70.0% (2010: 74.3%).

- Credit and counterparty exposures are to a select target market
  – Private Bank lends to high net worth and high income clients
  – Capital Markets transacts primarily with mid to large sized corporates, public sector bodies and institutions
- The uncertain pace of economic recovery has slowed the improvement in the level of non-performing loans and defaults have continued to increase
- Credit risk however, remains appropriately managed and net defaults (after collateral and impairments) are fully collateralised
- Credit loss charge increased from 1.72% to 2.05%
- We believe we are moving through the cycle and expect to see a reduction in impairments during the 2012 financial year.

Specialist Banking impacted by an increase in impairments and defaults…

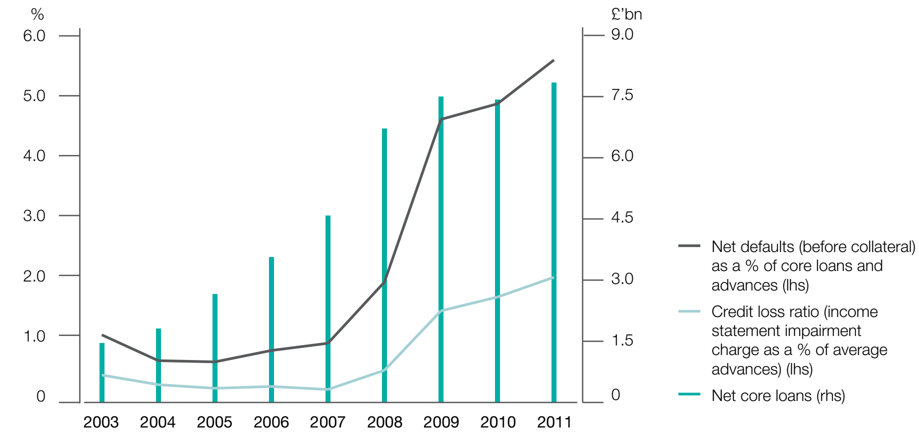
Impairments by business



Impairment analysis by geography

£'mn	31 March 2011	31 March 2010	% change
UK	112.6	138.7	(18.9%)
Ireland	97.9	49.6	97.4%
Australia	30.2	27.4	10.2%
Total	240.7	215.7	11.5%

Defaults and core loans



Sustainability developments during the period

- Development of the 'Investec Foundation' whose focus is to address some of the social challenges faced in Australia
- To coincide with UN World Water Day on 22 March 2011, the London office held a water awareness campaign
- Significant development in environmentally responsible technology and energy efficient fittings in a number of our buildings
- The UK business participated in the Carbon Reduction Commitment Energy Efficiency Scheme. The London office signed up for the 10:10 campaign, a UK initiative aimed at encouraging individuals and businesses to reduce carbon emissions by 10% in 2012. Investec surpassed this target by reducing electricity consumption by 14% and gas emissions by 22%.
- An extensive stakeholder engagement exercise was carried out involving a number of our stakeholders
- Investec was a finalist in the education category of the 2010 UK Lord Mayor's Dragon Awards which recognise Investec's contribution to its local community
- We maintained our presence in the Dow Jones Sustainability Index, the JSE-SRI Index and the FTSE4Good Index.

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.

Dow Jones Sustainability Indexes
Member 2010/11

JSE JOHANNESBURG STOCK EXCHANGE
SRI Index

FTSE4Good

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

We pursue this strategy through an emphasis on…

The Investec distinction

Client focused approach

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

Specialised and focused strategy

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

Sustainable business model

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

Depth of leadership and entrepreneurial environment

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

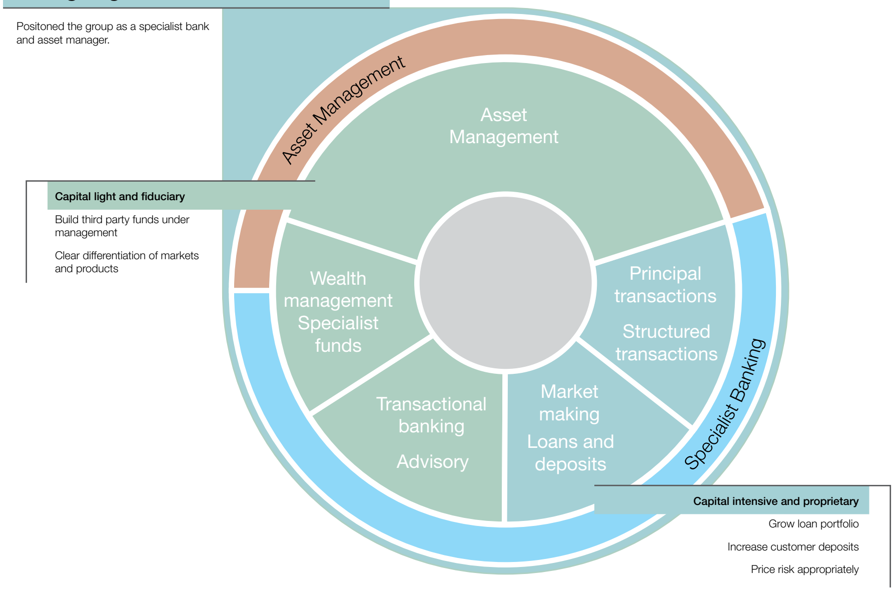
Risk awareness entrenched in our culture

- Intimate involvement of senior management underpins effective risk management which is critical to our success
- Culture of risk awareness is embedded into our reward programmes, values and day-to-day activities
- Shareholder and employee interests are aligned, with executives and employees owning approximately 15% of our issued share capital.

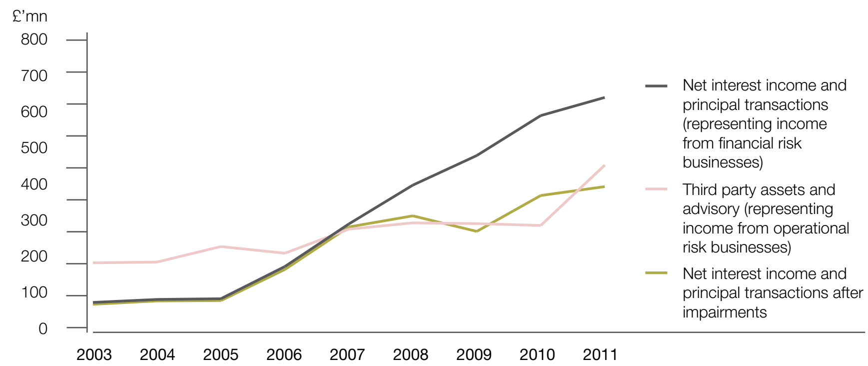
Doing the right thing

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

Realigning the business model



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



Operational risk businesses

- Asset management and wealth management
- Property funds
- Advisory services
- Transactional services

Core advisory and core banking

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

Financial risk businesses

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

- 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.

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.

Snapshot of the year and strategic focus (continued)

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

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.

Financial review

This commentary and analysis of Investec plc'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 29 to 35. 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.

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.

An overview of the operating environment impacting our business

United Kingdom

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

Eurozone

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

Australia 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.

Australia

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

United States

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

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

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

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

An overview of our key income drivers

We provide a wide range of financial products and services to a niche client base in two principal markets, the UK and Australia. 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 • Variable performance fees	• Movements in the value of the assets underlying client portfolios • Performance of portfolios against set benchmarks • Net sales	• Fees and commissions
Wealth and Investment			
	• Investment management fees levied as a percentage of assets under management • Commissions earned for executing transactions for clients	• Movement in the value of assets underlying client portfolios • The level of investment activity undertaken on behalf of clients, which, in turn, is affected by, among other things, the performance of the global stock markets (which drives investment opportunities), the equity investment risk appetite of our clients, tax considerations and market liquidity	• Fees and commissions
Property Activities			
	• Fees levied as a percentage of assets under management • Performance fees • Capital and debt raising fees • Asset acquisition fees • Property development fees	• Movements in the value of assets underlying client portfolios • Movements in the value of property assets	• Fees and commissions
	• Trading and development activities	• Macro- and micro- economic market conditions • Availability of profitable exit routes • Whether appropriate market conditions exist to maximise gains on sale	• Principal transactions

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	• Size of loan portfolio • Interest rate environment	• Net interest income
	• Fees earned for banking and lending services	• Levels of activity	• Net interest income and fees and commissions
	• Income earned in respect of growth and acquisition finance activities	• Quality of transactions and deal flow	• Fees and commissions and principal transactions
Investment Banking			
Corporate Finance	• Fees resulting from the provision of capital raising and financial advisory work	• Macro- and micro- economic fundamentals • Industry-specific trends • Underlying stock market activity particularly in our primary markets • Idea generation	• Fees and commissions
Institutional Research, Sales and Trading	• Brokerage commissions • Trading and market making activities	• Stock market trading volume and volatility • Client allocation of broking transactions • Our ability to source securities and execute trades on behalf of our clients	• Fees and commissions and principal transactions
Principal Investments	• Sale of investments and revaluation of trading investments • Dividends	• Macro- and micro- economic market conditions • Availability of profitable exit routes • Whether appropriate market conditions exist to maximise gains on sale • Attractive investment opportunities	• Principal transactions
Capital Markets			
	• Asset creation	• Rate environment • Size of loan portfolio • Credit spreads • Clients' capital and infrastructural investments • Client activity	• Net interest income • Principal transactions • Other operating income
	• Structuring, management and distribution	• Rate environment • Ability to originate appropriate assets • Credit spreads • Clients' capital and infrastructural investments • Market conditions in the relevant exit markets	• Net interest income • Fees and commissions • Principal transactions

An overview of our key income drivers (continued)

Business activity	Key income drivers	Income impacted primarily by	Income statement - reflected as
Capital Markets (continued)			
	• Derivative, sales, trading and hedging	• Client activity • Market conditions • Asset and liability creation • Product innovation • Market risk factors, primarily volatility and liquidity	• Principal transactions • Fees and commissions
	• Deposit and product structuring and distribution	• The level of clients' investment activity, which, in turn, is affected by among other things, the performance of the global markets and the investment risk appetite of our clients • Distribution channels • Ability to create innovative products • Regulatory requirements	• Net interest income • Principal transactions • Fees and commissions
	• Advisory	• The demand for our specialised advisory services, which, in turn is affected by applicable tax, regulatory and other economic factors e.g. project activity in the relevant markets	• Fees and commissions
Group Services and Other Activities			
International Trade Finance Central Funding	• These businesses earn a variety of management and banking fees, brokerage commissions • As this division holds the group's capital resources, income generated from these net assets is offset by the cost of group funding	• A variety of factors including: Interest rate environment • Exchange rates in the case of the International Trade Finance operations • Level of client activity	• All categories of income

Risks relating to our operations

An overview of key risks

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

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

Key risks	Reference
Credit and counterparty risk exposes us to losses caused by financial or other problems experienced by our clients	See pages 41 to 76
Liquidity risk may impair our ability to fund our operations	See pages 96 to 104
Our net interest earnings and net asset value may be adversely affected by interest rate risk	See pages 92 to 95
Market, business and general economic conditions and fluctuations could adversely affect our businesses in a number of ways	See pages 83 to 91
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 104 to 108
Operational risk may disrupt our business or result in regulatory action	See pages 104 to 108
We may be vulnerable to the failure of our systems and breaches of our security systems	See pages 104 to 108
We may have insufficient capital in the future and may be unable to secure additional financing when it is required	See pages 109 to 120
The financial services industry in which we operate is intensely competitive	See pages 19 and 20
Legal and regulatory risks are substantial in our businesses	See page 108 and 109
Reputational, strategic and business risk	See page 108
We may be exposed to pension risk in our UK operations	See page 108

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 plc posted a 5.3% decrease in operating profit after non-controlling interests to £134.3 million (2010: £141.9 million). The balance sheet remains strong with a capital adequacy ratio of 16.8% (2010: 15.9%).

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

Income statement analysis

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

Total operating income

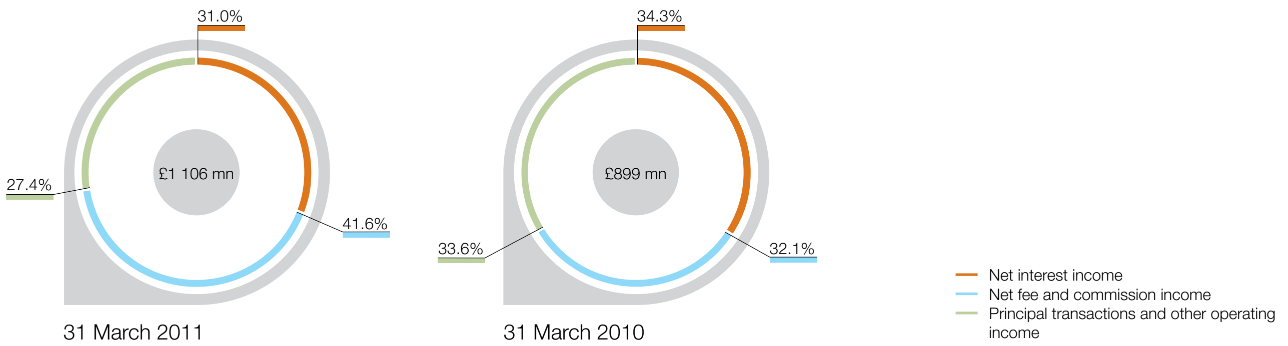
Total operating income before impairment losses on loans and advances of £1 106 million is 23.0% higher than the prior year. The various components of total operating income are analysed below.

£'000	31 March 2011	% of total income	31 March 2010	% of total income	% change
Net interest income	343 223	31.0%	308 484	34.3%	11.3%
Other income	762 649	69.0%	590 851	65.7%	29.1%
Net fee and commission income	459 901	41.6%	288 844	32.1%	59.2%
Principal transactions	253 955	23.0%	272 758	30.3%	(6.9%)
Other operating income	48 793	4.4%	29 249	3.3%	66.8%
Total operating income before impairment losses on loans and advances	1 105 872	100.0%	899 335	100.0%	23.0%

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

£'000	31 March 2011	% of total income	31 March 2010	% of total income	% change
Asset Management	179 012	16.2%	117 815	13.2%	51.9%
Wealth and Investment	102 232	9.2%	11 637	1.3%	>100.0%
Property Activities	12 881	1.2%	5 709	0.6%	>100.0%
Private Banking	173 045	15.6%	208 655	23.2%	(17.1%)
Investment Banking	87 061	7.9%	75 012	8.3%	16.1%
Capital Markets	497 510	45.0%	437 389	48.6%	13.7%
Group Services and Other Activities	54 131	4.9%	43 118	4.8%	25.5%
Total operating income before impairment losses on loans and advances	1 105 872	100.0%	899 335	100.0%	23.0%

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



Net interest income

Net interest income increased by 11.3% to £343.2 million (2010: £308.5 million) largely as a result of a sound performance from the bank's fixed income portfolio and an increase in lending activity in the Capital Markets division.

Net fee and commission income

Net fee and commission income increased by 59.2% to £459.9 million (2010: £288.8 million). Funds under management have grown substantially, supported by improved market indices and strong net inflows. Transactional activity remains mixed in the banking businesses although the Capital Markets and Investment Banking businesses recorded an increase in net fees and commissions.

Principal transactions

Income from principal transactions decreased by 6.9% to £254.0 million (2010: £272.8 million). The group has benefited from a good performance from its fixed income and direct investments portfolios, albeit that results are marginally behind the prior year.

Other operating income

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

Impairment losses on loans and advances

The uncertain pace of economic recovery has slowed the improvement in the level of non-performing loans and defaults have continued to increase. Impairment losses on loans and advances have increased from £215.7 million to £240.7 million. The credit loss charge as a percentage of average gross loans and advances has increased from 1.72% to 2.05%. The group expects this ratio to decrease during the forthcoming financial year. The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances has increased from 4.94% to 5.67%. The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.27 times (2010: 1.13 times). Further information on asset quality is provided on pages 56 to 71.

Impairment losses on loans and advances relating to the Kensington business amount to £69.9 million (2010: £81.2 million). The Kensington book has reduced from £4.7 billion to £4.2 billion.

Total expenses

The ratio of total operating expenses to total operating income increased from 62.8% to 67.1%.

Total expenses grew by 31.4% to £742.3 million (2010: £564.9 million) largely as a result of the appreciation of the Australian Dollar; the acquisitions of Rensburg Sheppards plc; the assets of Masterlease UK and Leasedirect Finance Limited; an increase in variable remuneration in certain divisions given improved profitability; an increase in headcount in certain divisions; and increased spending on brand development. Total staff compensation costs increased by 39.0% to £483.1 million (2010: £347.6 million), resulting in a compensation ratio of 43.7% (2010: 38.6%). Other operating expenses increased by 19.2% to £259.2 million.

The various components of total expenses are analysed below.

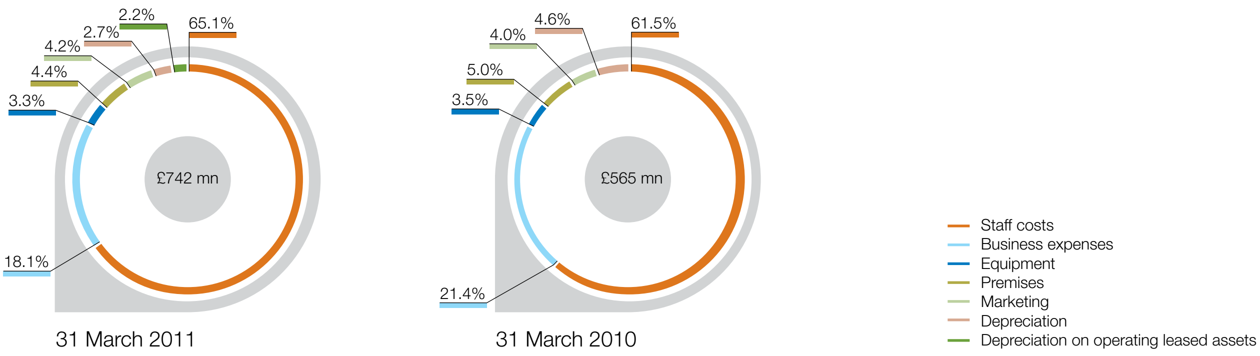
£'000	31 March 2011	% of total expenses	31 March 2010	% of total expenses	% change
Staff costs (including directors' remuneration)	(483 088)	65.1%	(347 563)	61.5%	39.0%
Business expenses	(134 557)	18.1%	(120 915)	21.4%	11.3%
Equipment (excluding depreciation)	(24 654)	3.3%	(19 612)	3.5%	25.7%
Premises (excluding depreciation)	(32 466)	4.4%	(28 466)	5.0%	14.1%
Marketing expenses	(31 258)	4.2%	(22 875)	4.0%	36.6%
Depreciation	(19 825)	2.7%	(25 511)	4.6%	(22.3%)
Depreciation on operating leased assets	(16 447)	2.2%	–	–	100.0%
Total expenses	(742 295)	100.0%	(564 942)	100.0%	31.4%

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

£'000	31 March 2011	% of total expenses	31 March 2010	% of total expenses	% change
Asset Management	(126 010)	17.0%	(92 480)	16.4%	36.3%
Wealth and Investment	(77 224)	10.4%	–	–	100.0%
Property Activities	(5 350)	0.7%	(3 812)	0.6%	40.3%
Private Banking	(116 718)	15.7%	(126 363)	22.4%	(7.6%)
Investment Banking	(97 805)	13.2%	(96 000)	17.0%	1.9%
Capital Markets*	(246 355)	33.2%	(200 089)	35.4%	23.1%
Group Services and Other Activities	(72 833)	9.8%	(46 198)	8.2%	57.7%
Total expenses	(742 295)	100.0%	(564 942)	100.0%	31.4%

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

% of total expenses



Balance sheet analysis

Since 31 March 2010:

- Total shareholders' equity (including non-controlling interests) increased by 25.1% to £2.1 billion largely as a result of retained earnings and the issue of shares
- Total assets increased by 5.4% to £23.1 billion largely as a result of an increase in loans and advances and our fixed income portfolio.

Business unit review

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

Segmental information

For the year to 31 March £'000	AM	WI	PA	PB	IB	CM	GSO	Total group
2011								
Total operating income	179 012	102 232	12 881	173 045	87 061	497 510	54 131	1 105 872
Impairment losses on loans and advances	–	–	–	(150 753)	–	(101 643)	11 704	(240 692)
Net operating income	**179 012**	**102 232**	**12 881**	**22 292**	**87 061**	**395 867**	**65 835**	**865 180**
Operating costs	(126 010)	(77 224)	(5 350)	(116 718)	(97 805)	(229 908)	(72 833)	(725 848)
Depreciation of operating leased assets	–	–	–	–	–	(16 447)	–	(16 447)
Operating profit/(loss)	**53 002**	**25 008**	**7 531**	**(94 426)**	**(10 744)**	**149 512**	**(6 998)**	**122 885**
Operating loss/(profit) attributable to non-controlling interests	–	–	–	–	12 916	326	(1 790)	11 452
Operating profit/(loss) after non-controlling interests	**53 002**	**25 008**	**7 531**	**(94 426)**	**2 172**	**149 838**	**(8 788)**	**134 337**
Cost to income ratio	70.4%	75.5%	41.5%	67.4%	112.3%	49.5%	134.5%	67.1%
2010								
Total operating income	117 815	11 637	5 709	208 655	75 012	437 389	43 118	899 335
Impairment losses on loans and advances	–	–	–	(74 570)	–	(128 670)	(12 500)	(215 740)
Net operating income	**117 815**	**11 637**	**5 709**	**134 085**	**75 012**	**308 719**	**30 618**	**683 595**
Operating costs	(92 480)	–	(3 812)	(126 363)	(96 000)	(200 089)	(46 198)	(564 942)
Depreciation of operating leased assets	–	–	–	–	–	–	–	–
Operating profit/(loss)	**25 335**	**11 637**	**1 897**	**7 722**	**(20 988)**	**108 630**	**(15 580)**	**118 653**
Operating loss/(profit) attributable to non-controlling interests	–	–	–	–	16 862	(65)	6 437	23 234
Operating profit/(loss) after non-controlling interests	**25 335**	**11 637**	**1 897**	**7 722**	**(4 126)**	**108 565**	**(9 143)**	**141 887**
Cost to income ratio	78.5%	–	66.8%	60.6%	128.0%	45.7%	107.1%	62.8%

Where: 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.

Asset Management

Overview of performance

Operating profit of the Asset Management division increased significantly to £53.0 million (2010: £25.3 million). The increase in profitability of the UK and international business is due to higher average assets under management, positive net flows and increased performance fees. Performance fee revenue increased to £20.4 million (2010: £4.2 million).

Developments

- We continue to deepen our distribution footprint and develop our seven investment capabilities
- We had record net inflows for the year of £7.3 billion and assets under management were £30.8 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

Overview of performance

On 30 March 2010, it was announced that Investec and Rensburg Sheppards plc had reached agreement on the terms of a recommended all share offer under which Investec would acquire the entire issued and to be issued ordinary share capital of Rensburg Sheppards plc not already owned by it. Following shareholder and regulatory approvals the acquisition became effective on 25 June 2010. Prior to this date, Investec's 47.1% interest in Rensburg Sheppards plc was accounted for as an associate. As a results of requirements under the new accounting rules, the group was required to fair value its existing 47.1% holding in Rensburg Sheppards plc at the point it acquired the remaining 52.9%. This has resulted in an exceptional gain of £73.5 million (net of acquisition costs). The group issued £37.9 million shares to acquire the remaining shares in Rensburg Sheppards plc for a consideration of £180.4 million The consideration combined with the existing fair valued holding resulted in the recognition of goodwill and intangibles of £196.5 million and £133.4 million, respectively. The Rensburg Sheppard's group comprised two principal trading subsidiaries, Rensburg Sheppards Investment Management Limited (RSIM) and Rensburg Fund Management Limited (RFM). RFM was sold on 18 January 2011.

The Private Bank Wealth and Investment specialisation was moved to the Wealth and Investment division with effect from 1 July 2010.

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

Developments

- Equity markets declined during the first quarter of the financial year, before beginning a gradual recovery during the remainder of the year and ending the year in positive territory (the FTSE 100 index ended the year 5% higher than it started). The level of the equity markets is a key factor influencing the value of client portfolios and funds under management (the others being investment performance and net organic growth in clients) and hence the level of investment management fee income
- The Edinburgh office, which was opened two years ago, continued to deliver its planned growth
- The sale of RFM, the Rensburg Sheppards group's unit trust management business which accounted for approximately 10% of the Rensburg Sheppards group, was successfully completed in January 2011. The company was sold to Franklin Templeton Global Investors Limited (UK) for a cash consideration of £45 million
- The Financial Services Compensation Scheme levied an exceptional contribution from investment management businesses to meet the cost of compensating investors who suffered losses following the failure of investment firm Keydata. Rensburg Sheppards Investment Management incurred a levy of £2.45 million during the year in respect of Keydata (which was accounted for as a pre-acquisition cost).

Outlook

- While equity markets have improved during the year, the economic outlook remains uncertain. Future performance will be influenced significantly by the level of the equity markets
- We will continue to seek to achieve net organic growth in funds under management of 5% per annum
- Market expectations are for an increase in the UK base rate during the first half of the financial year from its historic low level. This would have a positive impact on performance as it will increase the margin on interest earned on client money deposits
- Conversely, the Individual Liquidity Adequacy Standards (ILAS) regulations, which are beginning to affect the way that banks categorise certain deposits, including those made by Investec Wealth and Investment, may put downward pressure on the rates which can be negotiated on deposits in the future. The full effect of these regulations is yet to emerge and the company is continuing to monitor developments and seek to mitigate the risk that the margin earned on clients' and firm's deposits going forward may reduce
- The conclusions and proposals of the retail distribution review (RDR) continue to be debated. This review is seeking to change professional qualification requirements, increase the transparency of charging structures, and tighten the rules governing firms' rights to promote themselves as independent advisers. A significant recommendation of the review is that unit trust trail commission be phased out. The full impact that the RDR will have on the industry remains unclear and the progress of the review and its potential consequences are being monitored by a specific committee within Wealth and Investment.

Property Activities

Overview of performance

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

Developments

Australia

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

Outlook

Australia

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

Private Banking

Overview of performance

The Private Banking division reported an operating loss of £94.4 million (2010: operating profit of £7.7 million) as a result of low activity levels, increased impairments and write offs. The private client core lending book is in line with the prior year at £5.2 billion and the deposit book grew by 2.1% to £7.3 billion (2010: £7.2 billion).

Developments

UK and Europe

- Private Bank UK and Europe can be analysed in three distinct sub-sets for the year to March 2011: the UK banking business, Ireland and the Trust business
- The UK banking business has experienced:
  - Continued moderate increases in activity levels across all lending specialisations
  - Increased impairments as a result of the limited improvement in the economic situation, notably in Ireland
  - A stable cost of funds and opportunities to reprice loans to reflect the new market conditions
  - Low deposit raising activities as the group focuses on managing the cost of funds and levels of surplus liquidity
  - A series of new product launches aimed at diversifying our portfolio of deposit products
  - A focused team in place to explore and develop transactional banking capabilities.
- The Private Bank Wealth Management business was migrated into Investec Wealth and Investment with effect from 1 July 2010
- The Irish operating environment has continued to be very difficult resulting in increased impairments over the period. No new business is being written within this geography

- The Trust business has been subject to an extensive strategic review over the period resulting in the closure of the Guernsey based Trust business and a significant reduction in headcount in the Jersey based business. The emphasis now is the development of new business opportunities.

Australia

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

Outlook

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

UK and Europe

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

Australia

High Income Transactional Banking

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

Private Client Investment Banking

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

Investment Banking

Overview of performance

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

The Investment Banking division recorded an operating profit of £2.2 million (2010: operating loss of £4.1 million).

Developments

Corporate Finance

UK and Europe

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

Australia

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

Institutional Research, Sales and Trading

UK and Europe

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

Australia

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

Principal Investments

Australia and Hong Kong

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

Outlook

Corporate Finance

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

Institutional Research, Sales and Trading

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

Principal Investments

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

Capital Markets

Overview of performance

The Capital Markets division posted a strong increase in operating profit to £149.8 million (2010: £108.6 million). The division benefited from a solid performance from its fixed income portfolio and increased activity levels across its advisory and structuring businesses, notably within the Principal Finance, Structured Finance and Structured Equity Finance teams. The core lending book grew by 18.7% to £2.3 billion (2010: £1.9 billion).

Developments

UK and Europe

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

Kensington

- The Kensington business remains profitable. We launched a new mortgage offering and extended the product range during the year
- The total value of legacy mortgage assets on Kensington's balance sheet continues to decrease (as the legacy book has been managed down) and as at 31 March 2011 was £4.2 billion. £2.6 billion of these assets have been securitised and the remaining £1.6 billion are in warehouse lines.
  - Accounting conventions require the bank to consolidate all of these assets onto the bank's balance sheet. However, Investec plc has limited exposure to these assets.

- Kensington (and therefore Investec plc) carries risk exposure or an investment in a portion of the securitised assets and warehouse lines only. The value of this net investment as at 31 March 2011 was £600 million.
- The £1.6 billion of warehouse lines are largely provided by third party funders. These lines are non-recourse to Investec plc, other than the net investment we retain.
- The investment of £600 million would only be impaired if excess income earned and retained by the portfolio structure is not sufficient to cover costs and bad debts (as mentioned above Kensington however, remains profitable with sufficient excess spread). These exposures represent approximately 2.6% of Investec plc's assets.

Further detail is provided on pages 79 to 82.

Australia

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

Outlook

UK and Europe

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

Australia

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

Group Services and Other Activities

Overview of performance

Group Services and Other Activities posted an operating loss of £8.8 million (2010: operating loss of £9.1 million).

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Risk and governance

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 37 to 122) with further disclosures provided within the financial statements section (pages 151 to 226). All sections, paragraphs, tables and graphs on which an audit opinion is expressed are marked as audited.

Philosophy and approach

The group recognises that an effective risk management function is fundamental to the sustainability of its business. Taking international best practice into account, our comprehensive risk management process involves identifying, quantifying, managing and mitigating the risks associated with each of our businesses.

Risk awareness, control and compliance are embedded in all our day-to-day activities.

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

We monitor and control risk exposure through credit, market, liquidity, operational and legal risk reporting teams. This approach is core to assuming a tolerable risk and reward profile, helping us to pursue controlled growth across our business.

Group Risk Management operates within an integrated geographical and divisional structure, in line with our management approach, ensuring that the appropriate processes are used to address all risks across the group. Group Risk Management has specialist divisions in the UK, South Africa and Australia with smaller risk divisions in other regions to promote sound risk management practices.

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

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

This section should be read in conjunction with, and against the background provided in, the overview of the operating environment section on pages 20 to 22.

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

- Intimate involvement of senior management ensuring stringent management of risk, liquidity and capital
- Strong risk and capital management culture embedded into our day-to-day activities and values. We seek to achieve an appropriate balance between risk and reward in our business, taking cognisance of all stakeholders' interests
- Reward programmes that align directors' and employees' interests with those of stakeholders, ensuring that these programmes promote effective risk management. Annual bonuses are closely linked to business performance, determined in the main by realised Economic Value Added profit performance against pre-determined targets above a risk and capital weighted return. This model has been consistently applied for in excess of ten years
- Credit and counterparty exposures to a select target market; our risk appetite continues to favour lower risk, income-based lending, with credit risk taken over a short to medium term. Exposure is taken against defined target clients displaying a profile of good character, sound financial strength

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.

and integrity, a core competency and a sound track record in the activity funded. We have, however, continued to experience an increase in impairments and defaults as a result of weak economic conditions. The credit loss ratio increased from 1.72% to 2.05%. The group expects this ratio to decrease during the forthcoming financial year.

- Limited exposure to rated and unrated structured credit investments; representing less than 3% of total assets
- A low leverage (gearing) ratio of 11.2 times
- A low level of net assets and liabilities exposed to the volatility of IFRS fair value accounting; with 'level 3' assets amounting to 1.8% of total assets
- Low equity (investment) risk exposure; within total investments comprising 1.2% 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 0.4% of total operating income
- A high level of readily available, high quality liquid assets; average cash and near cash of approximately £4.7 billion, representing 25% to 35% of our liability base. We continue to maintain a low reliance on interbank wholesale funding to fund core lending asset growth
- Continued increase in retail customer deposits and a growing retail franchise
- Healthy capital ratios; we have always held capital in excess of regulatory requirements and we intend to perpetuate this philosophy. We have continued to strengthen our capital base during the year.
- Geographical and operational diversity with a high level of recurring income which continues to support sustainability of operating profit.

Geographic summary of the year in review from a risk perspective

Detailed information on key developments during the financial year in review is provided in the sections that follow (refer to pages 48 to 49, page 90 and pages 102 to 104), with a high level geographic summary of the most salient aspects provided below.

UK and Europe

Credit risk

The year in review remained challenging as the severe deterioration in economic conditions globally continued to impact on clients' activities and underlying asset values. Impairments and defaults have as a result continued to increase. The Irish market was particularly affected by economic difficulties and the local banking crisis. Core loans and advances increased marginally by 2.6% to £5.6 billion, primarily as a result of a cautious approach in accepting new loan exposures and a conscious effort to rebalance our existing portfolio mix. Defaulted loans (net of impairments) have increased from 3.16% to 4.23% of core loans and advances and the credit loss ratio has increased from 1.72% to 2.22%, largely as a result of an increase in impairments in our Private Banking division, notably against our Irish loan portfolio.

Traded market risk

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

Balance sheet risk

The bank maintained high cash and near cash balances throughout the year but did curtail its inflow of deposits given that it had significant surplus liquidity. Total customer deposits increased by 9.8% from 1 April 2010 to £8.8 billion at 31 March 2011. Good growth was experienced in the bank's corporate and structured equity deposit book, whilst the Private Bank slowed its intake of deposits. Average cash and near cash balances amounted to £4.6 billion during the year.

Australia

Credit risk

During the year core loans and advances to customers increased by 6.3% to A$3.2 billion, predominantly through selective growth within the professional finance business unit; which provides finance to targeted members of the medical and accounting professions. This has resulted in a continued shift in portfolio mix away from lending secured by property towards other asset classes. There has been limited change in credit quality throughout the year under review. Defaults (net of impairments) have fallen to 9.54% of core loans and advances and the credit loss ratio has decreased from 1.67% to 1.53%. A continued focus on asset quality remains fundamental to our approach to the credit environment, which is likely to remain challenging for some time.

Traded market risk

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

Balance sheet risk

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

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

Salient features

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

	31 March 2011	31 March 2010
Net core loans and advances (£'million)	7 652	7 253
Gross defaults as a % of gross core loans and advances	7.88%	6.69%
Defaults (net of impairments) as a % of net core loans and advances	5.67%	4.94%
Net defaults (after collateral and impairments) as a % of net core loans and advances	–	–
Credit loss ratio*	2.05%	1.72%
Structured credit investments as a % of total assets	2.67%	2.14%
Banking book investment and equity risk exposures as a % of total assets	1.2%	1.0%
Traded market risk: one-day value at risk (£'million)	1.1	1.8
Cash and near cash (£'million)	4 502	4 755
Customer accounts (deposits) (£'million)	10 245	9 059
Core loans to equity ratio	3.7x	4.4x
Total gearing/leverage ratio^	11.2x	13.3x
Core loans (excluding own originated assets which have been securitised) to customer deposits	70.0%	74.3%
Capital adequacy ratio	16.8%	15.9%
Tier 1 ratio	11.6%	11.3%

* *Income statement impairment charge on loans as a percentage of average advances.*
^ *Total assets to total equity.*

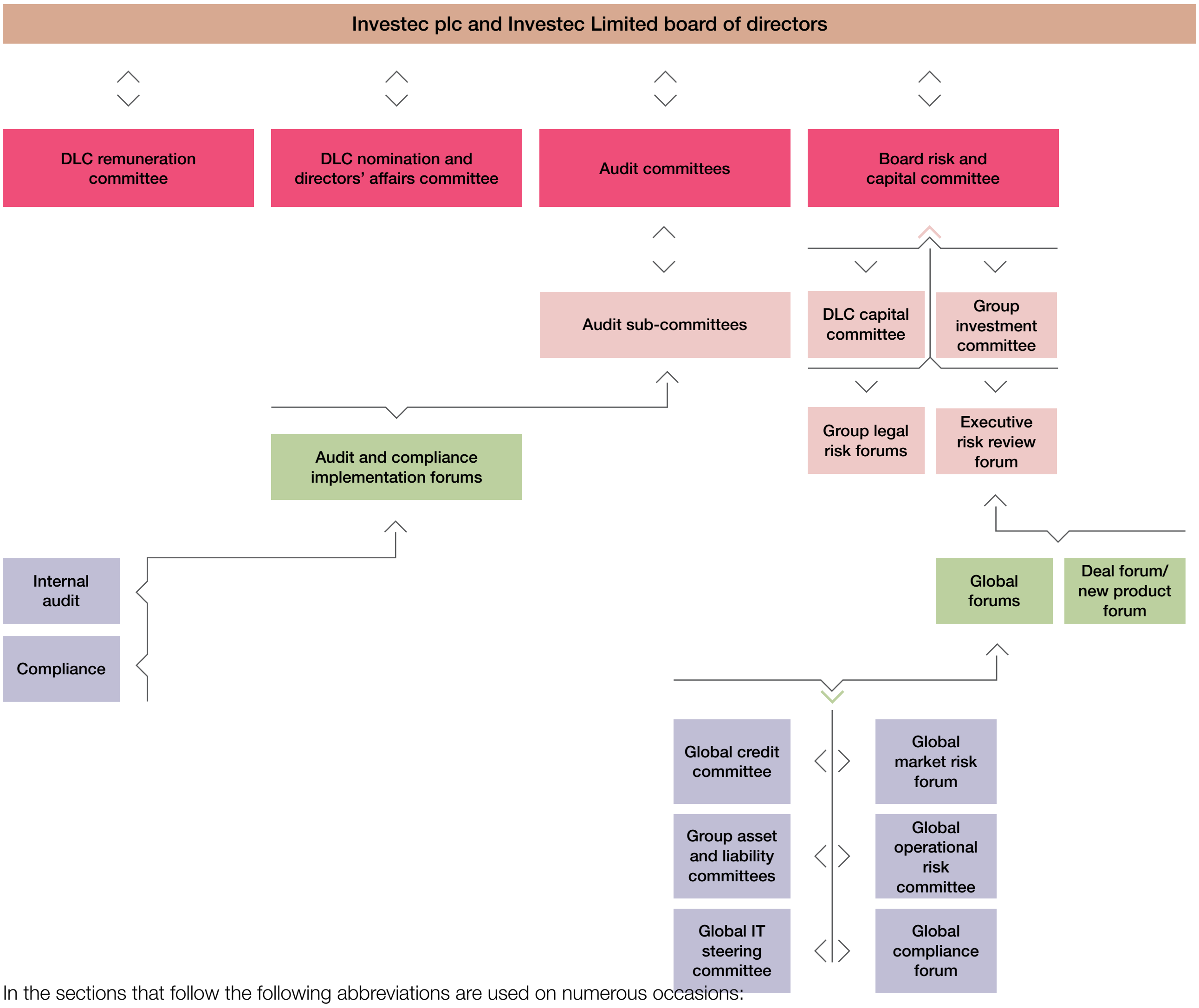
An overview of key risks

In our ordinary course of business we face a number of risks that could affect our business operations. These risks have been highlighted on page 25. The sections that follow provide information on a number of these risk areas.

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

Risk management framework, committees and forums

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



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

BRCC	Board risk and capital committee
ERRF	Executive risk review forum
FSA	Financial Services Authority
APRA	Australian Prudential Regulatory Authority

Credit and counterparty risk management

Credit and counterparty risk description Audited

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

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

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

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

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

Credit and counterparty risk governance structure Audited

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

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

- Day-to-day arrears management and regular arrears reporting ensures that individual positions and any potential trends are dealt with in a timely manner
- Watchlist committee, which reviews the management of distressed loans, potential problem loans and exposures in arrears that require additional attention and supervision
- Corporate watch forum, which reviews and manages exposures that may potentially become distressed as a result of changes in the economic environment or adverse share price movements, or that are vulnerable to volatile exchange rate or interest rate movements
- Arrears, default and recoveries forum which specifically reviews and manages distressed loans and potentially distressed loans within the Private Bank division.

Whilst we do not have a separate country risk committee, the local and global credit committees will consider, analyse, and assess the appropriate limits to be recorded when required, to extend the

Our overall risk management philosophies, practices and frameworks have remained largely unchanged, and have held us in good stead.

loans to foreign jurisdictions. The local group credit committee has the authority to approve country limits within mandate. The global credit committee is responsible for approving country limits not within the mandate of local group credit committees.

Credit and counterparty risk appetite

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

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

Our assessment of our clients includes consideration of their character and integrity, core competencies, track record and financial strength. A strong emphasis is placed on income and cash flow streams generated by the clients, third party income or cash flow streams derived from lease or rental agreements in support of property related transactions. In this manner, we seek comfort in mitigating our risk by thoroughly assessing the ability of our borrowers to meet their payment obligations. Furthermore we have very little appetite for unsecured debt and ensure that good quality collateral is provided in support of obligations (refer to pages 72 to 76 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 77 and 78 for further information).

Sustainability considerations

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

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

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

Management and measurement of credit and counterparty risk Audited

Fundamental principles employed in the management of credit and counterparty risk are:

- A clear definition of our target market
- A quantitative and qualitative assessment of the creditworthiness of our counterparties
- Analysis of all related risks, including concentration risk (concentration risk considerations include asset class, industry, counterparty, and geographical concentration)
- Prudential limits
- Regular monitoring and review of existing and potential exposures once facilities have been approved
- A high level of executive involvement in decision-making with non-executive review and oversight.

Regular reporting of credit and counterparty risk exposures within our operating units is made to management, the executives and the board at the BRCC. The board regularly reviews and approves the appetite for credit and counterparty risk, which is documented in risk appetite statements and policy documents and implemented by our group credit division.

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

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

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

The internal rating models used are specific to each portfolio. The internal ratings are used as an input into the credit decision and as a means of assessing the risk of rated portfolios. Ongoing development of internal rating models has yielded good results in project finance, private bank property related transactions, corporate, bank and financial institutions areas of operation. We remain focused on developing our models in the light of our idiosyncratic risk profile and against extreme downturn events.

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

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

Credit and counterparty risk in the UK and Europe

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

Private Banking

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

The Structured Property Finance area provides senior debt and secondary funding for property transactions covering the residential and commercial markets. Client quality and expertise are at the core of our credit philosophy. Our exposure to the property market is well diversified with strong bias towards prime locations for residential exposure and tenant quality for commercial assets. Debt service cover ratios are a key consideration in the lending process supported by reasonable loan to security values. Most assets are located in the UK, however our exposure to Irish domiciled assets has been under intensive management during the past two years. Irish property exposure is appropriately impaired and significant additional specific impairments were taken during the financial year following concerns with respect to the weakening of economic conditions in Ireland. Where we have had exposures to properties linked to asset performance we have experienced extremely illiquid market conditions and have had to employ appropriate strategies to exit distressed positions. All facilities are reviewed at least annually and property values are monitored by reference to reports from our appointed panel valuation firms.

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

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

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.

Specialised Lending provides structured credit facilities to high net worth individuals in the fund management, media/music, sports and professional services sector. Risk is mitigated through sector expertise, client quality and certainty of serviceability.

Specialised Banking provides bespoke secured lending to high net worth and high income individuals. Credit risk is assessed against prudent debt servicing cover ratios. Lending is underpinned by good quality assets, including residential and commercial property, bank guarantees, discretionary investment portfolios and cash deposits. In determining serviceability, we also consider the liquidity of the client, including cash reserves and liquid asset holdings. Funding is characterised by long-term annuity income and a historically low probability of default. The total bespoke mortgage portfolio at 31 March 2011 was £191 million. The high sustainable income streams and liquid asset holdings exhibited by our private clients is reflected in the quality of this portfolio which has continued to show little stress during the financial year in review.

An analysis of the Private Banking loan portfolio and asset quality information is provided on pages 70 and 71.

Capital Markets

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

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

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

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

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

- Structured and Asset Finance: loans/leases against fixed assets linked to the success of the business they are employed in. These transactions amortise from anticipated cash flows
- Project Finance: provides advisory, debt and equity arranging services to renewable energy projects and public/private projects, e.g. roads, hospitals, prisons. Loans are secured on the project themselves with a high degree of due diligence around both the delivery risks and the cash flow to repay any facilities
- Commodities and Resource Finance: provides project finance and working capital lending and hedging to existing, producing, base and precious metal entities. Provable reserves and strong cash flow are paramount considerations in the credit decision process
- Principal Finance: origination of assets for securitisation (including the Kensington platform), broking and trading, investing as principal, and management of CLO's. Included within Principal Finance is the specialist corporate capital team, which originates and participates in senior debt facilities in the leveraged buy-out market relating to medium to large corporates. Specialist corporate capital's average counterparty exposure is approximately £9 million per entity, giving portfolio diversity

An analysis of the Capital Markets loan portfolio and asset quality information is provided on pages 70 and 71.

Investment Banking

Counterparty risk in this area is modest. All share underwriting is fully sub-underwritten with well known market counterparties. The business also trades approved shares on an approved basis and makes markets in shares where we are appointed corporate broker under pre-agreed market risk limits.

Settlement trades are all on a delivery versus payment basis, through major stock exchanges. Credit risk only occurs in the event of counterparty failure and would be linked to any mark to market losses on the underlying security.

Asset Management

Investec Asset Management Limited regularly transacts with well known rated market counterparties. These are all on an exchange traded delivery versus payment basis and exposure is to a move in the underlying security in the unlikely event a counterparty fails. Direct cash placements follow our policy, as outlined above, of only being exposed to systemic banks of investment grade quality in the UK, Europe and US.

Credit and counterparty risk in Australia

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

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

An analysis of the Private Banking and Capital Markets loan portfolios and asset quality information is provided on pages 70 and 71.

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 57 and 58). The impairment definitions and guidelines are consistent with IFRS. IFRS differs from the requirements laid out in the 'International Convergence of Capital Measurement and Capital Standards' Basel II framework which has been adopted by the banking regulators in all of the locales in which we have operations. IFRS focuses on the concept of incurred loss, whereas Basel II centres on the concept of expected loss. The reconciling differences are primarily due to the fact that IFRS impairments only reflect a decrease in the value of assets with credit risk where a 'loss trigger event' has occurred, and only that portion of the expected loss which has actually been incurred at the reporting date. A loss trigger event is an event which exhibits a high correlation to the crystallisation of loss.

IFRS differs from the requirements laid out in the 'International Convergence of Capital Measurement and Capital Standards' Basel II framework which has been adopted by the banking regulators in all of the locales in which we have operations.

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

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

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

Credit risk mitigation Audited

Collateral is assessed with reference to the sustainability of value and the likelihood of realisation. Acceptable collateral generally exhibits characteristics that allow for it to be easily identified and appropriately valued.

The bulk of collateral taken by the Private Bank, is commercial and residential real estate. Commercial real estate generally takes the form of good quality property often underpinned by strong third party leases. Residential property is also generally of a high quality and based in desirable locations. In the year under review the value of residential and commercial real estate remained under pressure with low/static growth in all our key operating jurisdictions (UK, Ireland and Australia). In particular certain property assets remained under considerable pressure. Planning and development transactions in the Irish market were significantly impaired as a result of ongoing economic difficulties in that country. Significant impairments were recorded against these assets. Residential and commercial property valuations will continue to form part of our increased focus on collateral assessment.

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

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

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

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

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

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

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

An analysis of collateral is provided on pages 72 to 76.

Credit and counterparty risk year in review

UK and Europe

The year in review remained challenging as the severe deterioration in economic conditions globally continued to impact on clients' activities and underlying asset values. Impairments and defaults have as a result continued to increase. The Irish market was particularly affected by economic difficulties and the local banking crisis.

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

Core loans and advances increased marginally by 2.6% to £5.6 billion, primarily as a result of a cautious approach in accepting new loan exposures and a conscious effort to rebalance our existing portfolio mix.

Defaulted loans (net of impairments) have increased from 3.16% to 4.23% of core loans and advances and the credit loss ratio has increased from 1.72% to 2.22%, largely as a result of an increase in impairments in our Private Banking division, notably against our Irish loan portfolio. Gross default loans (before collateral and impairments) in the Private Bank have risen from 5.63% at 31 March 2010 to 9.41% at 31 March 2011. The UK and Channel Islands businesses have shown marginal deterioration in gross default loans from 3.2% to 3.9% for the year. However, our Irish branch gross defaults have deteriorated from 19.5% of the gross Irish loan portfolio to 40.8% as at 31 March 2011. These loan defaults are predominantly related to planning and development transactions in Ireland.

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

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

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

The charge to the income statement with respect to the Kensington mortgage portfolio declined from £81.2 million to £69.9 million during the year. Whilst we have seen an improvement in arrears in our UK portfolio, impairments against our Irish portfolio increased. The overall amount in arrears has remained stable, and the legacy book continues to decrease in size. During the year under review, Kensington resumed new business origination, focusing on the prime mortgage market. The origination continues to gain traction, and arrears in the new business have been negligible.

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

The group Risk division has continued to work closely with the business units to manage the increased market risks and resultant pressure on our lending portfolios.

Australia

During the year core loans and advances to customers increased by 6.3% to A$3.2 billion. predominantly through selective growth within the professional finance business unit; which provides finance to targeted members of the medical and accounting professions. This has resulted in a continued shift in portfolio mix away from lending secured by property towards other asset classes.

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

Credit risk-regulatory considerations

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

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

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

Credit and counterparty risk information

Pages 41 to 49 describe where and how credit risk is assumed in our operations. The tables that follow provide an analysis of the our credit and counterparty exposures.

An analysis of gross credit and counterparty exposures

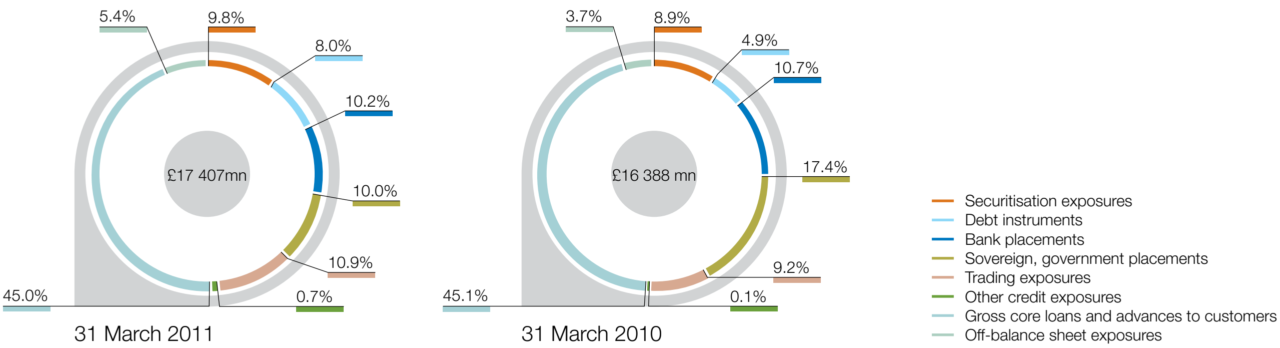
Credit and counterparty exposures increased by 6.2% to £17.4 billion largely as a result of an increase in fixed income investments and core loans and advancers. Cash and near cash balances remained high at £4.5 billion and are largely reflected in the following line items in the table below: debt instruments; bank placements and sovereign, government placements.

Audited £'000	31 March 2011	31 March 2010	% change	Average*
On-balance sheet exposures	16 471 582	15 776 520	4.4%	16 124 052
Securitisation exposures arising from securitisation/principal finance activities	1 707 505	1 456 785	17.2%	1 582 145
Rated instruments	457 645	384 955	18.9%	421 300
Unrated instruments	194 799	168 497	15.6%	181 648
Other	1 055 061	903 333	16.8%	979 197
Debt instruments – non sovereign (NCDs, bonds held, debentures)	1 390 826	807 625	72.2%	1 099 226
Bank placements	1 774 550	1 744 122	1.7%	1 759 336
Sovereign, government placements	1 740 502	2 854 100	(39.0%)	2 297 301
Trading exposures (positive fair value excluding potential future exposures)	1 897 903	1 507 367	25.9%	1 702 635
Other credit exposures	124 860	17 311	>100%	71 086
Gross core loans and advances to customers**	7 835 436	7 389 210	6.0%	7 612 323
Off-balance sheet exposures	935 708	611 024	53.1%	773 367
Guarantees	51 920	50 393	3.0%	51 157
Contingent liabilities, committed facilities, other	883 788	560 631	57.6%	722 210
Total gross credit and counterparty exposures pre collateral or other credit enhancements	17 407 290	16 387 544	6.2%	16 897 419

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

** *As calculated on page 57.*

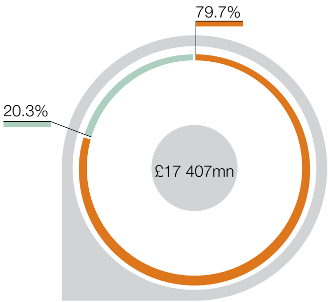
An analysis of gross credit and counterparty exposures



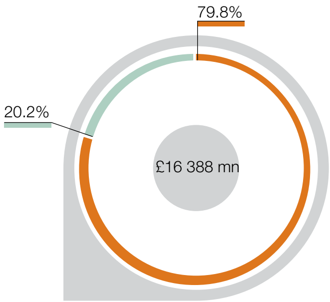
An analysis of gross credit and counterparty exposures by geography

Audited £'000	UK and Europe		Australia		Total	
	31 March 2011	31 March 2010	31 March 2011	31 March 2010	31 March 2011	31 March 2010
On-balance sheet exposures	13 147 291	12 637 395	3 324 291	3 139 125	16 471 582	15 776 520
Securitisation exposures arising from securitisation/principal finance activities	1 641 155	1 387 876	66 350	68 909	1 707 505	1 456 785
Rated instruments	391 295	316 046	66 350	68 909	457 645	384 955
Unrated instruments	194 799	168 497	–	–	194 799	168 497
Other	1 055 061	903 333	–	–	1 055 061	903 333
Debt instruments (NCDs, bonds held, debentures)	623 808	205 834	767 018	601 791	1 390 826	807 625
Bank placements	1 678 078	1 674 189	96 472	69 933	1 774 550	1 744 122
Sovereign, government placements	1 585 365	2 348 319	155 137	505 781	1 740 502	2 854 100
Trading exposures (positive fair value excluding potential future exposures)	1 816 235	1 467 111	81 668	40 256	1 897 903	1 507 367
Other credit exposures	70 883	17 311	53 977	–	124 860	17 311
Gross core loans and advances to customers	5 731 767	5 536 755	2 103 669	1 852 455	7 835 436	7 389 210
Off-balance sheet exposures	730 962	442 115	204 746	168 909	935 708	611 024
Guarantees	11 983	9 947	39 937	40 446	51 920	50 393
Contingent liabilities, committed facilities, other	718 979	432 168	164 809	128 463	883 788	560 631
Total gross credit and counterparty exposures pre collateral or other credit enhancements	13 878 253	13 079 510	3 529 037	3 308 034	17 407 290	16 387 544

An analysis of gross credit and counterparty exposures by geography



31 March 2011



31 March 2010

UK and Europe
Australia

A further analysis of our on-balance sheet credit and counterparty exposures

The table below indicates in which class of asset (on the face of the consolidated balance sheet) our on-balance sheet credit and counterparty exposures are reflected. Not all assets included in the balance sheet bear credit and counterparty risk.

Audited £'000	Securitisation exposures arising from securitisation/principal finance activities				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	–	–	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	–
Trading securities	33 591	19 505	14 086	–	1 015
Derivative financial instruments	7 521	–	–	7 521	–
Investment securities	66 365	66 365	–	–	1 389 811
Loans and advances to customers	869 799	345 528	99 525	424 746	–
Loans and advances to customers – Kensington warehouse assets	619 246	–	–	619 246	–
Securitised assets	107 435	26 247	81 188	–	–
Deferred taxation assets	–	–	–	–	–
Other assets	3 548	–	–	3 548	–
Interests in associated undertakings	–	–	–	–	–
Property and equipment	–	–	–	–	–
Goodwill	–	–	–	–	–
Intangible assets	–	–	–	–	–
Total	1 707 505	457 645	194 799	1 055 061	1 390 826
As at 31 March 2010					
Cash and balances at central banks	–	–	–	–	–
Loans and advances to banks	–	–	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	–
Trading securities	29 063	23 305	5 758	–	–
Derivative financial instruments	22 769	–	–	22 769	–
Investment securities	62 390	62 390	–	–	807 625
Loans and advances to customers	539 280	213 513	8 035	317 732	–
Loans and advances to customers – Kensington warehouse assets	555 307	–	–	555 307	–
Securitised assets	240 451	85 747	154 704	–	–
Deferred taxation assets	–	–	–	–	–
Other assets	7 525	–	–	7 525	–
Interests in associated undertakings	–	–	–	–	–
Property and equipment	–	–	–	–	–
Goodwill	–	–	–	–	–
Intangible assets	–	–	–	–	–
Total	1 456 785	384 955	168 497	903 333	807 625

1. *Largely relates to exposures that are classified as equity risk in the banking book. Further information is provided on pages 83 to 85.*
2. *Largely relates to impairments and the impact of hedge accounting.*
3. *Whilst the group manages all risks (including credit risk) from a day-to-day operational perspective, these assets are within special purpose vehicles that ring fence the assets to specific credit providers and limits security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicles that the group has reflected in the 'total credit and counterparty exposure' with the*

Bank placements	Sovereign, government placements	Trading exposures (positive fair value excluding potential future exposures)	Other credit exposures	Gross core loans and advances to customers	Total credit and counter-party exposure	Assets that we deem to have no legal credit exposure	Note refer-ence	Total balance sheet
21	1 142 355	162	–	–	1 142 538	27		1 142 565
916 671	–	–	–	–	916 671	–		916 671
583 085	–	816 648	–	–	1 399 733	73 215		1 472 948
–	1 744	390 396	5 933	–	432 679	234 349	1	667 028
–	–	536 631	–	–	544 152	202 558	1	746 710
248 652	596 403	168	–	–	2 301 399	85 257	1	2 386 656
–	–	–	53 977	7 351 273	8 275 049	(124 989)	2	8 150 060
–	–	–	–	–	619 246	992 935	3	1 612 181
–	–	–	–	484 163	591 598	3 570 768	4	4 162 366
–	–	–	–	–	–	76 916		76 916
26 121	–	153 898	237	–	183 804	727 483		911 287
–	–	–	–	–	–	19 001		19 001
–	–	–	64 713	–	64 713	172 125		236 838
–	–	–	–	–	–	437 953		437 953
–	–	–	–	–	–	126 240		126 240
1 774 550	1 740 502	1 897 903	124 860	7 835 436	16 471 582	6 593 838		23 065 420
52	2 008 668	–	–	–	2 008 720	42		2 008 762
1 464 924	–	–	–	–	1 464 924	29 043		1 493 967
121 533	–	368 961	–	–	490 494	–		490 494
–	–	234 989	–	–	264 052	85 165	1	349 217
–	–	655 579	–	–	678 348	208 947	1	887 295
100 581	845 432	–	–	–	1 816 028	58 812	1	1 874 840
–	–	–	–	6 869 699	7 408 979	(71 436)	2	7 337 543
–	–	–	–	–	555 307	1 221 218	3	1 776 525
–	–	–	–	519 511	759 962	3 674 503	4	4 434 465
–	–	–	–	–	–	98 051		98 051
57 032	–	247 838	17 311	–	329 706	282 047		611 753
–	–	–	–	–	–	99 243		99 243
–	–	–	–	–	–	144 370		144 370
–	–	–	–	–	–	249 270		249 270
–	–	–	–	–	–	27 942		27 942
1 744 122	2 854 100	1 507 367	17 311	7 389 210	15 776 520	6 107 217		21 883 737

maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'.

4. *Largely relates to net investments in Kensington securitised vehicles to which Investec has no direct exposure as discussed on pages 79 and 81.*

Detailed analysis of gross credit and counterparty exposures by industry

£'000	HNW and professional individuals	Agriculture	Electricity, gas and water (utility services)	Public and non-business services
As at 31 March 2011				
On-balance sheet exposures	5 368 323	16 189	272 037	2 256 796
Securitisation exposures arising from securitisation/ principal finance activities	–	–	–	–
Rated instruments	–	–	–	–
Unrated instruments	–	–	–	–
Other	–	–	–	–
Debt instruments – non sovereign (NCDs, bonds held, debentures)	–	–	–	–
Bank placements	–	–	–	–
Sovereign, government placements	–	–	–	1 740 502
Trading exposures (positive fair value excluding potential future exposures)	–	7	3 197	367 422
Other credit exposures	–	–	–	13 535
Gross core loans and advances to customers	5 368 323*	16 182	268 840	135 337
Off-balance sheet exposures	471 586	8 648	180 060	16 009
Guarantees	28 329	–	1 489	–
Contingent liabilities, committed facilities, other	443 257	8 648	178 571	16 009
Total gross credit and counterparty exposures pre collateral or other credit enhancements	5 839 909	24 837	452 097	2 272 805
As at 31 March 2010				
On-balance sheet exposures	5 331 195	18 247	184 846	2 940 033
Securitisation exposures arising from securitisation/ principal finance activities	–	–	–	–
Rated instruments	–	–	–	–
Unrated instruments	–	–	–	–
Other	–	–	–	–
Debt instruments – non sovereign (NCDs, bonds held, debentures)	–	–	–	–
Bank placements	–		–	–
Sovereign, government placements	–	–	–	2 854 100
Trading exposures (positive fair value excluding potential future exposures)	536	–	329	–
Other credit exposures	3 037	–	–	–
Gross core loans and advances to customers	5 327 622*	18 247	184 517	85 933
Off-balance sheet exposures	405 819	8 977	8 155	4 961
Guarantees	28 119	–	2 287	–
Contingent liabilities, committed facilities, other	377 700	8 977	5 868	4 961
Total gross credit and counterparty exposures pre collateral or other credit enhancements	5 737 014	27 224	193 001	2 944 994

* *A further analysis of our private banking loan book is provided on pages 70 and 71.*

	Business services	Finance and insurance (including central banks)	Retailers and wholesalers	Manu-facturing and commerce	Real estate	Mining and resources	Leisure, entertain-ment and tourism	Transport and communi-cation	Total
	257 708	5 342 257	197 075	446 454	1 682 448	130 312	127 147	374 836	16 471 582
	–	446 825	–	–	1 260 680	–	–	–	1 707 505
	–	348 559	–	–	109 086	–	–	–	457 645
	–	90 745	–	–	104 054	–	–	–	194 799
	–	7 521	–	–	1 047 540	–	–	–	1 055 061
	–	1 377 754	–	–	–	–	–	13 072	1 390 826
	–	1 774 550	–	–	–	–	–	–	1 774 550
	–	–	–	–	–	–	–	–	1 740 502
	10 804	1 465 584	4 288	7 412	26 532	8 216	1 953	2 488	1 897 903
	51 178	5 934	–	–	54 213	–	–	–	124 860
	195 726	271 610	192 787	439 042	341 023	122 096	125 194	359 276	7 835 436
	12 359	33 956	11 557	50 841	3 525	50 758	43 198	53 211	935 708
	–	–	3 227	104	–	18 771	–	–	51 920
	12 359	33 956	8 330	50 737	3 525	31 987	43 198	53 211	883 788
	270 067	5 376 213	208 632	497 295	1 685 973	181 070	170 345	428 047	17 407 290
	158 696	4 395 290	137 469	387 319	1 663 694	121 963	123 319	314 449	15 776 520
	–	260 062	–	–	1 196 723	–	–	–	1 456 785
	–	230 298	–	–	154 657	–	–		384 955
	–	13 793	–	–	154 704	–	–		168 497
	–	15 971	–	–	887 362	–	–		903 333
	–	807 625	–	–	–	–	–	–	807 625
	–	1 744 122	–	–	–	–	–	–	1 744 122
	–	–	–	–	–	–	–	–	2 854 100
	13 486	1 412 076	2 537	5 078	35 609	35 240	1 156	1 320	1 507 367
	–	13 797	–	–	477	–	–	–	17 311
	145 210	157 608	134 932	382 241	430 885	86 723	122 163	313 129	7 389 210
	38	73 216	4 483	56 030	–	39 680	7 494	2 171	611 024
	–	–	–	110	–	19 877	–	–	50 393
	38	73 216	4 483	55 920	–	19 803	7 494	2 171	560 631
	158 734	4 468 506	141 952	443 349	1 663 694	161 643	130 813	316 620	16 387 544

Summary analysis of gross credit and counterparty exposures by industry

Private Banking loans account for 68.5% of total core loans and advances, as represented by the industry classification 'HNW and professional individuals'. A description of the type of lending we undertake within the Private Bank is provided on pages 43 and 44, and a more detailed analysis of the Private Banking loan portfolio is provided on pages 70 and 71. The remainder of core loans and advances largely reside within our Capital Markets division and are evenly spread across industry sectors. A description of the type of lending we undertake within the Capital Markets division is provided on page 44, and a more detailed analysis of the Capital Markets loan portfolio is provided on pages 70 and 71.

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.

	Gross core loans and advances		Other credit and counterparty exposures		Total	
£'000	31 March 2011	31 March 2010	31 March 2011	31 March 2010	31 March 2011	31 March 2010
HNW and professional individuals	5 368 323	5 327 622	471 586	409 392	5 839 909	5 737 014
Agriculture	16 182	18 247	8 655	8 977	24 837	27 224
Electricity, gas and water (utility services)	268 840	184 517	183 257	8 484	452 097	193 001
Public and non-business services	135 337	85 933	2 137 468	2 859 061	2 272 805	2 944 994
Business services	195 726	145 210	74 341	13 524	270 067	158 734
Finance and insurance (including central banks)	271 610	157 608	5 104 603	4 310 898	5 376 213	4 468 506
Retailers and wholesalers	192 787	134 932	15 845	7 020	208 632	141 952
Manufacturing and commerce	439 042	382 241	58 253	61 108	497 295	443 349
Real estate	341 023	430 885	1 344 950	1 232 809	1 685 973	1 663 694
Mining and resources	122 096	86 723	58 974	74 920	181 070	161 643
Leisure, entertainment and tourism	125 194	122 163	45 151	8 650	170 345	130 813
Transport and communication	359 276	313 129	68 771	3 491	428 047	316 620
Total	7 835 436	7 389 210	9 571 854	8 998 334	17 407 290	16 387 544

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

£'000	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	>10 years	Total
On-balance sheet exposures	6 249 420	778 505	1 464 439	4 300 094	1 222 527	2 456 597	16 471 582
Securitisation exposures arising from securitisation/principal finance activities	–	–	465	47 050	60 756	1 599 234	1 707 505
Rated instruments	–	–	–	41 970	53 149	362 526	457 645
Unrated instruments	–	–	–	5 080	86	189 633	194 799
Other	–	–	465	–	7 521	1 047 075	1 055 061
Debt instruments – non sovereign (NCDs, bonds held,debentures)	281 806	5 397	25 789	546 951	421 920	108 963	1 390 826
Bank placements	1 547 572	13 356	86 321	127 301	–	–	1 774 550
Sovereign, government placements	1 382 895	49 824	9 403	1 744	–	296 636	1 740 502
Trading exposures (positive fair value excluding potential future exposures)	1 420 226	1 652	10 533	146 920	19 577	298 995	1 897 903
Other credit exposures	63 507	9 372	15 791	36 190	–	–	124 860
Gross core loans and advances to customers	1 553 414	698 904	1 316 137	3 393 938	720 274	152 769	7 835 436
Off–balance sheet exposures	422 543	32 092	60 217	375 844	45 012	–	935 708
Guarantees	4 305	4 654	17 502	20 391	5 068	–	51 920
Contingent liabilities, committed facilities and other	418 238	27 438	42 715	355 453	39 944	–	883 788
Total gross credit and counterparty exposures pre collateral or other credit enhancements	6 671 963	810 597	1 524 656	4 675 938	1 267 539	2 456 597	17 407 290

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

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

Calculation of core loans and advances to customers

Audited £'000	31 March 2011	31 March 2010
Loans (pre-impairments and intercompany loans) as per balance sheet	8 275 049	7 408 979
Less: warehouse facilities and structured credit investments arising out of our securitisation and principal finance activities and other credit exposures (pre-impairments)	(923 776)	(539 280)
Add: own-originated securitised assets	484 163	519 511
Gross core loans and advances to customers (pre-impairments)	7 835 436	7 389 210

The following methodology has been applied:

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

The tables that follow provide information with respect to the asset quality of our core loans and advances to customers. An overview of developments during the financial year is provided on pages 48 to 49.

Audited £'000	31 March 2011	31 March 2010
Gross core loans and advances to customers	7 835 436	7 389 210
Total impairments	(183 743)	(135 889)
Portfolio impairments	(1 518)	(19 910)
Specific impairments	(182 225)	(115 979)
Net core loans and advances to customers	7 651 693	7 253 321
Average gross core loans and advances to customers	7 612 323	7 425 801
Current loans and advances to customers	6 934 084	6 589 778
Past due and default core loans and advances to customers	901 352	799 432
Past due loans and advances to customers (1 – 60 days)	257 018	200 040
Special mention loans and advances to customers	27 051	105 396
Default loans and advances to customers	617 283	493 996
Gross core loans and advances to customers	7 835 436	7 389 210
Past due and default core loans and advances to customers	901 352	799 432
Default loans that are current and not impaired	–	4 985
Gross core loans and advances to customers that are past due but not impaired	441 212	485 453
Gross core loans and advances to customers that are impaired	460 140	308 994
Total income statement charge for core loans and advances	(170 804)	(134 360)
Gross default loans and advances to customers	617 283	493 996
Specific impairments	(182 225)	(115 979)
Portfolio impairments	(1 518)	(19 910)
Defaults net of impairments	433 540	358 107
Collateral and other credit enhancements	551 279	405 645
Net default loans and advances to customers (limited to zero)	–	–
Ratios:		
Total impairments as a % of gross core loans and advances to customers	2.35%	1.84%
Total impairments as a % of gross default loans	29.77%	27.51%
Gross defaults as a % of gross core loans and advances to customers	7.88%	6.69%
Defaults (net of impairments) as a % of net core loans and advances to customers	5.67%	4.94%
Net defaults as a % of gross core loans and advances to customers	–	–
Credit loss ratio (i.e income statement impairment charge as a % of average gross loans and advances)	2.05%	1.72%

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

Audited £'000	UK and Europe 31 March 2011	UK and Europe 31 March 2010	Australia 31 March 2011	Australia 31 March 2010	Total 31 March 2011	Total 31 March 2010
Gross core loans and advances to customers	5 731 767	5 536 755	2 103 669	1 852 455	7 835 436	7 389 210
Total impairments	(155 515)	(99 974)	(28 228)	(35 915)	(183 743)	(135 889)
Portfolio impairments	–	(18 673)	(1 518)	(1 237)	(1 518)	(19 910)
Specific impairments	(155 515)	(81 301)	(26 710)	(34 678)	(182 225)	(115 979)
Net core loans and advances to customers	5 576 252	5 436 781	2 075 441	1 816 540	7 651 693	7 253 321
% of total	72.9%	75.0%	27.1%	25.0%	100.0%	100.0%
% change since 31 March 2010	2.6%	–	14.3%	–	5.5%	–
Average gross core loans and advances to customers	5 634 261	5 787 671	1 978 062	1 638 130	7 612 323	7 425 801
Current loans and advances to customers	5 094 609	5 002 250	1 839 475	1 587 528	6 934 084	6 589 778
Past due and default core loans and advances to customers	637 158	534 505	264 194	264 927	901 352	799 432
Past due loans and advances to customers (1 – 60 days)	232 866	165 540	24 152	34 500	257 018	200 040
Special mention loans and advances to customers	13 160	97 344	13 891	8 052	27 051	105 396
Default loans and advances to customers	391 132	271 621	226 151	222 375	617 283	493 996
Gross core loans and advances to customers	5 731 767	5 536 755	2 103 669	1 852 455	7 835 436	7 389 210
Past due and default core loans and advances to customers	637 158	534 505	264 194	264 927	901 352	799 432
Default loans that are current and not impaired	–	4 985	–	–	–	4 985
Gross core loans and advances to customers that are past due but not impaired	300 873	327 925	140 339	157 528	441 212	485 453
Gross core loans and advances to customers that are impaired	336 285	201 595	123 855	107 399	460 140	308 994
Total income statement charge for core loans and advances	(140 597)	(106 950)	(30 207)	(27 410)	(170 804)	(134 360)
Gross default loans and advances to customers	391 132	271 621	226 151	222 375	617 283	493 996
Specific impairments	(155 515)	(81 301)	(26 710)	(34 678)	(182 225)	(115 979)
Portfolio impairments	–	(18 673)	(1 518)	(1 237)	(1 518)	(19 910)
Defaults net of impairments	235 617	171 647	197 923	186 460	433 540	358 107
Collateral and other credit enhancements	336 739	192 491	214 540	213 154	551 279	405 645
Net default loans and advances to customers (limited to zero)	–	–	–	–	–	–
Total impairments as a % of gross core loans and advances to customers	2.71%	1.81%	1.34%	1.94%	2.35%	1.84%
Total impairments as a % of gross default loans	39.76%	36.81%	12.48%	16.15%	29.77%	27.51%
Gross defaults as a % of gross core loans and advances to customers	6.82%	4.91%	10.75%	12.00%	7.88%	6.69%
Defaults (net of impairments) as a % of net core loans and advances to customers	4.23%	3.16%	9.54%	10.26%	5.67%	4.94%
Net defaults as a % of gross core loans and advances to customers	–	–	–	–	–	–
Credit loss ratio (i.e income statement impairment charge as a % of average gross loans and advances)	2.22%	1.72%	1.53%	1.67%	2.05%	1.72%

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

Audited £'000	Private Bank** UK and Europe	 Australia	 Total
Gross core loans and advances to customers	3 519 887	1 848 436	5 368 323
Total impairments	(141 673)	(27 987)	(169 660)
Portfolio impairments	–	(1 518)	(1 518)
Specific impairments	(141 673)	(26 469)	(168 142)
Net core loans and advances to customers	3 378 214	1 820 449	5 198 663
Average gross core loans and advances to customers	3 583 746	1 764 226	5 347 972
Current loans and advances to customers	2 971 055	1 589 649	4 560 704
Past due and default core loans and advances to customers	548 832	258 787	807 619
Past due loans and advances to customers (1 – 60 days)	204 868	24 151	229 019
Special mention loans and advances to customers	12 673	12 628	25 301
Default loans and advances to customers	331 291	222 008	553 299
Gross core loans and advances to customers	3 519 887	1 848 436	5 368 323
Past due and default core loans and advances to customers	548 832	258 787	807 619
Default loans that are current and not impaired	–	–	–
Gross core loans and advances to customers that are past due but not impaired	272 152	135 204	407 356
Gross core loans and advances to customers that are impaired	276 680	123 583	400 263
Total income statement charge for core loans and advances	(123 891)	(26 862)	(150 753)
Default loans and advances to customers	331 291	222 008	553 299
Specific impairments	(141 673)	(26 469)	(168 142)
Portfolio impairments	–	(1 518)	(1 518)
Defaults net of impairments	189 618	194 021	383 639
Collateral and other credit enhancements	290 758	210 637	501 395
Default loans and advances to customers (limited to zero)	–	–	–
Total impairments as a % of gross core loans and advances to customers	4.02%	1.51%	3.16%
Total impairments as a % of gross default loans	42.76%	12.61%	30.66%
Gross defaults as a % of gross core loans and advances to customers	9.41%	12.01%	10.31%
Defaults (net of impairments) as a % of net core loans and advances to customers	5.61%	10.66%	7.38%
Net defaults as a % of gross core loans and advances to customers	–	–	–
Credit loss ratio (i.e income statement impairment charge as a % of average gross loans and advances)	3.46%	1.52%	2.82%

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

** *A further analysis of our Private Bank and Capital Markets loan portfolios, broken down by type of loan is provided on pages 70 to 71.*

	Capital Markets**			Other*			
	UK and Europe	Australia	Total	UK and Europe	Australia	Total	Total
	2 036 660	253 366	2 290 026	175 221	1 866	177 087	7 835 436
	(13 842)	(241)	(14 083)	–	–	–	(183 743)
	–	–	–	–	–	–	(1 518)
	(13 842)	(241)	(14 083)	–	–	–	(182 225)
	2 022 818	253 125	2 275 943	175 221	1 866	177 087	7 651 693
	1 907 079	212 029	2 119 108	143 435	1 808	145 243	7 612 323
	1 948 588	247 960	2 196 548	174 966	1 866	176 832	6 934 084
	88 072	5 406	93 478	255	–	255	901 352
	27 761	–	27 761	238	–	238	257 018
	487	1 263	1 750	–	–	–	27 051
	59 824	4 143	63 967	17	–	17	617 283
	2 036 660	253 366	2 290 026	175 221	1 866	177 087	7 835 436
	88 072	5 406	93 478	255	–	255	901 352
	–	–	–	–	–	–	–
	28 483	5 135	33 618	238	–	238	441 212
	59 589	271	59 860	17	–	17	460 140
	(28 410)	(3 345)	(31 755)	11 704	–	11 704	(170 804)
	59 824	4 143	63 967	17	–	17	617 283
	(13 842)	(241)	(14 083)	–	–	–	(182 225)
	–	–	–	–	–	–	(1 518)
	45 982	3 902	49 884	17	–	17	433 540
	45 982	3 902	49 884	–	–	–	551 279
	–	–	–	17	–	17	–
	0.68%	0.10%	0.61%	–	–	–	2.35%
	23.14%	5.82%	22.02%	–	–	–	29.77%
	2.94%	1.64%	2.79%	0.01%	–	0.01%	7.88%
	2.27%	1.54%	2.19%	0.01%	–	0.01%	5.67%
	–	–	–	–	–	0.01%	–
	1.09%	1.58%	1.12%	(8.16%)	–	(8.06%)	2.05%

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

Audited £'000	Private Bank UK and Europe	Private Bank Australia	Private Bank Total
Gross core loans and advances to customers	3 647 607	1 680 015	5 327 622
Total impairments	(62 621)	(31 048)	(93 669)
Portfolio impairments	(4 459)	(1 237)	(5 696)
Specific impairments	(58 162)	(29 811)	(87 973)
Net core loans and advances to customers	3 584 986	1 648 967	5 233 953
Average gross core loans and advances to customers	3 665 184	1 466 415	5 131 599
Current loans and advances to customers	3 205 251	1 426 910	4 632 161
Past due and default core loans and advances to customers	442 356	253 105	695 461
Past due loans and advances to customers (1 – 60 days)	146 705	34 500	181 205
Special mention loans and advances to customers	90 294	8 052	98 346
Default loans and advances to customers	205 357	210 553	415 910
Gross core loans and advances to customers	3 647 607	1 680 015	5 327 622
Past due and default core loans and advances to customers	442 356	253 105	695 461
Default loans that are current and not impaired	4 985	–	4 985
Gross core loans and advances to customers that are past due but not impaired	277 180	155 275	432 455
Gross core loans and advances to customers that are impaired	160 191	97 830	258 021
Total income statement charge for core loans and advances	(55 434)	(19 136)	(74 570)
Gross default loans and advances to customers	205 357	210 553	415 910
Specific impairments	(58 162)	(29 811)	(87 973)
Portfolio impairments	(4 459)	(1 237)	(5 696)
Defaults net of impairments	142 736	179 505	322 241
Collateral and other credit enhancements	148 862	206 198	355 060
Net default loans and advances to customers (limited to zero)	–	–	–
Total impairments as a % of gross core loans and advances to customers	1.72%	1.85%	1.76%
Total impairments as a % of gross default loans	30.49%	14.75%	22.52%
Gross defaults as a % of gross core loans and advances to customers	5.63%	12.53%	7.81%
Defaults (net of impairments) as a % of net core loans and advances to customers	3.98%	10.89%	6.16%
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)	1.51%	1.30%	1.45%

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

	Capital Markets			Other*			
	UK and Europe	Australia	Total	UK and Europe	Australia	Total	Total
	1 777 498	170 692	1 948 190	111 649	1 749	113 398	7 389 210
	(24 853)	(4 867)	(29 720)	(12 500)	–	(12 500)	(135 889)
	(1 714)	–	(1 714)	(12 500)	–	(12 500)	(19 910)
	(23 139)	(4 867)	(28 006)	–	–	–	(115 979)
	1 752 645	165 825	1 918 470	99 149	1 749	100 898	7 253 321
	2 028 407	170 220	2 198 627	94 079	1 496	95 575	7 425 801
	1 685 350	158 869	1 844 219	111 649	1 749	113 398	6 589 778
	92 148	11 823	103 971	–	–	–	799 432
	18 835	–	18 835	–	–	–	200 040
	7 050	–	7 050	–	–	–	105 396
	66 263	11 823	78 086	–	–	–	493 996
	1 777 498	170 692	1 948 190	111 649	1 749	113 398	7 389 210
	92 148	11 823	103 971	–	–	–	799 432
	–	–	–	–	–	–	4 985
	50 744	2 254	52 998	–	–	–	485 453
	41 404	9 569	50 973	–	–	–	308 994
	(39 016)	(8 274)	(47 290)	(12 500)	–	(12 500)	(134 360)
	66 263	11 823	78 086	–	–	–	493 996
	(23 139)	(4 867)	(28 006)	–	–	–	(115 979)
	(1 714)	–	(1 714)	(12 500)	–	(12 500)	(19 910)
	41 410	6 956	48 366	(12 500)	–	(12 500)	358 107
	43 629	6 956	50 585	–	–	–	405 645
	–	–	–	–	–	–	–
	1.40%	2.85%	1.53%	11.20%	–	11.02%	1.84%
	37.51%	41.17%	38.06%	–	–	–	27.51%
	3.73%	6.93%	4.01%	–	–	–	6.69%
	2.36%	4.19%	2.52%	(12.61%)	–	–	4.94%
	–	–	–	–	–	–	–
	1.65%	4.86%	1.85%	13.29%	–	13.08%	1.72%

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

Audited £'000	31 March 2011	31 March 2010
Default loans that are current	356	13 435
1 – 60 days	292 717	203 844
61 – 90 days	26 894	106 743
91 – 180 days	352 580	163 465
181 – 365 days	62 287	91 870
>365 days	166 518	220 075
Past due and default core loans and advances to customers (actual capital exposure)	901 352	799 432
1 – 60 days	5 405	7 925
61 – 90 days	11 714	4 510
91 – 180 days	36 592	6 366
181 – 365 days	44 159	84 473
>365 days	149 343	146 074
Past due and default core loans and advances to customers (actual amount in arrears)	247 213	249 348

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

Audited £'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
As at 31 March 2011							
Watchlist loans neither past due nor impaired							
Total capital exposure	–	–	–	–	–	–	–
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	258 682	25 388	48 498	44 281	64 363	441 212
Amount in arrears	–	4 500	10 503	8 530	33 712	48 718	105 963
Gross core loans and advances to customers that are impaired							
Total capital exposure	356	34 035	1 506	304 082	18 006	102 155	460 140
Amount in arrears	–	905	1 211	28 062	10 447	100 625	141 250
As at 31 March 2010							
Watchlist loans neither past due nor impaired							
Total capital exposure	4 985	–	–	–	–	–	4 985
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	200 122	105 314	52 336	51 517	76 164	485 453
Amount in arrears	–	4 321	4 094	2 489	45 220	59 558	115 682
Gross core loans and advances to customers that are impaired							
Total capital exposure	8 450	3 722	1 429	111 129	40 353	143 911	308 994
Amount in arrears	–	3 604	416	3 877	39 253	86 516	133 666

An age analysis of past due and default core loans and advances to customers as at 31 March 2011 (based on total capital exposure)

Audited £'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	257 018	–	–	–	–	257 018
Special mention	–	1 663	25 388	–	–	–	27 051
Special mention (1 – 90 days)	–	1 663	14 210	–	–	–	15 873
Special mention (61 – 90 days and item well secured)	–	–	11 178	–	–	–	11 178
Default	356	34 036	1 506	352 580	62 287	166 518	617 283
Sub-standard	–	33 138	–	142 004	50 196	65 793	291 131
Doubtful	356	898	1 506	36 793	12 091	96 193	147 837
Loss	–	–	–	173 783	–	4 532	178 315
Total	356	292 717	26 894	352 580	62 287	166 518	901 352

An age analysis of past due and default core loans and advances to customers as at 31 March 2011 (based on actual amount in arrears)

Audited £'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	4 414	–	–	–	–	4 414
Special mention	–	86	10 503	–	–	–	10 589
Special mention (1 – 90 days)	–	86	10 165	–	–	–	10 251
Special mention (61 – 90 days and item well secured)	–	–	338	–	–	–	338
Default	–	905	1 211	36 592	44 159	149 343	232 210
Sub-standard	–	7	–	8 495	36 456	48 811	93 769
Doubtful	–	898	1 211	28 079	7 662	96 000	133 850
Loss	–	–	–	18	41	4 532	4 591
Total	–	5 405	11 714	36 592	44 159	149 343	247 213

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

Audited £'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	200 040	–	–	–	–	200 040
Special mention	–	82	105 314	–	–	–	105 396
Special mention (1 – 90 days)	–	82	2 510	–	–	–	2 592
Special mention (61 – 90 days and item well secured)	–	–	102 804	–	–	–	102 804
Default	13 435	3 722	1 429	163 465	91 870	220 075	493 996
Sub-standard	11 218	–	1 013	88 223	51 517	117 405	269 376
Doubtful	1 674	3 722	416	18 784	39 457	102 314	166 367
Loss	543	–	–	56 458	896	356	58 253
Total	13 435	203 844	106 743	163 465	91 870	220 075	799 432

An age analysis of past due and default core loans and advances to customers as at 31 March 2010 (based on actual amount in arrears)

Audited £'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	4 319	–	–	–	–	4 319
Special mention	–	2	4 094	–	–	–	4 096
Special mention (1 – 90 days)	–	2	2 191	–	–	–	2 193
Special mention (61 – 90 days and item well secured)	–	–	1 903	–	–	–	1 903
Default	–	3 604	416	6 366	84 473	146 074	240 933
Sub-standard	–	–	–	2 987	45 220	59 558	107 765
Doubtful	–	3 604	416	3 335	39 253	86 516	133 124
Loss	–	–	–	44	–	–	44
Total	–	7 925	4 510	6 366	84 473	146 074	249 348

An analysis of core loans and advances to customers

Audited £'000	Gross core loans and advances that are neither past due nor impaired	Gross core loans and advances that are past due but not impaired	Gross core loans and advances that are impaired	Total gross core loans and advances (actual capital exposure)	Specific impairments	Portfolio impairments	Total net core loans and advances (actual capital exposure)	Actual amount in arrears
As at 31 March 2011								
Current core loans and advances	6 934 084	–	–	6 934 084	–	(1 518)	6 932 566	–
Past due (1 – 60 days)	–	257 018	–	257 018	–	–	257 018	4 414
Special mention	–	27 051	–	27 051	–	–	27 051	10 589
Special mention (1 – 90 days)	–	15 873	–	15 873	–	–	15 873	10 251
Special mention (61 – 90 days and item well secured)	–	11 178	–	11 178	–	–	11 178	338
Default	–	157 143	460 140	617 283	(182 225)	–	435 058	232 210
Sub-standard	–	157 143	133 988	291 131	(37 755)	–	253 376	93 769
Doubtful	–	–	147 837	147 837	(35 684)	–	112 153	133 850
Loss	–	–	178 315	178 315	(108 786)	–	69 529	4 591
Total	6 934 084	441 212	460 140	7 835 436	(182 225)	(1 518)	7 651 693	247 213
As at 31 March 2010								
Current core loans and advances	6 589 778	–	–	6 589 778	–	(16 689)	6 573 089	–
Past due (1 – 60 days)	–	200 040	–	200 040	–	–	200 040	4 319
Special mention	–	105 396	–	105 396	–	–	105 396	4 096
Special mention (1 – 90 days)	–	2 592	–	2 592	–	–	2 592	2 193
Special mention (61 – 90 days and item well secured)	–	102 804	–	102 804	–	–	102 804	1 903
Default	4 985	180 017	308 994	493 996	(115 979)	(3 221)	374 796	240 933
Sub-standard	4 985	177 935	86 456	269 376	(23 532)	(1 984)	243 860	107 765
Doubtful	–	–	166 367	166 367	(66 694)	(1 237)	98 436	133 124
Loss	–	2 082	56 171	58 253	(25 753)	–	32 500	44
Total	6 594 763	485 453	308 994	7 389 210	(115 979)	(19 910)	7 253 321	249 348

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

Audited £'000	Current core loans and advances	Past due (1 – 60 days)	Special mention (1 – 90 days)
As at 31 March 2011			
Private Banking professional and HNW individuals	4 555 298	229 019	15 873
Corporate sector	1 901 968	27 760	–
Banking, insurance, financial services (excluding sovereign)	271 281	–	–
Public and government sector (including central banks)	134 699	–	–
Trade finance and other	70 838	239	–
Total gross core loans and advances to customers	6 934 084	257 018	15 873
As at 31 March 2010			
Private Banking professional and HNW individuals	4 632 161	181 205	2 592
Corporate sector	1 631 111	18 835	–
Banking, insurance, financial services (excluding sovereign)	156 988	–	–
Public and government sector (including central banks)	85 140	–	–
Trade finance and other	84 378	–	–
Total gross core loans and advances to customers	6 589 778	200 040	2 592

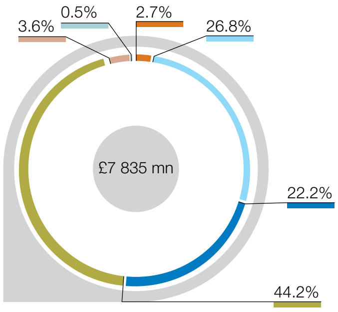
Summary analysis of gross core loans and advances to customers by counterparty type

Audited £'000	31 March 2011	31 March 2010
Private Banking professional and HNW individuals	5 368 323	5 327 622
Corporate sector	1 989 072	1 733 669
Banking, insurance, financial services (excluding sovereign)	271 610	157 608
Public and government sector (including central banks)	135 337	85 933
Trade finance and other	71 094	84 378
Total gross core loans and advances to customers	7 835 436	7 389 210

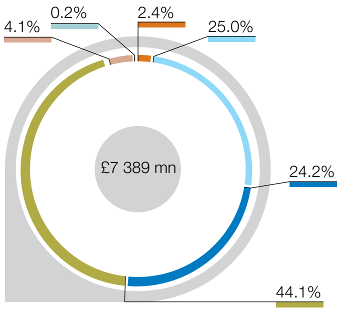
	Special mention (61 – 90 days and well secured)	Sub-standard	Doubtful	Loss	Total gross core loans and advances to customers	Portfolio impairments	Specific impairments	Total impairments
	10 691	251 843	131 816	173 783	5 368 323	(1 518)	(168 383)	(169 901)
	487	39 288	15 037	4 532	1 989 072	–	(13 265)	(13 265)
	–	–	329	–	271 610	–	(198)	(198)
	–	–	638	–	135 337	–	(379)	(379)
	–	–	17	–	71 094	–	–	–
	11 178	291 131	147 837	178 315	7 835 436	(1 518)	(182 225)	(183 743)
	95 754	232 627	125 030	58 253	5 327 622	(5 696)	(87 974)	(93 670)
	7 050	36 749	39 924	–	1 733 669	(1 714)	(26 945)	(28 659)
	–	–	620	–	157 608	(12 500)	(507)	(13 007)
	–	–	793	–	85 933	–	(553)	(553)
	–	–	–	–	84 378	–	–	–
	102 804	269 376	166 367	58 253	7 389 210	(19 910)	(115 979)	(135 889)

Additional information

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



31 March 2011



31 March 2010

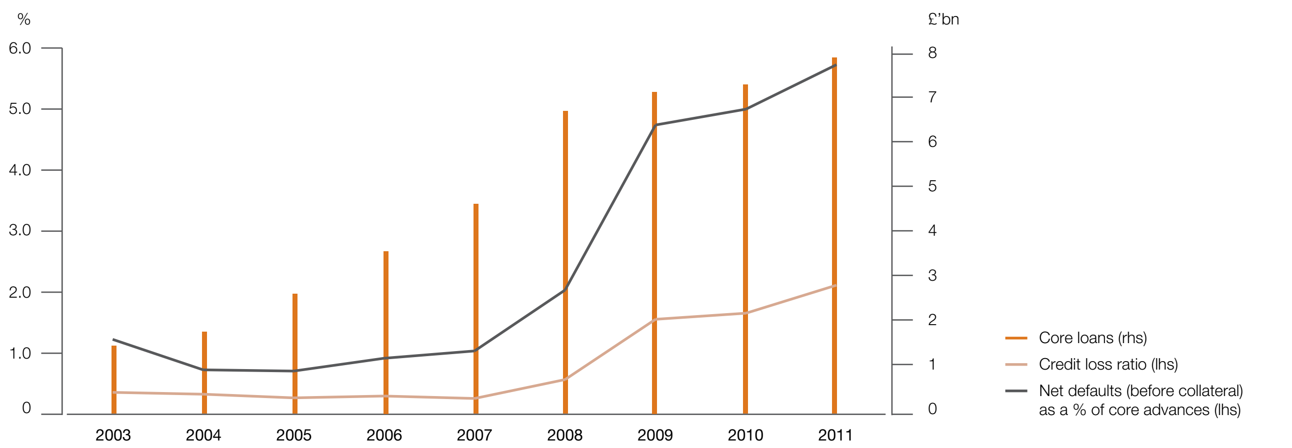
- Asia
- Australia
- Europe (excluding UK)
- United Kingdom
- North America
- Other

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

£'million	UK and Europe			
	Gross core loans	Gross defaults	Collateral	Impairments
Private Bank				
Residential property	1 447	194	171	73
Residential property investment	547	10	16	–
Residential mortgages (owner occupied and second homes)	191	–	–	–
Residential property development	537	86	66	32
Residential estates/land	172	98	89	41
Commericial property	1 538	103	87	52
Commercial property investment	986	29	46	12
Commercial property land	281	63	37	33
Commercial property development	271	11	4	7
Other	535	34	33	17
Asset backed lending	252	–	–	–
Unlisted securities and general corporate lending	82	12	–	12
Unsecured lending	57	16	11	5
Other	144	6	22	–
Total Private Bank	3 520	331	291	142
Capital Markets				
Acquisition finance	732	–	–	–
Asset finance	341	16	7	9
Principal finance	265	–	–	–
Project finance	284	33	31	2
Structured finance	363	11	8	3
Resource finance and commodities	52	–	–	–
Total Capital Markets	2 037	60	46	14
Other*	175	–	–	–
Total group	5 732	391	337	156

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

United Kingdom, Europe and Australia



	Australia				Total group			
	Gross core loans	Gross defaults	Collateral	Impairments	Gross core loans	Gross defaults	Collateral	Impairments
	424	144	129	23	1 871	338	300	96
	41	14	10	4	588	24	26	4
	67	–	–	–	258	–	–	–
	218	95	84	17	755	181	150	49
	98	35	35	2	270	133	124	43
	609	71	76	3	2 147	174	163	55
	555	60	65	2	1 541	89	111	14
	28	10	10	1	309	73	47	34
	26	1	1	–	297	12	5	7
	815	7	6	2	1 350	41	39	19
	530	1	–	1	782	1	–	1
	117	5	6	–	199	17	6	12
	66	1	–	1	123	17	11	6
	102	–	–	–	246	6	22	–
	1 848	222	211	28	5 368	553	502	170
	22	–	–	–	754	–	–	–
	10	–	–	–	351	16	7	9
	71	4	4	–	336	4	4	–
	72	–	–	–	356	33	31	2
	28	–	–	–	391	11	8	3
	50	–	–	–	102	–	–	–
	253	4	4	–	2 290	64	50	14
	2	–	–	–	177	–	–	–
	2 103	226	215	28	7 835	617	552	184

Collateral

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

Collateral by line of business

Audited £'000	Private Bank – Collateral held against – Core loans and advances	Private Bank – Collateral held against – Other credit and counterparty exposures*	Private Bank – Total
As at 31 March 2011			
Eligible financial collateral	198 645	–	198 645
Listed shares	65 178	–	65 178
Cash	133 467	–	133 467
Mortgage bonds	6 065 238	–	6 065 238
Residential mortgages	1 726 087	–	1 726 087
Residential development	1 283 378	–	1 283 378
Commercial property developments	742 857	–	742 857
Commercial property investments	2 312 916	–	2 312 916
Other collateral	1 959 886	–	1 959 886
Unlisted shares	345 609	–	345 609
Bonds other than mortgage bonds	25 279	–	25 279
Debtors, stock and other corporate assets	595 271	–	595 271
Guarantees	517 715	–	517 715
Other	476 012	–	476 012
Total collateral	8 223 769	–	8 223 769
As at 31 March 2010			
Eligible financial collateral	284 019	21 206	305 225
Listed shares	119 853	–	119 853
Cash	164 166	21 206	185 372
Mortgage bonds	6 019 423	24 273	6 043 696
Residential mortgages	1 381 700	789	1 382 489
Residential development	1 592 869	15 580	1 608 449
Commercial property developments	846 895	7 839	854 734
Commercial property investments	2 197 959	65	2 198 024
Other collateral	2 010 460	9 884	2 020 344
Unlisted shares	364 706	4 111	368 817
Bonds other than mortgage bonds	55 516	–	55 516
Debtors, stock and other corporate assets	700 916	5 773	706 689
Guarantees	389 604	–	389 604
Other	499 718	–	499 718
Total collateral	8 313 902	55 363	8 369 265

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

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

	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
	3 019	7 807	10 826	96 119	68 129	164 248	297 783	75 936	373 719
	–	–	–	86 902	47 164	134 066	152 080	47 164	199 244
	3 019	7 807	10 826	9 217	20 965	30 182	145 703	28 772	174 475
	303 938	–	303 938	65 625	136 035	201 660	6 434 801	136 035	6 570 836
	–	–	–	23 112	–	23 112	1 749 199	–	1 749 199
	–	–	–	–	–	–	1 283 378	–	1 283 378
	–	–	–	42 513	–	42 513	785 370	–	785 370
	303 938	–	303 938	–	136 035	136 035	2 616 854	136 035	2 752 889
	2 748 327	–	2 748 327	151 043	–	151 043	4 859 256	–	4 859 256
	–	–	–	59 942	–	59 942	405 551	–	405 551
	281 982	–	281 982	38 880	–	38 880	346 141	–	346 141
	2 159 994	–	2 159 994	–	–	–	2 755 265	–	2 755 265
	4 408	–	4 408	754	–	754	522 877	–	522 877
	301 943	–	301 943	51 467	–	51 467	829 422	–	829 422
	3 055 284	7 807	3 063 091	312 787	204 164	516 951	11 591 840	211 971	11 803 811
	31 489	–	31 489	–	30 498	30 498	315 508	51 704	367 212
	–	–	–	–	24 808	24 808	119 853	24 808	144 661
	31 489	–	31 489	–	5 690	5 690	195 655	26 896	222 551
	431 964	–	431 964	–	–	–	6 451 387	24 273	6 475 660
	90 505	–	90 505	–	–	–	1 472 205	789	1 472 994
	–	–	–	–	–	–	1 592 869	15 580	1 608 449
	–	–	–	–	–	–	846 895	7 839	854 734
	341 459	–	341 459	–	–	–	2 539 418	65	2 539 483
	1 579 041	–	1 579 041	25 979	–	25 979	3 615 480	9 884	3 625 364
	–	–	–	–	–	–	364 706	4 111	368 817
	–	–	–	11 892	–	11 892	67 408	–	67 408
	1 353 408	–	1 353 408	–	–	–	2 054 324	5 773	2 060 097
	1 208	–	1 208	–	–	–	390 812	–	390 812
	224 425	–	224 425	14 087	–	14 087	738 230	–	738 230
	2 042 494	–	2 042 494	25 979	30 498	56 477	10 382 375	85 861	10 468 236

Collateral by line of business and geography

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

	Private Bank		
£' million	UK and Europe	Australia	Total
As at 31 March 2011			
Eligible financial collateral	181 233	17 412	198 645
Listed shares	65 178	–	65 178
Cash	116 055	17 412	133 467
Mortgage bonds	4 613 264	1 451 974	6 065 238
Residential mortgages	1 661 558	64 529	1 726 087
Residential development	726 869	556 509	1 283 378
Commercial property developments	213 416	529 441	742 857
Commercial property investments	2 011 421	301 495	2 312 916
Other collateral	975 632	984 254	1 959 886
Unlisted shares	91 157	254 452	345 609
Bonds other than mortgage bonds	25 279	–	25 279
Debtors, stock and other corporate assets	181 542	413 729	595 271
Guarantees	512 817	4 898	517 715
Other	164 837	311 175	476 012
Total collateral	5 770 129	2 453 640	8 223 769
As at 31 March 2010			
Eligible financial collateral	273 097	10 922	284 019
Listed shares	119 853	–	119 853
Cash	153 244	10 922	164 166
Mortgage bonds	4 677 549	1 341 874	6 019 423
Residential mortgages	1 341 724	39 976	1 381 700
Residential development	1 055 367	537 502	1 592 869
Commercial property developments	311 987	534 908	846 895
Commercial property investments	1 968 471	229 488	2 197 959
Other collateral	1 164 534	845 926	2 010 460
Unlisted shares	150 017	214 689	364 706
Bonds other than mortgage bonds	55 516	–	55 516
Debtors, stock and other corporate assets	331 612	369 304	700 916
Guarantees	388 396	1 208	389 604
Other	238 993	260 725	499 718
Total collateral	6 115 180	2 198 722	8 313 902

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

Capital Markets			Other**			Total		
UK and Europe	Australia	Total	UK and Europe	Australia	Total	UK and Europe	Australia	Total
–	3 019	3 019	96 119	–	96 119	277 352	20 431	297 783
–	–	–	86 902	–	86 902	152 080	–	152 080
–	3 019	3 019	9 217	–	9 217	125 272	20 431	145 703
303 938	–	303 938	65 625	–	65 625	4 982 827	1 451 974	6 434 801
–	–	–	23 112	–	23 112	1 684 670	64 529	1 749 199
–	–	–	–	–	–	726 869	556 509	1 283 378
–	–	–	42 513	–	42 513	255 929	529 441	785 370
303 938	–	303 938	–	–	–	2 315 359	301 495	2 616 854
2 497 980	250 347	2 748 327	151 043	–	151 043	3 624 655	1 234 601	4 859 256
–	–	–	59 942	–	59 942	151 099	254 452	405 551
281 982	–	281 982	38 880	–	38 880	346 141	–	346 141
2 159 994	–	2 159 994	–	–	–	2 341 536	413 729	2 755 265
4 408	–	4 408	754	–	754	517 979	4 898	522 877
51 596	250 347	301 943	51 467	–	51 467	267 900	561 522	829 422
2 801 918	253 366	3 055 284	312 787	–	312 787	8 884 834	2 707 006	11 591 840
2 439	29 050	31 489	–	–	–	275 536	39 972	315 508
–	–	–	–	–	–	119 853	–	119 853
2 439	29 050	31 489	–	–	–	155 683	39 972	195 655
431 964	–	431 964	–	–	–	5 109 513	1 341 874	6 451 387
90 505	–	90 505	–	–	–	1 432 229	39 976	1 472 205
–	–	–	–	–	–	1 055 367	537 502	1 592 869
–	–	–	–	–	–	311 987	534 908	846 895
341 459	–	341 459	–	–	–	2 309 930	229 488	2 539 418
1 433 031	146 010	1 579 041	25 979	–	25 979	2 623 544	991 936	3 615 480
–	–	–	–	–	–	150 017	214 689	364 706
–	–	–	11 892	–	11 892	67 408	–	67 408
1 353 408	–	1 353 408	–	–	–	1 685 020	369 304	2 054 324
–	1 208	1 208	–	–	–	388 396	2 416	390 812
79 623	144 802	224 425	14 087	–	14 087	332 703	405 527	738 230
1 867 434	175 060	2 042 494	25 979	–	25 979	8 008 593	2 373 782	10 382 375

Collateral (continued)

A summary of total collateral

£'000	Collateral held against		
	Core loans and advances	Other credit and counterparty exposures*	Total
As at 31 March 2011			
Eligible financial collateral	297 783	75 936	373 719
Listed shares	152 080	47 164	199 244
Cash	145 703	28 772	174 475
Mortgage bonds	6 434 801	136 035	6 570 836
Residential mortgages	1 749 199	–	1 749 199
Residential development	1 283 378	–	1 283 378
Commercial property development	785 370	–	785 370
Commercial property investments	2 616 854	136 035	2 752 889
Other collateral	4 859 256	–	4 859 256
Unlisted shares	405 551	–	405 551
Bonds other than mortgage bonds	346 141	–	346 141
Debtors, stock and other corporate assets	2 755 265	–	2 755 265
Guarantees	522 877	–	522 877
Other	829 422	–	829 422
Total collateral	11 591 840	211 971	11 803 811
As at 31 March 2010			
Eligible financial collateral	315 508	51 704	367 212
Listed shares	119 853	24 808	144 661
Cash	195 655	26 896	222 551
Mortgage bonds	6 451 387	24 273	6 475 660
Residential mortgages	1 472 205	789	1 472 994
Residential development	1 592 869	15 580	1 608 449
Commercial property development	846 895	7 839	854 734
Commercial property investments	2 539 418	65	2 539 483
Other collateral	3 615 480	9 884	3 625 364
Unlisted shares	364 706	4 111	368 817
Bonds other than mortgage bonds	67 408	–	67 408
Debtors, stock and other corporate assets	2 054 324	5 773	2 060 097
Guarantees	390 812	–	390 812
Other	738 230	–	738 230
Total collateral	10 382 375	85 861	10 468 236

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

Securitisation/principal finance activities and exposures

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

UK and Europe

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

We retain residual net exposures amounting to £600 million to the assets originated, warehoused and securitised by Kensington. Further information is provided on pages 79 to 82.

Australia

Investec Bank (Australia) Limited acquired Experien in October 2007. Assets originated by the business have been securitised. These amount to A$751 million (31 March 2010: A$860 million).

Accounting treatment Audited

Refer to pages 197 and 198.

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 £'mn	Exposure as at 31 March 2010 £'mn	Credit analysis internal risk classification	Asset quality – relevant comments	Capital treatment
Structured credit investments*	615	468	On-balance sheet securitisation/principal finance exposure.		Risk-weighted or supervisory deductions against primary and secondary capital.
Rated	458	385			
Unrated	146	50			
Other	11	33			
Warehouse lines provided to, and investment in third party intermediary originating platforms (mortgage loans)	425	315			
Kensington – mortgage assets: Net exposures to the securitised book (after impairments)	65	104	On-balance sheet securitisation/principal finance exposure. Classified as ‘unrated’. We are required to fully consolidate all assets acquired from Kensington. However, only those assets to which we are at risk are reflected in this analysis with the balance reflected under ‘no credit exposures’.	Refer to pages 79 to 82	Risk-weighted or supervisory deductions against primary and secondary capital.

* *Refer to note on page 78.*

Nature of exposure/ activity	Exposure as at 31 March 2011 £'mn	Exposure as at 31 March 2010 £'mn	Credit analysis internal risk classification	Asset quality – relevant comments	Capital treatment
Kensington – mortgage assets: Net exposures to the warehouse book (after impairments)	535	486	On-balance sheet securitisation/principal finance exposure. Classified as 'other'. We are required to fully consolidate all assets acquired from Kensington. However, only those assets to which we are legally at risk are reflected in this analysis with the balance reflected under 'no credit exposures'.	Refer to pages 79 to 82	Risk-weighted.
Private Banking division assets which have been securitised	484	519	On-balance sheet exposure – reclassified from 'accounting securitised assets' to core loans and advances for credit analysis purposes.	Analysed as part of the group's overall asset quality on core loans and advances as reflected on page 57	We apply securitisation rules: either risk-weighted or supervisory deductions against primary and secondary capital.

*Analysis of structured rated and unrated credit investments

	31 March 2011				31 March 2010			
£'million	Rated**	Unrated	Other	Total	Rated	Unrated	Other	Total
US sub-prime	–	–	–	–	1	–	–	1
US corporate loans	19	–	–	19	34	6	–	40
European ABS	3	7	–	10	5	8	–	13
European RMBS	298	131	–	429	229	36	–	265
European CMBS	65	5	–	70	62	–	–	62
European credit cards	6	–	–	6	5	–	–	5
European corporate loans	–	3	–	3	–	–	–	–
South African RMBS	–	–	–	–	12	–	–	12
Australian RMBS	67	–	–	67	37	–	–	37
Other (credit default swaps)	–	–	11	11	–	–	33	33
Total	458	146	11	615	385	50	33	468

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

£'million	AAA	AA	A	BBB	BB	B	C and below	Total
US corporate loans	–	–	–	–	6	5	8	19
European ABS	–	–	–	3	–	–	–	3
European RMBS	178	43	27	3	5	20	22	298
European CMBS	11	7	29	6	9	3	–	65
European credit cards	6	–	–	–	–	–	–	6
Australian RMBS	16	23	14	14	–	–	–	67
Total	211	73	70	26	20	28	30	458

Kensington group plc – salient features

As at 31 March 2011	Warehouse book	Securitised portfolio	Total	% of total
Assets and business activity statistics				
Mortgage assets under management (£'million)	1 613	2 605	4 218	
IFRS adjustments (£'million)	(34)	63	29	
Mortgage assets under management (£'million)	1 647	2 542	4 189	
First charge % of total mortgage assets under management	93.8%	94.6%	94.3%	
Second charge % of total mortgage assets under management	6.2%	5.4%	5.7%	
Fixed rate loans % of total mortgage assets under management	0.7%	–	0.3%	
Number of accounts	14 753	28 073	42 826	
Average loan balance (first charge) (£)	143 689	109 232	120 542	
Largest loan balance (£)	1 106 793	1 211 581	1 211 581	
Weighted average loan mature margin	4.1%	4.6%	4.4%	
Product mix (pre-IFRS adjustments) (£'million)	1 647	2 542	4 189	100.0%
Prime	5	–	5	0.1%
Near prime	553	418	971	23.2%
Prime buy to let	1	–	1	–
Adverse	396	1 682	2 078	49.7%
Adverse buy to let and right to buy	66	124	190	4.5%
Start – Irish operations	626	318	944	22.5%
Geographic distribution (£'million)	1 647	2 542	4 189	100.0%
UK – North	315	711	1 026	24.5%
UK – South West	79	156	235	5.6%
UK – South East	228	462	690	16.5%
Outer London	155	280	435	10.4%
Inner London	73	162	235	5.6%
Midlands	171	453	624	14.9%
Start – Irish operations	626	318	944	22.5%
Spread of value of properties	100.0%	100.0%	100.0%	
>£500 000	3.5%	1.4%	2.2%	
>£250 000 – <=£500 000	23.8%	12.5%	16.4%	
>£200 000 – <=£250 000	16.0%	12.1%	13.4%	
>£150 000 – <=£200 000	20.5%	19.8%	20.0%	
>£100 000 – <=£150 000	23.2%	28.4%	26.6%	
>£70 000 – <=£100 000	11.4%	19.3%	16.6%	
>£50 000 – <=£70 000	1.5%	5.2%	3.9%	
<£50 000	0.1%	1.3%	0.9%	
Asset quality statistics				
Weighted average current LTV of active portfolio (adjusted for house price deflation*)	93.7%	80.5%	85.8%	

* *Bad debt provision is based on house price index assumptions of:*
UK: calendar year 2011: house price decline assumption of circa -12.5% for 2011 and flat thereafter, and an additional –10% haircut to the price to reflect forced sale discount.
Ireland: calendar year 2011: house price decline assumption of -4.9%, and house price growth assumption of 1% for 2012 to 2015.

Kensington group plc – salient features (continued)

As at 31 March 2011	Warehouse book	Securitised portfolio	Total	% of total
LTV spread – % of book	100.0%	100.0%	100.0%	
<= 65%	14.2%	23.6%	20.1%	
>65% – <70%	3.6%	6.1%	5.2%	
>70% – <75%	4.2%	7.4%	6.3%	
>75% – <80%	5.0%	9.1%	7.6%	
>80% – <85%	6.2%	10.6%	8.9%	
>85% – <90%	7.1%	11.3%	9.7%	
>90% – <95%	8.8%	9.5%	9.2%	
>95% – <100%	10.5%	7.4%	8.6%	
> 100%	40.4%	15.0%	24.4%	
% of accounts > 90 days in arrears	30.9%	31.0%	31.0%	
Number of accounts > 90 in arrears	4 566	8 694	13 260	
Total capital lent in arrears (£'million)	745	1 197	1 942	100.0%
Arrears 0 – 60 days	90	171	261	13.4%
Arrears 61 – 90 days	58	110	168	8.7%
Arrears >90 days	558	859	1 417	73.0%
Possession	39	57	96	4.9%
Debt to income ratio of clients %	19.5%	19.3%	19.3%	
Investec investment/exposure to assets reflected above (£'million)	619	113	732	
On balance sheet provision (£'million)	(84)	(48)	(132)	
Investec net investment/exposure to assets reflected above (£'million)	535	65	600	

Kensington group plc – salient financial information (continued)

As at 31 March 2010	Warehouse book	Securitised portfolio	Total	% of total
Assets and business activity statistics				
Mortgage assets under management (£'million)	1 776	2 874	4 650	
IFRS adjustments (£'million)	(10)	81	71	
Mortgage assets under management (£)	1 786	2 793	4 579	
First charge % of total mortgage assets under management	93.5%	94.4%	94.0%	
Second charge % of total mortgage assets under management	6.5%	5.6%	6.0%	
Fixed rate loans % of total mortgage assets under management	38.1%	0.7%	15.3%	
Number of accounts	16 155	30 723	46 878	
Average loan balance (first charge) (£)	142 214	109 831	120 489	
Largest loan balance (£)	1 126 641	1 194 619	1 194 619	
Weighted average loan mature margin	4.1%	4.6%	4.4%	
Product mix (pre-IFRS adjustments) (£'million)	1 786	2 793	4 579	100.0%
Prime	9	–	9	0.2%
Near prime	626	468	1 094	23.9%
Prime buy to Let	1	–	1	–
Adverse	443	1 861	2 304	50.3%
Adverse buy to let and right to buy	76	138	214	4.7%
Start – Irish operations	631	326	957	20.9%
Geographic distribution (£'million)	1 786	2 793	4 579	100.0%
UK – North	359	796	1 155	25.2%
UK – South West	90	173	263	5.7%
UK – South East	259	513	772	16.9%
Outer London	171	304	475	10.4%
Inner London	86	180	266	5.8%
Midlands	191	501	692	15.1%
Start – Irish operations	630	326	956	20.9%
Spread of value of properties	100.0%	100.0%	100.0%	
>£500 000	3.9%	1.5%	2.3%	
>£250 000 – <=£500 000	24.1%	12.6%	16.4%	
>£200 000 – <=£250 000	15.6%	11.7%	13.0%	
>£150 000 – <=£200 000	19.9%	19.4%	19.5%	
>£100 000 – <=£150 000	23.4%	28.6%	26.9%	
>£70 000 – <=£100 000	11.6%	19.6%	17.0%	
>£50 000 – <=£70 000	1.4%	5.3%	4.0%	
<£50 000	0.1%	1.3%	0.9%	
Asset quality statistics				
Weighted average current LTV of active portfolio (adjusted for house price indexation)*	89.1%	77.6%	82.1%	

* *Bad debt provision is based on house price index assumptions of:*
UK: calendar year 2010: (10%) and an extra (10%) haircut to the price to reflect forced sale discount.
Ireland: calendar year 2010: (9.4%) and an extra (13%) (dropping to (10%) for sales from September 2010 onwards) forced sale discount.

As at 31 March 2010	Warehouse book	Securitised portfolio	Total	% of total
LTV spread – % of book	100.0%	100.0%	100.0%	
<= 65%	16.9%	24.9%	21.8%	
>65% – <70%	4.0%	6.2%	5.4%	
>70% – <75%	5.1%	7.8%	6.8%	
>75% – <80%	5.1%	10.3%	8.3%	
>80% – <85%	6.5%	11.5%	9.6%	
>85% – <90%	7.7%	12.4%	10.6%	
>90% – <95%	10.5%	10.1%	10.2%	
>95% – <100%	12.0%	6.9%	8.9%	
> 100%	32.2%	9.9%	18.4%	
% of accounts > 90 days in arrears	27.0%	29.1%	28.4%	
Number of accounts > 90 in arrears	4 368	8 946	13 314	
Total capital lent in arrears (£'million)	709	1 244	1 953	100.0%
Arrears 0 – 60 days	94	191	285	14.6%
Arrears 61 – 90 days	74	129	203	10.4%
Arrears >90 days	517	880	1 397	71.5%
Possession	24	44	68	3.5%
Debt to income ratio of clients	20.4%	19.1%	19.6%	
Investec investment/exposure to assets reflected above (£'million)	555	147	702	
On balance sheet provision (£'million)	(69)	(43)	(112)	
Investec net investment/exposure to assets reflected above (£'million)	486	104	590	

Equity and investment risk in the banking book

Equity and investment risk description

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

- Investment Banking Principal Investments (Private Equity and Direct Investments): Investments are selected based on the track record of management, the attractiveness of the industry and the ability to build value for the existing business by implementing an agreed strategy.
- Lending transactions (within the Private Banking and Capital Markets divisions): The manner in which we structure certain transactions results in equity, warrant and profit shares being held, predominantly within unlisted companies
- Property Activities: We source development, investment and trading opportunities to create value and trade for profit within agreed risk parameters

Management of equity and investment risk

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

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

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

Stress testing scenario analyses are performed regularly and reported to ERRF, BRCC and the board.

Valuation and accounting methodologies

For a description of our valuation principles and methodologies refer to pages 159 to 164 and pages 188 to 192 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 1.8% of total assets (refer to page 189 for further information).

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

Audited £'000 Country/category	Income (pre funding costs)				
	Unrealised	Realised	Dividends, net interest and other	Total	Fair value through equity
For the year ended 31 March 2011					
Unlisted investments	9 473	24 965	(2 492)	31 946	(3 526)
UK and Europe	9 473	21 978	(2 696)	28 755	(2 608)
Australia	–	2 987	204	3 191	(918)
Listed equities	3 302	3 915	(18 990)	(11 773)	7 091
UK and Europe	3 302	42	(19 240)	(15 896)	5 606
Australia	–	3 873	250	4 123	1 485
Investment and trading properties	472	193	1 193	1 858	–
UK and Europe	472	193	614	1 279	–
Australia	–	–	579	579	–
Warrants, profit shares and other embedded derivatives	(936)	10 744	(26)	9 782	–
UK and Europe	(936)	10 744	(26)	9 782	–
Australia	–	–	–	–	–
Total	12 312	39 817	(20 315)	31 813	3 565
For the year ended 31 March 2010					
Unlisted investments	(1 177)	12 052	(518)	10 357	(929)
UK and Europe	(1 177)	9 911	(1 278)	7 456	(1 689)
Australia	–	2 141	760	2 901	760
Listed equities	2 705	12 244	(15 453)	(504)	3 611
UK and Europe	2 705	9 919	(15 487)	(2 863)	(84)
Australia	–	2 325	34	2 359	3 695
Investment and trading properties	–	65	171	236	4
UK and Europe	–	65	171	236	4
Warrants, profit shares and other embedded derivatives	633	14 409	(1 745)	13 297	–
UK and Europe	980	14 409	(1 744)	13 645	–
Australia	(347)	–	(1)	(348)	–
Total	2 161	38 770	(17 545)	23 386	2 686

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

Summary of investments held and stress testing analyses

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

Audited £'000 Country/category	On-balance sheet value of investments 31 March 2011	Valuation change stress test* 31 March 2011	On-balance sheet value of investments 31 March 2010	Valuation change stress test* 31 March 2010
Unlisted investments	123 546	18 532	147 613	22 142
UK and Europe	116 994	17 549	135 356	20 303
Australia	6 552	983	12 257	1 839
Listed equities	70 278	17 569	24 556	6 139
UK and Europe	61 337	15 334	16 472	4 118
Australia	8 941	2 235	8 084	2 021
Investment and trading properties	58 434	11 687	10 810	2 162
UK and Europe	30 554	6 111	10 810	2 162
Australia	27 880	5 576	–	–
Warrants, profit shares and other embedded derivatives	32 387	11 336	34 150	11 952
UK and Europe	32 387	11 336	34 150	11 952
Australia	–	–	–	–
Total	284 645	59 124	217 129	42 395

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

Stress test values applied

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

Stress testing summary

Based on the information above we could have a £59.1 million reversal in revenue (which assumes a year in which there is a 'severe stress scenario'). This would not cause the group to report a loss but could have a significantly negative impact on earnings for that period. The probability of all these asset classes in all geographies in which we operate being negatively impacted at the same time is very low, although the probability of listed equities being negatively impacted at the same time is very high.

Capital requirements

In terms of Basel II capital requirements, unlisted and listed equities within the banking book are represented under the category of 'Equity risk' and investment properties, profit shares and embedded derivatives are considered in the calculation of capital required for credit risk. Refer to page 118 for further detail.

Traded market risk management

Traded market risk description Audited

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

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

Traded market risk governance structure Audited

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

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

All VaR models, while forward-looking, are based on past events and depend on the quality of available market data. The accuracy of the VaR model as a predictor of potential loss is continuously monitored through back testing. This involves comparing the hypothetical (clean) trading revenues arising from the previous day's closing positions with the one-day VaR calculated for the previous day on these same positions. If the revenue is negative and exceeds the one-day VaR, a 'back testing breach' is considered to have occurred.

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

VaR

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

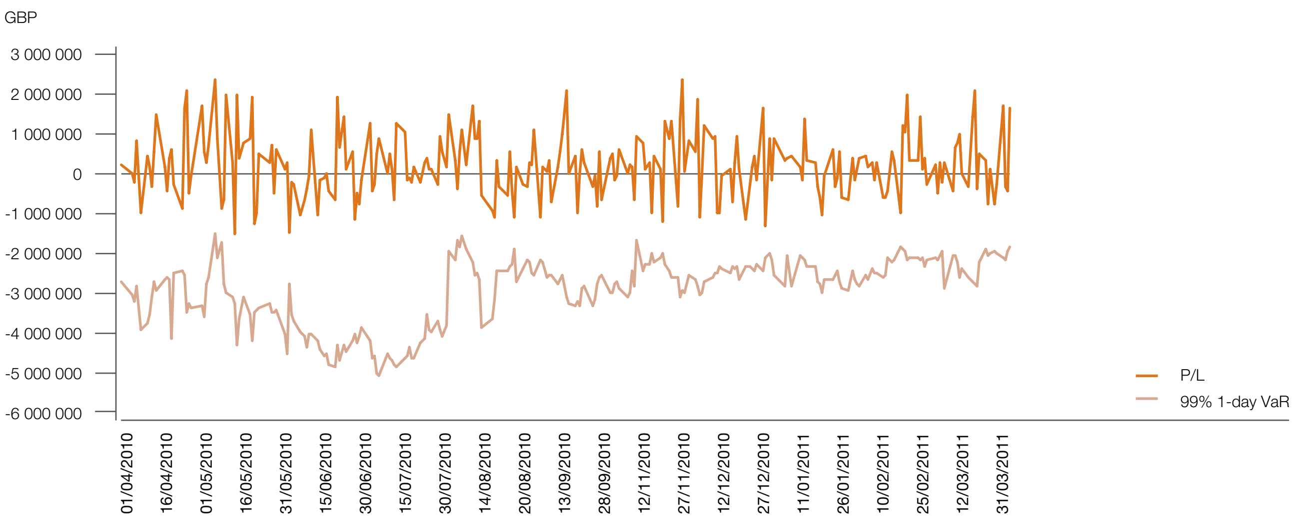
* *The consolidated VaR for each desk and each entity at year end is lower than the sum of the individual VaR's. This arises from the consolidation offset between various asset classes (diversification).*

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

UK and Europe

There have been no exceptions i.e. where the loss is greater than the VaR. This is less than the expected two to three exceptions per year at the 99% level. The reason for this is that the data set that was used for most of the year included the Lehman's crisis and hence contained some exceptionally large moves. As a result, the calculated VaR was conservative for the majority of the year. The average VaR utilization was similar to that of 2010, although by year end, the VaR had reduced to £1.1 million, mainly as a result of a reduction in risk on the Structured Equity Derivatives desk.

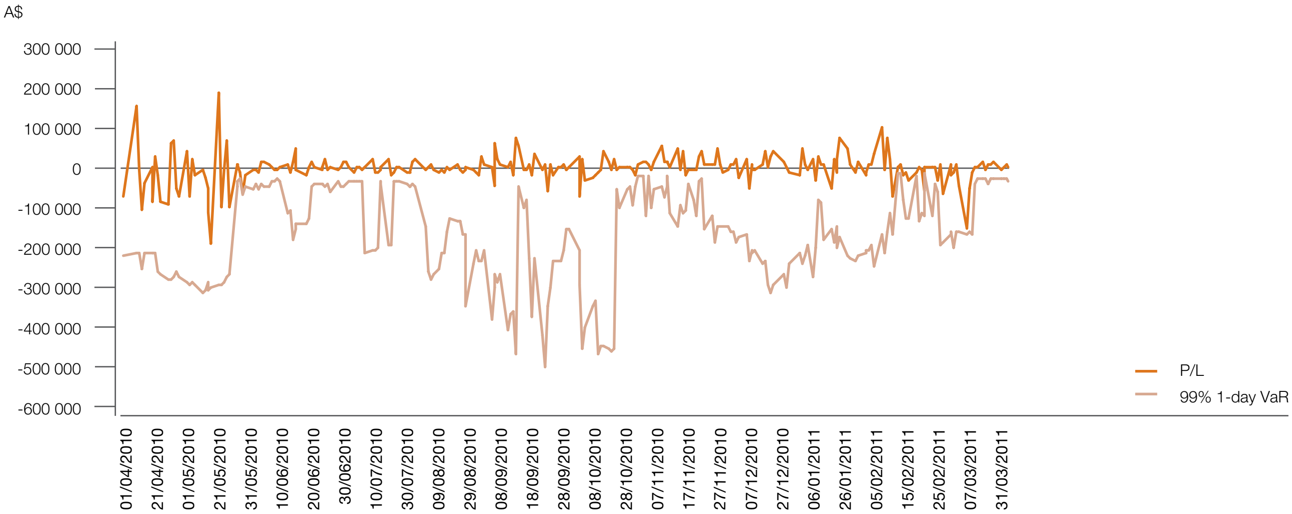
99% 1-day VaR backtesting



Australia

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

99% 1-day VaR backtesting



ETL

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

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

^ *Not previously reported.*

Stress testing

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

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

Audited	UK and Europe Using VaR £'000	Australia Using VaR A$'000
31 March 2010		
Commodities	207	–
Equity derivatives	13 760	–
Foreign exchange	122	50
Interest rates	3 834	846
Consolidated	17 923	896

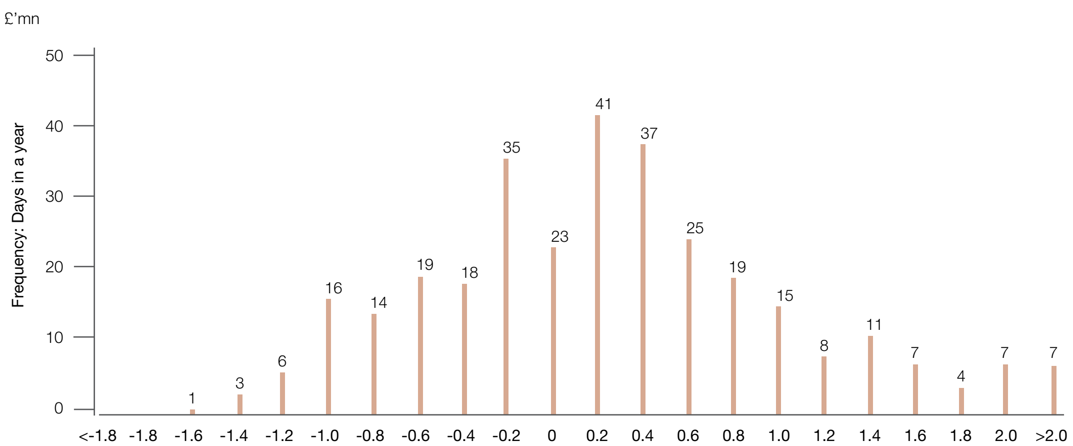
Profit and loss histograms

UK and Europe

The histogram below illustrates the distribution of daily revenue during the financial year for our trading businesses. The distribution is skewed to the profit side and the graph shows that positive trading revenue was realised on 147 days out of a total of 253 days in the trading business.

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

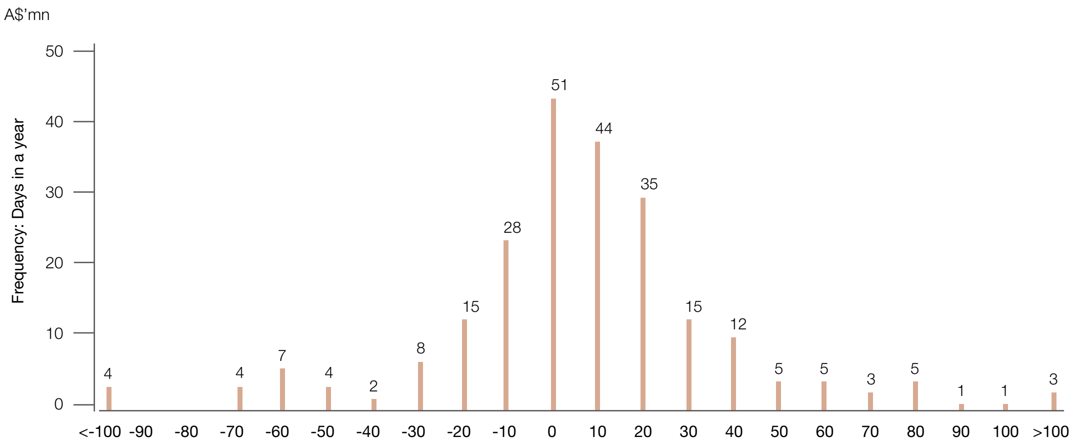
Profit and loss



Australia

The histogram below illustrates the distribution of daily revenue during the financial year for our trading businesses. The graph shows that negative trading revenue was realised on 123 days out of a total of 252 days in the trading business. The average daily trading revenue generated for the year ended 31 March 2011 was A$1 393 (2010: revenue of A$4 000).

Profit and loss



Traded market risk mitigation

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

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

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

Traded market risk year in review

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

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

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

Market risk – derivatives Audited

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

Information showing our derivative trading portfolio over the reporting period on the basis of the notional principal and the fair value of all derivatives can be found on page 195.

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

Balance sheet risk management

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 February 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 compromise the managing director, the head of risk, the head of the funding desk, economists, divisional heads, the balance sheet risk management team, the treasurer, Private Bank representatives and any appropriate co-opted personnel. The ALCO's meet on a monthly basis to discuss and decide on strategies to mitigate any undesirable liquidity and interest rate risk.

The group's central treasury function is mandated to actively manage the liquidity mismatch and non-trading interest rate risk arising from our asset and liability portfolios. The treasurer is required to exercise tight control of funding, liquidity, concentration and non-trading interest rate risk within parameters defined by the board approved risk appetite policy. Most non-trading interest rate risk and asset funding requirements are transferred from the originating business to the treasury function.

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.

The group's central treasury function directs pricing for all deposit products (including deposit products offered to the Private Clients), establishes and maintains access to stable wholesale funds with the appropriate tenor and pricing characteristics, internally administers funds transfer pricing which ensures that the costs and risks of liquidity are clearly and transparently attributed to business lines and are understood by business line management, and manages liquid securities and collateral, thus providing for a controlled and flexible response to volatile market conditions. The central treasury function is the sole interface to the wholesale market for both cash and derivative transactions.

The balance sheet risk management team, based within group Risk Management, independently identifies, quantifies and monitors risks, providing daily independent governance and oversight of the central treasury activities and the execution of the bank's policy, continuously assessing the risks whilst taking changes in market conditions into account. In carrying out its duties the balance sheet risk management team monitors historical liquidity trends, tracks prospective on- and off-balance sheet liquidity obligations, identifies and measures internal and external liquidity warning signals which permit early detection of liquidity issues through daily liquidity reporting and scenario analysis which quantify our positions, thus providing a comprehensive and consistent governance framework.

The balance sheet risk function further performs scenario modelling and daily liquidity stress tests designed to measure and manage the liquidity position such that payment obligations can be met under a wide range of normal, company-specific and market-driven stress scenarios, in which the rate and timing of deposit withdrawals and draw-downs on lending facilities are varied, and the ability to access funding and to generate funds from asset portfolios is restricted. The parameters used in the scenarios are regularly reviewed, taking into account changes in the business environments and input from business units. The objective is to have sufficient liquidity, in an acute stress, to continue to operate for a minimum period as detailed in the board approved risk appetite.

There is a regular internal audit of the balance sheet risk management function, the frequency of which is determined by the independent audit committee.

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

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

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

Non-trading interest rate risk description

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

Sources of banking-related risk exposures include potential adverse effect of volatility and changes in interest rate levels, the shape of the yield curves, basis risk spreads, and optionality inherent in certain products. These affect the interest rate margin realised between lending income and borrowing costs, when applied to our rate sensitive asset and liability portfolios, which has a direct effect on future net interest income and the economic value of equity. The mix of interest rate repricing characteristics is influenced by the underlying financial needs of customers.

Management and measurement of non-trading interest rate risk

Non-trading interest rate risk in the banking book is a normal part of banking and arises from the provision of retail and wholesale (non-trading) banking products and services. We are exposed to repricing risk due to timing differences in the fixed rate maturity and floating rate repricing of bank assets, liabilities and derivative positions. Additionally, we are exposed to yield curve and basis risk, due to the difference in repricing characteristics of two floating-rate indices. We are not materially exposed to optionality risk, as contract breakage penalties on fixed-rate advances specifically cover this risk. The group considers the management of banking margin of vital importance, and our core non-trading interest rate risk philosophy is reflected in day-to-day practices which encompass the following:

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

Non-trading interest rate risk is measured and managed both from a net interest margin perspective over a specified time horizon, and the sensitivity of economic value of equity to hypothetical changes to market factors on the current values of financial assets and liabilities.

Economic value measures have the advantage that all future cash flows are considered and therefore can highlight risk beyond the earnings horizon. The aim is to protect and enhance net interest income and economic value in accordance with the board approved risk appetite. The standard tools that are used to measure the sensitivity of earnings to changes in interest rates are the repricing gap which provides a basic representation of the balance sheet structure, this allows for the detection of interest rate risk by concentration of repricing, net interest income sensitivity which measures the change in accruals expected over the specified horizon in response to a shift in the yield curve, and economic value sensitivity and stress testing to macroeconomic movement or changes which measures the interest risk implicit change in net worth as a result of a change in interest rates on the current values of financial assets and liabilities.

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

Operationally, non-trading interest rate risk is transferred within pre-defined guidelines from the originating business to the central treasury function and aggregated or netted. The central treasury then implements appropriate balance sheet strategies to achieve a cost-effective source of funding and mitigates any residual undesirable risk where possible, by changing the composition of the banking group's discretionary liquid asset portfolio or through derivative transactions which transfer the risk into the trading books within the Capital Markets division to be traded with the external market. Any resultant interest rate position is managed under the market risk limits. The central treasury mandate allows for tactically responding to market opportunities which may arise during changing interest rate cycles.

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

Interest rate sensitivity gap

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

UK and Europe – interest rate sensitivity as at 31 March 2011

£'million	Not > 3 months	> 3 months but < 6 months	> 6 months but < 1 year	> 1 year but < 5 years	> 5 years	Non-rate	Total non trading
Cash and short-term funds – banks	1 535	3	–	–	–	24	1 562
Investment/trading assets	1 780	50	24	63	797	294	3 008
Securitised assets	3 677	–	1	–	–	1	3 679
Advances	7 264	365	109	269	103	5	8 115
Other assets	–	–	–	199	–	1 440	1 639
Assets	**14 256**	**418**	**134**	**531**	**900**	**1 764**	**18 003**
Deposits – banks	(1 436)	(49)	(41)	(60)	–	–	(1 586)
Deposits – non-banks	(7 238)	(146)	(1 271)	(102)	(51)	(5)	(8 813)
Negotiable paper	(554)	(5)	(306)	(70)	(26)	–	(961)
Securitised liabilities	(217)	(7)	(23)	–	–	(109)	(356)
Investment/trading liabilities	(3 174)	–	–	–	–	–	(3 174)
Subordinated liabilities	(65)	–	–	(53)	(503)	(49)	(670)
Other liabilities	–	–	–	(24)	–	(991)	(1 015)
Liabilities	**(12 684)**	**(207)**	**(1 641)**	**(309)**	**(580)**	**(1 154)**	**(16 575)**
Intercompany loans	**5**	**–**	**34**	**41**	**–**	**(11)**	**69**
Shareholders' funds	**–**	**–**	**–**	**–**	**–**	**(1 616)**	**(1 616)**
Balance sheet	**1 577**	**211**	**(1 473)**	**263**	**320**	**(1 017)**	**(119)**
Off-balance sheet	(188)	(342)	1 210	(316)	(332)	304	336
Repricing gap	**1 389**	**(131)**	**(263)**	**(53)**	**(12)**	**(713)**	**217**
Cumulative repricing gap	1 389	1 258	995	942	930	217	–

Australia – interest rate sensitivity as at 31 March 2011

A$'million	Not > 3 months	> 3 months but < 6 months	> 6 months but < 1 year	> 1 year but < 5 years	> 5 years	Non-rate	Total non trading
Cash and short-term funds – banks	391	–	–	–	–	–	391
Investment/trading assets	1 083	2	–	193	–	39	1 317
Securitised assets	183	64	103	390	9	–	749
Advances	2 162	42	67	245	8	30	2 554
Other assets	–	–	–	–	–	339	339
Assets	3 819	108	170	828	17	408	5 350
Deposits – non-banks	(1 558)	(393)	(132)	(89)	(12)	(27)	(2 211)
Negotiable paper	(658)	(4)	(231)	(650)	–	(3)	(1 546)
Securitised liabilities	(732)	–	–	–	–	–	(732)
Investment/trading liabilities	–	–	–	–	–	–	–
Subordinated loans	(71)	–	–	–	–	–	(71)
Other liabilities	–	–	–	–	–	(105)	(105)
Liabilities	(3 019)	(397)	(363)	(739)	(12)	(135)	(4 665)
Intercompany loans	(20)	–	–	(1)	–	20	(1)
Shareholders' funds						(684)	(684)
Balance sheet	780	(289)	(193)	89	5	(391)	–
Off-balance sheet	60	(24)	138	(158)	(7)	(9)	–
Repricing gap	840	(313)	(55)	(70)	(2)	(400)	–
Cumulative repricing gap	840	527	472	402	400	–	

Economic value sensitivity as at 31 March 2011

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

UK and Europe

	Sensitivity to the following interest rates (expressed in original currencies)				
'million	GBP	USD	EUR	Other (GBP)	All (GBP)
200bp Down	(10.0)	0.1	(1.3)	0.1	(11.0)
200bp Up	10.0	(0.1)	1.3	(0.1)	11.0

Australia

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

Liquidity risk

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

Liquidity risk description 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 FSA and APRA
- The group complies with the BCBS Principles for Sound Liquidity Risk Management and Supervision
- The group has committed itself to implementation of the BCBS guidelines for liquidity risk measurement standards and monitoring and the enhanced regulatory framework to be established, as published in December 2009 and updated in December 2010
- The risk appetite is clearly defined
- Each geographic entity must have its own board approved policies with respect to liquidity risk management
- Each geographic entity must be self sufficient from a funding and liquidity stand point so that there is no reliance on intergroup lines either from or to other group entities
- Branches and subsidiaries have no responsibility for contributing to group liquidity
- We maintain a liquidity buffer in the form of unencumbered, cash, government, or rated securities (typically eligible for repurchase with the central bank), and near cash well in excess of the statutory requirements as protection against unexpected disruptions in cash flows
- Funding is diversified with respect to currency, term, product, client type and counterparty to ensure a satisfactory overall funding mix
- We monitor and evaluate each banking entity's maturity ladder and funding gap (cashflow maturity mismatch) on a 'liquidation', 'going concern' and 'stress' basis
- Daily liquidity stress tests are carried out to measure and manage the liquidity position such that payment obligations can be met under a wide range of normal and unlikely but plausible stressed scenarios, in which the rate and timing of deposit withdrawals and drawdowns on lending facilities are varied, and the ability to access funding and to generate funds from asset portfolios is restricted. The objective is to have sufficient liquidity, in an acute stress, to continue to operate for a minimum period as detailed in the board approved risk appetite
- Our liquidity risk parameters reflect a range of liquidity stress assumptions which are reviewed regularly and updated as needed. These stress factors go well beyond our experience during the height of the recent financial crisis
- The balance sheet risk management team independently monitors key daily funding metrics and liquidity ratios to assess potential risks to the liquidity position, which further act as early warning indicators
- The group centrally manages access to funds in the market through the central treasury divisions

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

Management uses assumptions-based planning and scenario modelling that considers market conditions, prevailing interest rates, and projected balance sheet growth, to estimate future funding and liquidity needs, whilst taking the desired nature and profile of liabilities into account. These metrics are used to develop our funding strategy and measure and manage the execution thereof. The funding plan details the proportion of our external assets which are funded by customer liabilities, unsecured wholesale debt, equity and loan capital thus maintaining an appropriate mix of term funding and strong balance sheet liquidity ratios within approved risk limits. This ensures the smooth management of the day-to-day liquidity position within conservative parameters and further validates that, in the event of either a firm-specific or general market event, we are able to generate sufficient liquidity to withstand short term liquidity stress or market disruptions.

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

We acknowledge the importance of our private client base as the principal source of stable and well diversified funding for our Private Bank risk assets. We continue to develop products to attract and service the investment needs of our Private Bank client base. Although the contractual repayments of many Private Bank customer accounts are on demand or at short notice, in practice such accounts remain a stable source of funds. Total Private Bank deposits amount to £7.3 billion (2010: £7.2 billion). Our retail deposit initiatives within our Capital Markets division continued to experience strong inflows during the financial year. Our total retail customer deposit base increased by 13.1% from 1 April 2010 to £10.2 billion at 31 March 2011. On average our fixed and notice customer deposits have amounted to approximately 85% of total deposits since April 2006 for Investec plc respectively, thereby displaying a strong ‘stickiness‘ and willingness to reinvest by our retail customers.

Entities within the group actively participate in global financial markets and our relationship is continuously enhanced through regular investor presentations internationally. We have instituted various offshore syndicated loan programmes to broaden and diversify term-funding in supplementary markets and currencies, enhancing the proven capacity to borrow in the money markets. Decisions on the timing and tenor of accessing these markets are based on relative costs, general market conditions, prospective views of balance sheet growth and a targeted liquidity profile.

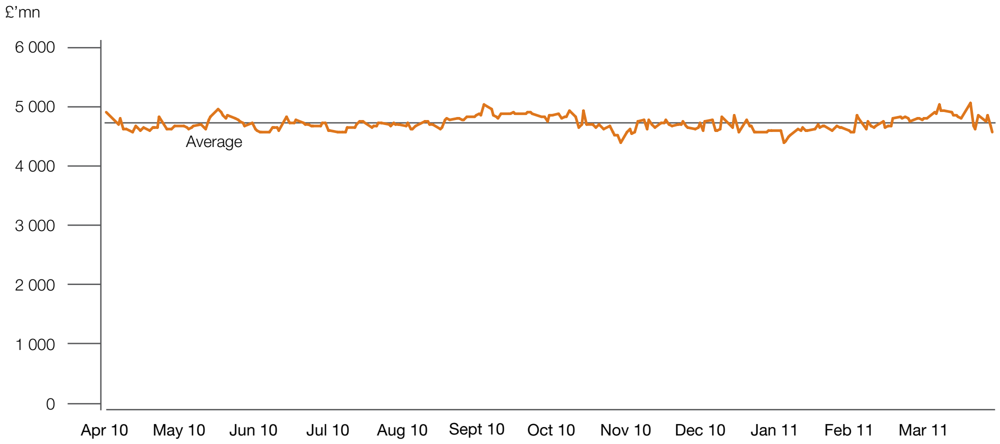
We engage in transactions that involve the use of both special purpose entities and asset securitisation structures. Securitisation represents a relatively modest proportion of our current funding profile, but provides additional flexibility and source of liquidity. These entities form part of the consolidated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

As mentioned above, we hold a liquidity buffer in the form of unencumbered readily available, high quality liquid assets, typically in the form of government or rated securities eligible for repurchase with the central bank, and near cash well in excess of the statutory requirements as protection against unexpected disruptions in cash flows. Investec remains a net liquidity provider to the interbank market, placing significantly more funds with other banks than our short–term interbank borrowings. These portfolios are managed within limits and, apart from acting as a buffer under going concern conditions, also form an integral part of the broader liquidity generation strategy in the unlikely event of a liquidity crunch. We do not rely on interbank deposits to fund term lending. From 1 April 2010 to 31 March 2011 average cash and near cash balances over the period amounted to £4.7 billion (£3.6 billion in UK and Europe and A$1.7 billion in Australia).

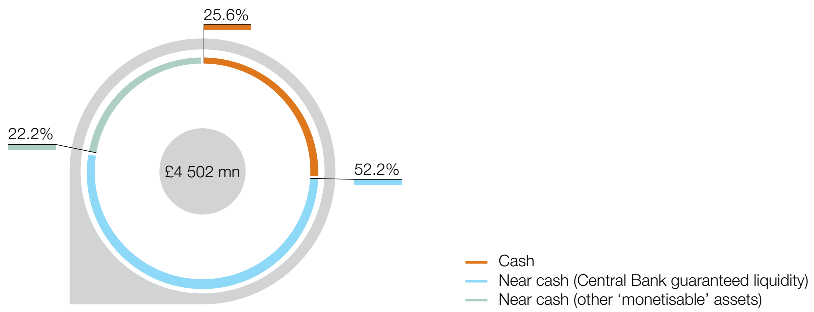
The group does not rely on committed funding lines for protection against unforeseen interruptions to cash flow. We are currently unaware of any circumstances that could significantly detract from our ability to raise funding appropriate to our needs.

Each banking entity within the group maintains a contingency funding plan to, as far as possible, protect stakeholder interests and maintain market confidence in order to ensure a positive outcome in the event of a liquidity crisis. The liquidity contingency plans outline extensive early warning indicators and clear and decisive crisis response strategies. Early warning indicators span bank specific and systemic crises. Crisis response strategies address roles and responsibilities, composition of decision making bodies involved in liquidity crisis management, internal and external communications including public relations, sources of liquidity, avenues available to access additional liquidity, as well as supplementary information requirements. This plan helps to ensure that cash flow estimates and commitments can be met in the event of general market disruption or adverse bank specific events, while minimising detrimental long-term implications for the business.

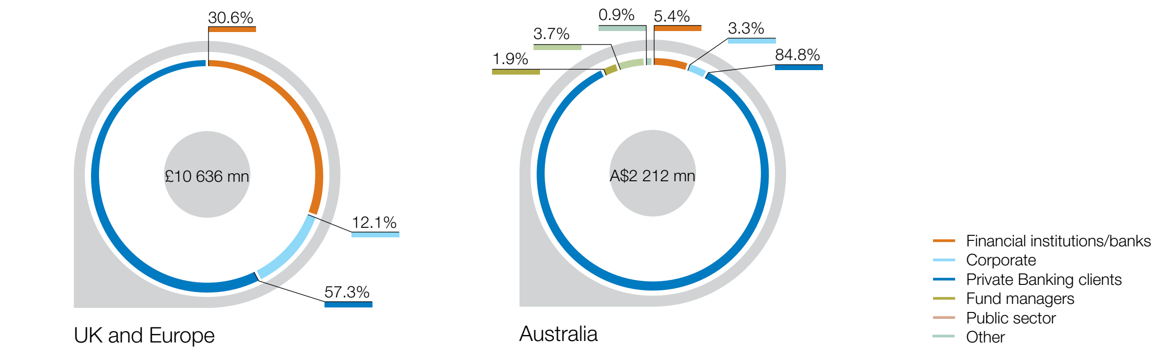
Investec plc (UK, Europe and Australia) cash and near cash trend



An analysis of cash and near cash



Bank and non-bank depositor concentration by type



Liquidity mismatch

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

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

We maintained a strong liquidity profile throughout the year. Despite competitive pressures we were able to increase deposits taken from the retail market and raise additional liquidity. The tables reflect that loans and advances to customers are largely financed by stable funding sources.

With respect to the contractual liquidity mismatch:

- No assumptions are made except as mentioned below, and we record all asset and liabilities with the underlying contractual maturity as determined by the cash flow profile for each deal
- As an integral part of the broader liquidity generation strategy, we maintain a liquidity buffer in the form of unencumbered, cash, government, or bank paper (typically eligible for repurchase with the central bank), and near cash as a buffer against both expected and unexpected cash flows
- The actual contractual profile of this asset class is of little consequence, as practically Investec would meet any unexpected net cash outflows by selling these securities, we have:
  - Set the time horizon to one month to monetise our cash and near cash portfolio of 'available for sale' discretionary treasury assets, where there are deep secondary markets for this elective asset class
  - Set the time horizon to 'on demand' to monetise our statutory liquid assets for which liquidity is guaranteed by the central bank
  - Reported the 'contractual' profile by way of a note to the tables.

With respect to the behavioural liquidity mismatch:

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

We maintained a strong liquidity profile throughout the year.

UK and Europe

Contractual liquidity as at 31 March 2011

£'million	Demand	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	> 5 years	Total
Cash and short-term funds – banks	1 558	219	16	2	–	–	–	1 795
Investment/trading assets	1 595	950	194	68	146	302	1 030	4 285
Securitised assets	54	–	1	2	2	18	3 602	3 679
Advances	41	609	431	467	827	2 383	3 357	8 115
Other assets	227	505	80	28	61	163	575	1 637
Assets	3 475	2 283	722	567	1 036	2 866	8 564	19 513
Deposits – banks	(232)^	(171)	(72)	(97)	(42)	(620)	(589)	(1 823)
Deposits – non-banks	(580)	(1 535)	(2 520)	(2 531)	(423)	(1 157)	(67)	(8 813)
Negotiable paper	(27)	(10)	(7)	(21)	(19)	(486)	(414)	(984)
Securitised liabilities	(272)	–	–	–	–	–	(2 902)	(3 174)
Investment/trading liabilities	(1 062)	(98)	(237)	(8)	(25)	(59)	–	(1 489)
Subordinated liabilities	–	(49)	–	–	–	(56)	(565)	(670)
Other liabilities	(180)	(512)	(119)	(34)	(70)	(30)	(70)	(1 015)
Liabilities	(2 353)	(2 375)	(2 955)	(2 691)	(579)	(2 408)	(4 607)	(17 968)
Intercompany loans	(8)	(14)	(1)	–	–	106	(12)	71
Shareholders' funds	–	–	–	–	–	–	(1 616)	(1 616)
Liquidity gap	1 114	(106)	(2 234)	(2 124)	457	564	2 329	–
Cumulative liquidity gap	1 114	1 008	(1 236)	(3 350)	(2 893)	(2 329)	–	–

Behavioural liquidity (as discussed on page 99)

£'million	Demand	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	> 5 years	Total
Behavioural liquidity gap	2 342	67	(640)	74	630	(3 574)	1 101	–
Cumulative	2 342	2 409	1 769	1 843	2 473	(1 101)	–	–

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

Australia

Contractual liquidity as at 31 March 2011

A$'million	Demand	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	> 5 years	Total
Cash and short term funds – banks	391	–	–	–	–	–	–	391
Investment/trading assets*	1 099	13	19	7	19	211	78	1 446
Securitised assets	1	25	65	87	142	419	10	749
Advances**	54	123	230	330	630	1 116	69	2 553
Other assets	–	–	–	–	–	–	210	210
External assets	1 545	161	314	424	791	1 746	368	5 349
Deposits – banks	–	(6)	–	–	–	–	–	(6)
Deposits – non-banks	(572)^	(202)	(753)	(420)	(150)	(97)	(12)	(2 206)
Negotiable paper	(2)	(88)	(68)	(37)	(244)	(1 106)	–	(1 545)
Securitised liabilities	(1)	(22)	(50)	(242)	(416)	–	–	(731)
Invest/trading liabilities	–	(1)	(10)	(5)	(8)	(46)	(6)	(76)
Subordinated liabilities	–	–	–	–	–	(72)	–	(72)
Other liabilities	–	–	–	–	–	–	(29)	(29)
Liabilities	(575)	(319)	(881)	(704)	(818)	(1 321)	(47)	(4 665)
Intercompany loans	15	4	–	–	–	(20)	2	(1)
Shareholders' funds	–	–	–	–	–	–	(685)	(685)
Contractual liquidity Gap	985	(154)	(567)	(280)	(27)	405	(362)	–
Cumulative liquidity gap	985	831	264	(16)	(43)	362	–	–

Note: contractual liquidity adjustments (as discussed on page 99)

A$'million	Demand	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	> 5 years	Total
*Investment/trading assets	–	110	276	7	48	910	95	1 446
**Advances	512	100	184	208	385	1 093	70	2 552

Behavioural liquidity (as discussed on page 99)

A$'million	Demand	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	> 5 years	Total
Behavioural liquidity gap	1 475	(234)	(784)	(383)	(116)	405	(363)	–
Cumulative	1 475	1 241	457	74	(42)	363	–	–

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

Balance sheet risk year in review

UK and Europe

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

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

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

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

Australia

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

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

Investec plc

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

- Investec plc:
  - A replacement Schuldschein loan was raised on the 7th March 2011, £133 million with an 18 month tenure.
- Investec Bank plc (IBP):
  - IBP did not have any wholesale term funding initiatives for this year due to the continued success within the retail funding and strong levels of liquidity
  - IBP offered investors in its £200 million lower tier II and the £350 million perpetual note the option to roll into a new £500 million, 11 year tier II capital issuance and at the same time raised £136 million of new capital.
- Investec Bank (Australia) Limited:
  - Undertook an inaugural term securitisation of $240 million Professional Finance assets from the Impala securitisation vehicle;
  - IBAL bought-back $195 million of previously issued Government Guaranteed term debt;

Regulatory considerations – balance sheet risk

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

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

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

Two key measures were defined:

Liquidity Coverage Ratio (LCR)

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

Net Stable Funding Ratio (NSFR)

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

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

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

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

UK

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

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

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

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

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

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.

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

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

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

Australia

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

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

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

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

Operational risk management

Operational risk description

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

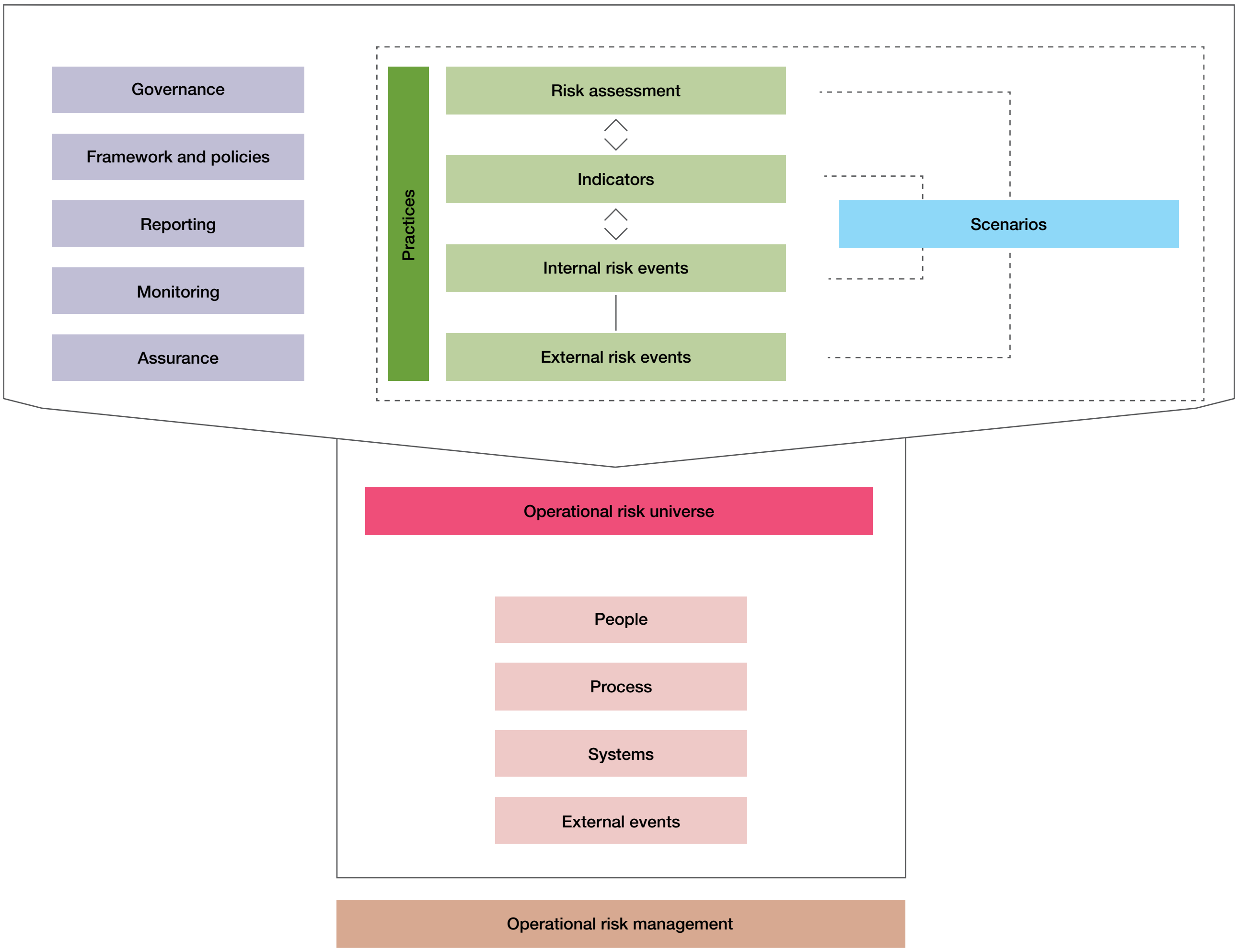
We recognise operational risk as a significant risk category, and strive to manage this within acceptable levels through the promotion of appropriate and relevant sound operational risk management practices.

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

Operational risk management framework

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

A group wide operational risk system is used to record and evidence the operational risk management process. This system allows for the recording and linking of risk assessments, risk events and risk indicators where appropriate, enabling a comprehensive view, analysis and reporting of the group's operational risk profile.



Governance

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

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

Risk management (continued)

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

Framework and policies

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

Practices

Operational risk identification and assessments

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

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

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

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

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

Risk assessments are reviewed regularly based on the internal and external events and changes in the business environment. Risks are assessed and considered before implementation of new products in line with the relevant policies and procedures applicable to the respective operating jurisdictions.

Key operational risks

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

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

Operational risk indicators

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

Internal operational risk events

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

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

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

External operational risk events

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

Scenarios

Key operational risks and other material operational risks are subjected to a scenario analysis process. Various plausible, extreme, scenarios are developed and documented for each material operational risk. Scenario information is sourced from an evaluation of the external business environment, internal business considerations, internal and external event data, and controlled operational risk exposures.

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

Reporting

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

Monitoring

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

Group wide operational risk focus areas

Business continuity management

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

Information technology risk

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

Financial crime

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

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

Developments

Areas of focus during the year included:

- Ongoing development and enhancement of the operational risk management framework having consideration for advanced operational risk management practices
- Regular engagement with industry groups and fora enables the group to be informed of developments
- Enhancing the risk and control environment remains an area of focus, particularly in areas where trends are identified
- Using outputs from operational risk processes more effectively in proactively managing operational risk
- Continue to monitor regulatory developments and actively engage with regulators.

Insurance

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

Reputational risk

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

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

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

Pension risk

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

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

Primary sources at risk include:

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

Investec plc monitors the position of the funds closely and regularly assesses potential adverse movements in the schemes in close conjunction with external, independent adivisors. Further information is provided on pages 206 to 208.

Legal risk management

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

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

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

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

The legal risk policy is implemented through:

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

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

A Legal Risk Forum is constituted in each significant legal entity within the group. Each forum meets at least half-yearly and more frequently where business needs dictate, and is chaired by the global head of Legal Risk or an appointed deputy. Minutes of the meetings are circulated to the Chief Executive Officer of each legal entity.

Capital management and allocation

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

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

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

Philosophy and approach

Over recent years, capital adequacy standards for banks have been raised as part of attempts to increase the stability and resilience of the global banking sector. Investec has always held capital in excess of regulatory requirements and the group intends to ensure that it continues to remain well capitalised. Accordingly, the group maintains capital adequacy targets of a minimum tier one capital ratio of 11% and a total capital adequacy ratio range of 14% to 17%, on a consolidated basis, for Investec plc and Investec Limited.

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

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

- Maintain sufficient capital to satisfy the board's risk appetite across all risks faced by the group
- Support a target level of financial strength aligned with a long-term external rating of at least 'A'
- Provide protection to depositors against losses arising from risks inherent in the business
- Provide sufficient capital surplus to ensure that the group is able to retain its going concern basis under relatively severe operating conditions
- Informal discussions with the group's regulators to assist in setting minimum regulatory capital.

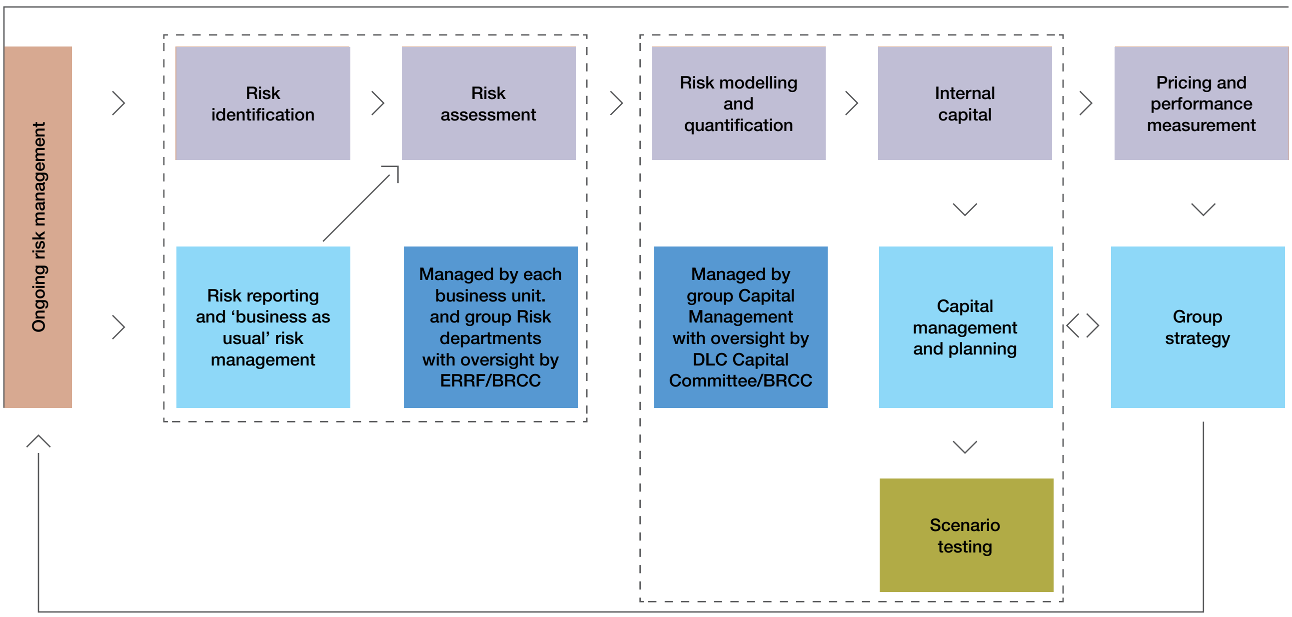
Internal capital performs a critical role in:

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

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

In order to achieve these objectives, the internal capital framework describes the following approach to the integration of risk and capital management.

The (simplified) integration of risk and capital management



Risk assessment and identification

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

Risk reporting

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

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

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

Role of regulatory capital in capital management

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

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

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

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

Therefore, while regulatory capital requirements under 'Pillar 1' form the minimum capital for Investec plc, Investec Limited and their various regulated subsidiaries, our capital management framework places emphasis on the internal assessment of capital requirements and is based on a conservative assessment of the underlying risk of the portfolio. This requirement has been adopted within our approach to 'Pillar 2', of which the internal capital framework constitutes a central role.

Risk modelling and quantification (internal capital)

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

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

- Credit and counterparty risk, including:
  - Underlying counterparty risk
  - Concentration risk
  - Securitisation risk

- Traded market risk
- Equity and property risk held in the banking book
- Balance sheet risk, including:
  - Liquidity
  - Non-trading interest rate risk
- Strategic and reputational risks
- Business risk
- Operational risk
- Pension risk (UK only).
- Operational risk is considered as an umbrella term and covers a range of independent risks including, but not limited to fraud, litigation, business continuity, outsourcing and out of policy trading. The specific risks covered are assessed dynamically through constant assessment of the underlying business environment.

Capital management, planning and scenario testing

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

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

In particular, our capital plans are designed to allow senior management and the board to review:

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

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

Pricing and performance measurement

The use of internal capital means that all transactions are considered in the context of the impact on the allocation of our capital resources, and hence on the basis of their contribution to return on risk adjusted internal capital. This is to ensure that expected returns are sufficient after taking recognition of the inherent risk generated for a given transaction. This approach allows us to embed risk and capital discipline at the level of deal initiation. Using expectations of risk based returns as the basis for pricing and deal acceptance ensures that risk management retains a key role in ensuring that the portfolio is appropriately managed for that risk.

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

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

Responsibility for the risk and capital management process

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

These forums have been in place for several years 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. The structure ensures that capital is actively managed from the lowest and most detailed reporting level and cascades up to the ultimate responsible body – the BRCC.

The following areas within the group have specific operational capital management responsibilities:

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

Regulatory considerations – capital management

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

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

Capital disclosures in terms of Basel II

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

Accounting and regulatory treatment of group subsidiaries

Investec plc and Investec Limited are the two listed holding companies in terms of the DLC structure. Investec Bank plc (IBP) is the main banking subsidiary of Investec plc. Investec Bank (Australia) Limited (IBAL) is a subsidiary of IBP. The regulatory treatment of the group's principal subsidiaries and associates is set out below:

Investec plc

			Regulatory treatment			
Identity of investment/ interest held	Regulatory	% interest held	Fully consolidated	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 plc group
Bank controlling company Investec plc	Subject to consolidated supervision		Yes		UK	None
Investec 1 Limited	Subject to consolidated supervision	100%	Yes		UK	None
Regulated subsidiaries						
Banking and securities trading						
Investec Capital Asia Limited	Hong Kong Securities and Futures Commission	100%	Yes		Hong Kong	Subject to regulatory rules
Hero Nominees Limited	Guernsey Financial Services Commission	100%	Yes		Guernsey	Subject to regulatory rules
Investec Bank (Australia) Limited	Australian Prudential Regulation Authority ASIC AUSTRAC	100%	Yes		Australia	Subject to regulatory rules
Investec Bank plc	FSA	100%	Yes		UK	Subject to regulatory rules
Investec Bank (Channel Islands) Limited	Guernsey Financial Services Commission/ Jersey Financial Services Commission	100%	Yes		Guernsey and Jersey	Subject to regulatory rules
Investec Bank (Switzerland) AG	Swiss Financial Market Supervisory Authority	100%	Yes		Switzerland	Subject to regulatory rules
Investec Ireland Limited	The Central Bank of Ireland	100%	Yes		Ireland	Subject to regulatory rules
Investec Trust (Guernsey) Limited	Guernsey Financial Services Commission	100%	Yes		Guernsey	Subject to regulatory rules

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 plc group
Regulated subsidiaries (continued)						
Investec Trust (Jersey) Limited	Jersey Financial Services Commission	100%	Yes		Jersey	Subject to regulatory rules
Investec Trust (Switzerland) S.A.	Association Roman des Intermediaries Financiers	100%	Yes		Switzerland	Subject to regulatory rules
Investec Securities (US) LLC	Securities and Exchange Commission and Financial Industry Regulatory Authority	100%	Yes		USA	Subject to regulatory rules
Kensington Mortgage Company Limited	FSA	100%	Yes		UK	Subject to regulatory rules
Kensington Personal Loans Limited	FSA	100%	Yes		UK	Subject to regulatory rules
NUA Homeloans Limited	The Central Bank of Ireland	100%	Yes		Ireland	Subject to regulatory rules
NUA Mortgages Limited	The Central Bank of Ireland	100%	Yes		Ireland	Subject to regulatory rules
Start Mortgages Limited	The Central Bank of Ireland	100%	Yes		Ireland	Subject to regulatory rules
Investec Wealth & Investment Limited (formerly Rensburg Sheppards Investment Management Limited)	FSA	100%	Yes		UK	Subject to regulatory rules
Investec Wealth & Investment Trustees Limited (formerly Rensburg Sheppards Trustees Limited)	FSA	100%	Yes		UK	Subject to regulatory rules
Hargreave Hale Limited	FSA	33.18%	Propor-tionately Consolidated		UK	Subject to regulatory rules
Asset Management						
Investec Asset Management Limited	FSA, Australian Securities Investment Commission	100%	Yes		UK	Subject to regulatory rules
Investec Asset Management US Limited	FSA,Securities and Exchange Commission	100%	Yes		UK	Subject to regulatory rules
Investec Fund Managers Limited	FSA	100%	Yes		UK	Subject to regulatory rules
Investec Asset Management Asia Ltd	Hong Kong Securities and Futures Commission	100%	Yes		Hong Kong	Subject to regulatory rules
Investec Asset Management Guernsey Limited	Guernsey Financial Services Commission	100%	Yes		Guernsey	Subject to regulatory rules

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 plc group
Asset Management (continued)						
Investec Asset Management Ireland Limited	The Central Bank of Ireland	100%	Yes		Ireland	Subject to regulatory rules
Investec Asset Management Taiwan Limited	Taiwan Financial Supervisory Commission	100%	Yes		Taiwan	Subject to regulatory rules
Investec Asset Management Australia Pty Ltd	Australian Securities and Investment Commission	100%	Yes		Australia	Subject to regulatory rules
Unregulated subsidiaries	Not regulated subject to consolidated supervision					
Investec Holding Company Limited		100%	Yes		UK	None
Investec Group (UK) plc		100%	Yes		UK	None
Investec Asset Finance plc		100%	Yes		UK	None
Leasedirect Finance Limited		75%	Yes		UK	None
Investec Finance plc		100%	Yes		UK	None
Investec Group Investments (UK) Limited		100%	Yes		UK	None
Investec Trust Holdings AG		100%	Yes		Switzerland	None
Investec Trust (Switzerland) S.A.		100%	Yes		Switzerland	None
Kensington Group plc		100%	Yes		UK	None
Kensington Mortgages Limited		100%	Yes		UK	None
Newbury Park Mortgage Funding Limited		100%	Yes		UK	None
St James's Park Mortgage Funding Limited		100%	Yes		UK	None
Investec Experien Pty Limited		100%	Yes		Australia	None
Guinness Mahon & Co Limited		100%	Yes		UK	None

Capital structure

Summary information on the terms and conditions of the main features of all capital instruments is provided on pages 209 to 213.

	Investec plc £'mn	IBP* £'mn	IBAL* A$'mn
As at 31 March 2011			
Regulatory capital			
Tier 1			
Called up share capital	–	1 026	292
Share premium	1 059	105	–
Retained income	491	314	364
Treasury shares	(11)	–	–
Other reserves	278	196	(5)
Minority interests in subsidiaries	170	(7)	–
Goodwill and intangible assets	(542)	(381)	(90)
Total tier 1	1 445	1 253	561
Less: deductions	(24)	(22)	(63)
	1 421	1 231	498
Tier 2 capital			
Aggregate amount	702	577	104
Less: deductions	(24)	(22)	(6)
	678	555	98
Other deductions from tier 1 and tier 2	(31)	(27)	–
Total capital	2 068	1 759	596
As at 31 March 2010			
Regulatory capital			
Tier 1			
Called up share capital	–	748	292
Share premium	932	71	–
Retained income	419	343	360
Treasury shares	(3)	–	–
Other reserves	111	67	(7)
Minority interests in subsidiaries	168	(10)	–
Goodwill and intangible assets	(319)	(96)	(89)
Total tier 1	1 308	1 123	556
Less: deductions	(33)	(14)	(76)
	1 275	1 109	480
Tier 2			
Aggregate amount	623	525	88
Less: deductions	(33)	(14)	(11)
	590	511	77
Other deductions from tier 1 and tier 2	(72)	(101)	–
Total capital	1 793	1 519	557

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

Capital requirements

	Investec plc £'mn	IBP* £'mn	IBAL* A$'mn
As at 31 March 2011			
Capital requirements	983	872	442
Credit risk – prescribed standardised exposure classes	769	707	385
Corporates	225	219	295
Secured on real estate property	268	259	6
Counterparty risk on trading positions	18	17	9
Short term claims on institutions and corporates	20	19	3
Retail	53	53	11
Institutions	20	20	12
Other exposure classes	165	120	49
Securitisation exposures	23	23	–
Equity risk – standardised approach	21	21	8
Listed equities	2	2	3
Unlisted equities	19	19	5
Market risk – portfolios subject to internal models approach	52	50	2
Interest rate	14	14	1
Foreign Exchange	20	20	–
Commodities	–	–	1
Equities	18	16	–
Operational risk – standardised approach	118	71	47
As at 31 March 2010			
Capital requirements	901	720	376
Credit risk – prescribed standardised exposure classes	724	591	323
Corporates	234	230	232
Secured on real estate property	237	190	5
Counterparty risk on trading positions	20	20	5
Short term claims on institutions and corporates	33	28	4
Retail	44	44	16
Institutions	10	10	9
Other exposure classes	146	69	52
Securitisation exposures	20	19	–
Equity risk – standardised approach	16	16	8
Listed equities	2	2	2
Unlisted equities	14	14	6
Market risk – portfolios subject to internal models approach	23	23	2
Interest rate	12	12	2
Foreign exchange	1	1	–
Commodities	–	–	–
Equities	10	10	–
Operational risk – standardised approach	118	71	43

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

Capital adequacy

As at 31 March 2011	Investec plc £'mn	IBP* £'mn	IBAL* A$'mn
Primary capital (tier 1)	1 445	1 253	561
Less: deductions	(24)	(22)	(63)
	1 421	1 231	498
Tier 2 capital			
Aggregate amount	702	577	104
Less: deductions	(24)	(22)	(6)
	678	555	98
Other deductions from tier 1 and tier 2	(31)	(27)	–
Total capital	2 068	1 759	596
Risk-weighted assets (banking and trading)	12 292	10 911	3 387
Credit risk – prescribed standardised exposure classes	9 623	8 851	2 957
Corporates	2 807	2 743	2 266
Secured on real estate property	3 354	3 232	45
Counterparty risk on trading positions	219	218	66
Short term claims on institutions and corporates	256	236	23
Retail	668	668	88
Institutions	253	253	95
Other exposure classes	2 066	1 501	375
Securitisation exposures	284	284	–
Equity risk – standardised approach	266	264	57
Listed equities	31	30	20
Unlisted equities	235	234	37
Market risk – portfolios subject to internal models approach	649	626	14
Interest rate	174	174	8
Foreign exchange	256	246	1
Commodities	–	–	5
Equities	219	206	–
Operational risk – standardised approach	1 470	886	359
Capital adequacy ratio	16.8%	16.1%	17.6%
Tier 1 ratio	11.6%	11.3%	14.7%
Capital adequacy ratio – pre operational risk	19.1%	17.5%	19.7%
Tier 1 ratio – pre operational risk	13.1%	12.3%	16.4%

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

Capital adequacy

As at 31 March 2010	Investec plc £'mn	IBP* £'mn	IBAL* A$'mn
Primary capital (tier 1)	1 308	1 123	556
Less: deductions	(33)	(14)	(76)
	1 275	1 109	480
Tier 2 capital			
Aggregate amount	623	525	88
Less: deductions	(33)	(14)	(11)
	590	511	77
Other deductions from tier 1 and tier 2	(72)	(101)	–
Total capital	1 793	1 519	557
Risk-weighted assets (banking and trading)	11 266	8 997	2 899
Credit risk – prescribed standardised exposure classes	9 057	7 380	2 485
Corporates	2 923	2 874	1 781
Secured on real estate property	2 962	2 371	37
Counterparty risk on trading positions	248	245	41
Short term claims on institutions and corporates	416	346	34
Retail	550	550	121
Institutions	131	131	69
Other exposure classes	1 827	863	402
Securitisation exposures	247	243	–
Equity risk – standardised approach	207	203	62
Listed equities	28	25	16
Unlisted equities	179	178	46
Market risk – portfolios subject to internal models approach	285	285	17
Interest rate	149	149	16
Foreign exchange	11	11	1
Commodities	–	–	–
Equities	125	125	–
Operational risk – standardised approach	1 470	886	335
Capital adequacy ratio	15.9%	16.9%	19.2%
Tier 1 ratio	11.3%	12.3%	16.6%
Capital adequacy ratio – pre operational risk	18.3%	18.7%	21.7%
Tier 1 ratio – pre operational risk	13.0%	13.7%	18.7%

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

Analysis of rated counterparties in each standardised credit exposure class

Investec plc

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

Credit quality step	Risk weight	31 March 2011 Exposure £'mn	31 March 2011 Exposure after credit risk mitigation £'mn	31 March 2010 Exposure £'mn	31 March 2010 Exposure after credit risk mitigation £'mn
Central banks and sovereigns					
1	0%	2 539	2 486	3 058	3 058
2	20%	–	–	–	–
3	50%	–	–	–	–
4	100%	–	–	–	–
5	100%	–	–	–	–
6	150%	–	–	–	–
Institutions original effective maturity of more than three months					
1	20%	804	804	665	665
2	50%	168	168	98	98
3	50%	5	4	8	8
4	100%	–	–	–	–
5	100%	–	–	–	–
6	150%	–	–	–	–
Short-term claims on institutions					
1	20%	546	467	595	595
2	20%	157	151	886	886
3	20%	392	276	49	49
4	50%	–	–	–	–
5	50%	–	–	–	–
6	150%	–	–	–	–
Counterparty credit risk – effective original maturity of more than three months					
1	20%	392	368	283	246
2	50%	77	51	99	55
3	50%	–	–	52	12
4	100%	1	1	–	–
5	100%	–	–	–	–
6	150%	–	–	–	–
Counterparty credit risk – effective original maturity of less than three months					
1	20%	1 072	69	215	63
2	20%	189	49	7	7
3	20%	159	12	206	5
4	50%	–	–	–	–
5	50%	–	–	–	–
6	150%	–	–	–	–
Corporates					
1	20%	128	128	42	42
2	50%	7	7	17	17
3	100%	171	171	–	–
4	100%	17	17	5	5
5	150%	14	14	–	–
6	150%			–	–
Securitisation positions					
1	20%	196	196	109	109
2	50%	73	78	18	18
3	100%	41	41	18	18
4	350%	13	15	21	21
5	1 250%	47	47	10	10
Total rated counterparty exposure		7 207	5 620	6 461	5 987

Credit ratings

In terms of our Dual Listed Companies structure, Investec plc and Investec Limited are treated separately from a credit point of view. As a result, the rating agencies have assigned ratings to the significant banking entities within the group, namely Investec Bank plc, Investec Bank Limited and Investec Bank (Australia) Limited. Certain rating agencies have assigned ratings to the holding companies, namely, Investec plc and Investec Limited. Our ratings as at 31 March 2011 are as follows:

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

Internal audit

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

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

The heads of Internal Audit report at each audit committee meeting and have a direct reporting line to the chairman of the audit committee. They operate independently of executive management but have access to their local chief executive officer. The head of Investec plc Internal Audit is responsible for coordinating internal audit efforts to ensure coverage is global and departmental skills are leveraged in order to maximise efficiency. For administrative purposes the heads of Internal Audit also report to the global head of Corporate Governance and Compliance. The adopted functions comply with the international standards for the professional practice of internal auditing.

Annually, Internal Audit conducts a formal risk assessment of the entire business from which a comprehensive risk-based audit plan is derived. The assessment and programme are validated by executive management and approved by the responsible audit committee. High risk businesses and processes are audited annually, with other areas covered at regular intervals based on their risk profile. There is an ongoing focus on identifying fraud risk as well as auditing technology risks given Investec's dependence on IT systems. Internal Audit also liaises with the external auditors and other assurance providers to enhance efficiencies in terms of combined assurance. The annual plan is reviewed regularly to ensure it remains relevant and responsive, given changes in the operating environment. The audit committee approves any changes to the plan.

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

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

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

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

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

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

Under the DLC structure, Investec plc and Investec Limited maintain separate compliance structures. Each structure operates under terms of reference which are approved by its listed company board and audit committee. Each structure is headed by a group compliance officer who operates independently from operational management and is responsible for ensuring adequate management of compliance risk within their area of business. Each group compliance officer reports to the chief executive officer of their listed company, as well as to the global head of compliance, who is ultimately responsible for management of the compliance function of both listed groups. The group compliance officers have unrestricted access to the chairman of their respective audit committees.

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

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

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

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

UK and Europe – year in review

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

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

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

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

- Reform of the UK regulatory framework
- Independent Banking Commission
- Capital and liquidity
- FSA Remuneration Code
- The Bribery Act
- The mortgage market review

Reform of the UK regulatory framework

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

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

Independent banking commission

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

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

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

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

Capital and liquidity

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

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

Proposals have included:

- Increased risk weightings for the trading book, securitisations, off-balance sheet exposures and derivatives (to be implemented by the end of 2011)
- A minimum common equity ratio of 4.5% (by 1 January 2015), alongside the adoption of an additional capital conservation buffer of 2.5% in common equity, to be phased in between 1 January 2016 and 1 January 2019. Furthermore, the Basel committee has finalised its proposals for a countercyclical buffer of up to 2.5% in loss-absorbing capital, to be built up in periods during which credit growth exceeds GDP growth

Compliance (continued)

- Introduction of a gross leverage ratio of 3% of total non-risk weighted assets. An observation period of parallel running will start in 2013, aiming for the adoption of a minimum standard becoming mandatory in 2018
- A new minimum standard has been proposed for liquidity, the liquidity coverage ratio, to extend, under stressed conditions, the period during which a bank can continue to operate when it is unable to dispose of assets to repay withdrawals. Proposals are also being debated for a net stable funding ratio, which will require banks to match more accurately the maturities of liabilities to assets held. It is expected that these measures will be phased in after observation periods, in 2015 and 2018 respectively.

FSA Remuneration Code

In December 2010 the FSA published an updated Remuneration Code to take into account changes required by the capital requirements directive (CRD3). The revised Code applies to an extended range of firms including all banks and investment firms. Specific requirements of the revised Code will primarily affect the remuneration of those senior employees deemed to be 'code staff' (a new concept introduced by the revised Code). Investec largely adheres to the remuneration principles as set out in the FSA code (refer to the Investec group's 2011 annual report for more details).

Bribery Act

Investec continues to maintain adequate systems and controls to manage the risk from being used in money laundering, terrorist financing and other financial crime. The Bribery Act 2010 will come into force from 1 July 2011, representing a complete overhaul of existing anti-bribery law in the UK. The act will create four main offences including a corporate offence for failing to have adequate systems and controls to prevent bribery. Senior management has the responsibility to ensure that such systems and controls are in place.

Mortgage market review

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

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

Australia – year in review

There has been increased activity as a result of our regulators, namely the Australian Prudential Regulation Authority (APRA) and the Australian Securities and Investments Commission (ASIC), introducing reforms to their supervisory and regulatory frameworks. From an APRA perspective the key proposals include global liquidity standards and Basel III.

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

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

Corporate governance

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) structure.

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 40. This avoids the necessity of having to duplicate various committees and forums at group subsidiary level. 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 disclosure and transparency rules and listing rules of the United Kingdom Listing Authority (UKLA), regulatory requirements in the countries in which we operate, the London Combined Code (2008), whereby all stakeholders are assured that we are being managed ethically and in compliance with the latest legislation, regulations and best practices.

Governance requirements

London Combined Code (2008)

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

- Independence of the chairman: The chairman, Hugh Herman, is not considered to be independent as, at the time of his appointment and up to 2005, his duties included promoting the group and introducing clients, but excluded day-to-day executive decisions. His role was full time and he sat on certain management forums. He also participated in various management incentive schemes.
- Composition of the board: Following the resignation of GMT Howe on 31 December 2010, less than half the board, excluding the chairman, comprised independent non-executive directors. However, the appointment of OC Dickson with effect from 31 March 2011, means that the board is now compliant with this provision.

UK Corporate Governance Code (2010)

Although not applicable to the current reporting period, Investec has also complied with the majority of the provisions of the UK Corporate Governance Code issued by the Financial Reporting Council in May 2010. Areas of non-compliance include the independence of the chairman and the board composition as noted above.

Financial reporting and going concern

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

Our financial statements are prepared on a going concern basis.

The board is of the opinion, based on its knowledge of the group, key processes in operation and specific enquiries, that there are adequate resources to support the group as a going concern for the foreseeable future. Further information on our liquidity and capital position is provided on pages 96 to 104 and pages 109 to 120.

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 plc is set out on pages 136 to 138.

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 136 to 138.

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

- Board changes during the 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.

Investec plc board of directors

Committee	Composition	Meetings
DLC nomination and directors' affairs committee	**Five NEDs (three independent)**	**Four times per annum**

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

Committee	Composition	Meetings
DLC audit committee	**Five independent NEDs**	**Four times per annum**

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

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

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

Committee	Composition	Meetings
DLC remuneration committee	**Four independent NEDs**	**Seven times per annum**

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

Committee	Composition	Meetings
Investec plc audit committee	**Five independent NEDs**	**Four times per annum**

Audit and compliance implementation forums

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

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, which comply with the Turnbull guidance, were in place throughout the year under review and up to the date of approval of the annual report and accounts.

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

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

Internal financial controls

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

External audit

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

The audit committees meet with the external auditors to review the scope of the external audit, budgets, the extent of non-audit services rendered and all other audit matters.

The external auditors are invited to attend audit committee meetings and have access to the chairman of each audit committee. Recommendations on the rotation of auditors, as laid out in the UK Auditing Practices Board Ethical Standard 3, were adhered to during the year under review.

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

Regulation and supervision

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

Communication, public disclosure obligations and stakeholder relations

The board recognises that effective communication is integral in building stakeholder value and is committed to providing meaningful, transparent, timely and accurate financial and non-financial information to primary stakeholders. The purpose is to help these stakeholders make meaningful assessments and informed investment decisions about the 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.

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Additional information

Shareholder analysis

Investec ordinary shares

As at 31 March 2011 Investec plc had 537.2 million ordinary shares in issue.

Spread of ordinary shareholders as at 31 March 2011

Investec plc ordinary shares in issue

Number of shareholders	Holdings	% of total shareholders	Number of shares in issue	% of issued share capital
6 612	1 to 500	31.8%	1 912 871	0.3%
4 935	501 – 1 000	23.7%	3 915 825	0.7%
6 189	1 001 – 5 000	29.8%	14 481 001	2.7%
1 061	5 001 – 10 000	5.1%	7 913 472	1.5%
1 160	10 001 – 50 000	5.6%	26 798 737	5.0%
286	50 001 – 100 000	1.4%	20 438 874	3.8%
542	100 001 and over	2.6%	461 715 309	86.0%
20 785		100.0%	537 176 089	100.0%

Shareholder classification as at 31 March 2011

	Investec plc number of shares	% holding
Public*	519 702 453	96.8%
Non-public	17 473 636	3.2%
Non-executive directors of Investec plc	5 253 168	1.0%
Executive directors of Investec plc	7 289 793	1.3%
Investec staff share schemes	4 930 675	0.9%
Total	537 176 089	100.0%

* *As per the JSE listing requirements.*

Largest ordinary shareholders as at 31 March 2011

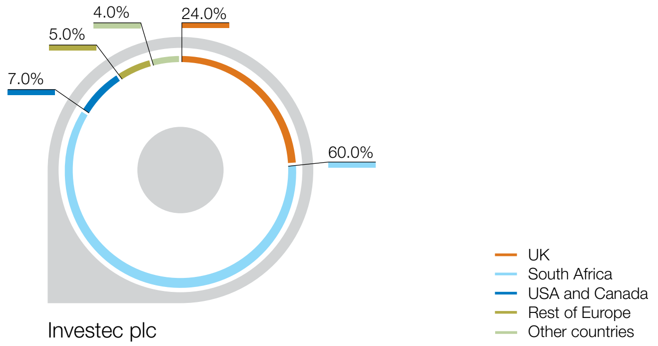
In accordance with the terms provided for in section 793 of the UK Companies Act 2006, the group has conducted investigations into the registered holders of its ordinary shares (including nominee and asset management companies) and the results are as disclosed below.

Investec plc

	Shareholder analysis by manager group	Number of shares	% holding
1	Public Investment Corporation (ZA)	78 992 601	14.7%
2	Old Mutual Investment Group (ZA)	28 053 047	5.2%
3	Allan Gray (ZA)	22 195 379	4.1%
4	BlackRock Inc (US)	21 934 967	4.1%
5	Legal & General Investment Management Ltd (UK)	21 074 264	3.9%
6	Stanlib (ZA)	20 903 724	3.9%
7	Abax Investments (ZA)	16 880 931	3.1%
8	Sanlam Investment Management (ZA)	14 290 915	2.7%
9	Prudential Group (ZA)	12 665 952	2.4%
10	Coronation Fund Managers (ZA)	11 623 274	2.2%
	Cumulative total	248 615 054	46.3%

The top 10 shareholders account for 46.3% of the total shareholding in Investec plc. This information is based on a threshold of 20 000 shares. Some major fund managers hold additional shares below this, which may cause the above figures to be marginally understated.

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



Share statistics

Investec plc ordinary shares in issue

For the year ended 31 March	2011	2010	2009	2008	2007	2006	2005
Closing market price per share (Pounds)							
– year end	4.78	5.39	2.92	3.39	6.58	5.88	3.11
– highest	5.50	5.62	4.21	7.65	6.76	6.07	3.47
– lowest	4.29	2.87	1.69	2.94	4.95	3.04	1.84
Number of ordinary shares in issue (million)[1]	537.2	471.1	444.9	423.3	381.6	373.0	373.0
Market capitalisation (£'million)[1]	2 568	2 539	1 299	1 435	2 511	2 194	1 160
Daily average volume of shares traded ('000)	1 634.4	1 932.6	2 603.6	3 925.9	2 832.5	1 489.0	741.0
Price earnings ratio[2]	11.1	12.0	6.9	6.0	12.4	14.0	11.6
Dividend cover (times)[2]	2.5	2.8	3.3	2.3	2.3	2.3	2.0
Dividend yield (%)[2]	3.6	3.0	4.5	7.4	3.5	3.1	4.3
Earnings yield (%)[2]	9.0	8.4	14.5	16.7	8.1	7.1	8.6

1. *The LSE only include the shares in issue for Investec plc i.e. 537.2 million, in calculating market capitalisation, as Investec Limited is not incorporated in the UK.*
2. *Calculations are based on the group's consolidated earnings per share before goodwill, acquired intangibles and non-operating items; and dividends per share as prepared in accordance with IFRS and denominated in Pounds Sterling.*

Investec perpetual preference shares

Investec plc has issued perpetual preference shares, the details of which can be found on page 212.

Spread of perpetual preference shareholders as at 31 March 2011

Investec plc perpetual preference shareholders

Number of shareholders	Holdings	% of total shareholders	Number of preference shares in issue	% of issued preference share capital
149	1 to 500	10.0%	40 657	0.3%
160	501 – 1 000	10.7%	133 715	0.9%
846	1 001 – 5 000	56.8%	1 769 022	11.7%
139	5 001 – 10 000	9.3%	1 073 286	7.1%
140	10 001 – 50 000	9.4%	3 043 025	20.2%
30	50 001 – 100 000	2.0%	2 203 898	14.6%
26	100 001 and over	1.8%	6 819 546	45.2%
1 490		100.0%	15 083 149	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 plc

Chase Nominees Limited (Artemis)	6.63%

Directorate Investec plc

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 plc (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' 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 two principal markets: the UK and Australia, as well as certain other markets. 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.

A review of the operations for the year can be found on pages 11 to 35.

Authorised and issued share capital

Details of the share capital are set out in note 33 to the financial statements.

During the year the following shares were issued:

- 107 848 special converting shares on 4 June 2010 at par
- 2 961 888 special converting shares on 2 July 2010 at par
- 777 114 ordinary shares on 4 June 2010 at 319.00 pence per share
- 1 792 759 ordinary shares on 18 June 2010 at 483.40 pence per share
- 37 907 652 ordinary shares on 25 June 2010 at 476.00 pence per share
- 3 575 650 ordinary shares on 2 July 2010 at 472.00 pence per share
- 22 000 000 ordinary shares on 6 August 2010 at 475.00 pence per share
- 1 703 ordinary shares on 9 August 2010 at 185.88 pence per share
- 1 357 ordinary shares on 13 August 2010 at 185.88 pence per share
- 3 462 ordinary shares on 2 February 2011 at 185.88 pence per share
- 3 328 ordinary shares on 2 February 2011 at 185.88 pence per share.

Financial results

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

Ordinary dividends

An interim dividend was declared to shareholders as follows:

- 8.0 pence per ordinary share to non-South African resident shareholders (2009: 8.0 pence) registered on 10 December 2010
- to South African resident shareholders registered on 10 December 2010, a dividend paid by Investec Limited on the SA DAS share, equivalent to 5.75 pence per ordinary share and 2.25 pence per ordinary share paid by Investec plc.

The dividends were paid on 21 December 2010.

The directors have proposed a final dividend to shareholders registered on 29 July 2011, which is subject to the approval of the members of Investec plc at the annual general meeting which is scheduled to take place on 4 August 2011 and, if approved, will be paid on 8 August 2011 as follows:

- 9.0 pence per ordinary share to non-South African resident shareholders (2009: 8.0 pence) registered on 29 July 2011
- to South African resident shareholders registered on 29 July 2011, through a dividend paid by Investec Limited on the SA DAS share, of 8.0 pence per ordinary share and 1.0 pence per ordinary share paid by Investec plc. Shareholders in Investec plc will receive a distribution of 9.0 pence (2010: 8.0 pence) per ordinary share.

Preference dividends

Perpetual preference shares

Preference dividend number 9 for the period 1 April 2010 to 30 September 2010, amounting to 7.52 pence per share, was declared to members holding preference shares registered on 3 December 2010 and was paid on 14 December 2010.

Preference dividend number 10 for the period 1 October 2010 to 31 March 2011, amounting to 7.48 pence per share was declared to members holding preference shares registered on 17 June 2011 and will be paid on 30 June 2011.

Preferred securities

The fourth annual distribution, fixed at 7.075 per cent, on the €200 million fixed/floating rate, guaranteed, non-voting, non-cumulative perpetual preferred callable securities issued by Investec Tier 1 (UK) LP on 24 June 2005, is due and will be paid on 24 June 2011.

Directors and secretaries

Details of directors and secretaries of Investec plc are reflected on pages 136 to 138 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 OC 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 pages 40 and 127.

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, Group 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 LLP have indicated their willingness to continue in office as auditors of Investec plc.

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 for details of contracts with directors.

Subsidiary and associated companies

Details of principal subsidiary and associated companies are reflected on pages 222 and 223.

Major shareholders

The largest shareholders of Investec plc are reflected on page 133.

Special resolutions

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

- A renewable authority was granted to Investec plc to allot shares for cash in terms of Section 571 of the UK Companies Act, 2006. A renewable authority was granted to Investec plc to acquire its own shares in terms of Section 701 of the UK Companies Act, 2006
- Amendments to the Articles of Association primarily to take account of the implementation of the last parts of the Companies Act 2006 and also account for provisions enacted by the companies (shareholders; rights) regulations 2009.

Accounting policies and disclosure

Accounting policies are set having regard to commercial practice and comply with applicable United Kingdom law and International Financial Reporting Standards. These policies are set out on pages 156 to 167.

Financial instruments

Detailed information on the group's risk management process and policy can be found in the risk management report on pages 37 to 122. Information on the group's hedge accounting policy and the use of derivatives and hedges can be found on page 162 and in notes 17 and 43.

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 plc made donations for charitable purposes, totalling £1.5 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 is provided in the Investec group's 2011 annual report.

Additional information for shareholders

Schedule A to the directors' report is a summary of certain provisions of Investec plc's current Articles of Association and applicable English law concerning companies (the UK Companies Act 2006).

David Miller
Company secretary
Investec plc

20 June 2011

Directors' responsibility statement

The following statement, which should be read in conjunction with the auditor's report set out on pages 149 to 150, is made with a view to distinguishing for stakeholders the respective responsibilities of the directors and of the auditors in relation to the special purpose financial statements.

The directors are responsible for the preparation, integrity and objectivity of the special purpose financial statements that fairly present the state of affairs of the company and the group at the end of the financial year and the net income and cash flows for the year, and other information contained in this report.

To enable the directors to meet these responsibilities:

- The board and management set standards and management implements systems of internal controls and accounting and information systems aimed at providing reasonable assurance that assets are safeguarded and the risk of fraud, error or loss is reduced in a cost effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties
- The group's internal audit function, which operates unimpeded and independently from operational management, and has unrestricted access to the group audit committee, appraises and, when necessary, recommends improvements in the system of internal controls and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business
- The group audit committee, together with the Internal Audit department, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

To the best of our knowledge and belief, based on the above, the directors are satisfied that no material breakdown in the operation of the system of internal control and procedures has occurred during the year under review.

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

The special purpose financial statements have been prepared in accordance with the accounting policies set out on pages 156 to 167.

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

It is the responsibility of the independent auditors to report on the special purpose financial statements. Their report to the members of the company and group is set out on pages 149 to 150 of this report. As far as the directors are aware, there is no relevant audit information of which the companies' auditors are unaware. All steps which ought to have been taken as directors have been completed in order to be aware of the relevant audit information and to establish that the companies' auditors are aware of that information.

Approval of financial statements

The directors' report and the financial statements of the company and the group, which appear on pages 140 to 143 and pages 151 to 223, were approved by the board of directors on 20 June 2011.

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

Signed on behalf of the board

Stephen Koseff	Bernard Kantor
Chief executive officer	Managing director

20 June 2011

Schedule A to the directors' report

Additional information for shareholders

Set out below is a summary of certain provisions of Investec plc's current Articles of Association (the Articles) and applicable English law concerning companies (the Companies Act 2006, the Companies Act). This is a summary only and the relevant provisions of the Articles or the Companies Act should be consulted if further information is required.

Share capital

The issued share capital of Investec plc at 10 June 2011 consists of 537 177 588 plc ordinary shares of £0.0002 each, 15 081 149 non-redeemable, non-cumulative, non-participating preference shares of £0.01 each, 272 836 668 plc special converting shares of £0.0002 each, the special voting share of £0.001, the UK DAN share of £0.001 and the UK DAS share of £0.001 (each class as defined in the Articles).

Purchase of own shares

Subject to the provisions of the Articles, the Companies Act 2006, the uncertificated securities regulations 2001 and every other statute for the time being in force concerning companies and affecting Investec plc, the approval of shareholders as provided in the Investec plc Articles, and without prejudice to any relevant special rights attached to any class of shares, Investec plc may purchase, or may enter into a contract under which it will or may purchase, any of its own shares of any class, including without limitation any redeemable shares, in any way and at any price (whether at par or above or below par).

Dividends and distributions

Subject to the provisions of the Companies Act, Investec plc may by ordinary resolution from time to time declare dividends not exceeding the amount recommended by the board. The board may pay interim dividends whenever the financial position of Investec plc, in the opinion of the board, justifies such payment.

The board may withhold payment of all or any part of any dividends or other monies payable in respect of Investec plc's shares from a person with a 0.25 per cent or more interest in nominal value of the issued shares if such a person has been served with a notice after failure to provide Investec plc with information concerning interests in those shares required to be provided under the Companies Acts.

Voting rights

Subject to any special rights or restrictions attaching to any class of shares, at a general meeting, every member present in person has, upon a show of hands, one vote and on a poll every member who is present in person or by proxy has one vote for each share. In the case of joint holders of a share the vote of the senior who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members in respect of the share. Under the Companies Act members are entitled to appoint a proxy, who need not be a member of Investec plc, to exercise all or any of their rights to attend and vote on their behalf at a general meeting or class meeting. A member may appoint more than one proxy in relation to a general meeting or class meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A member that is a corporation may appoint an individual to act on its behalf at a general meeting or class meetings as a corporate representative. The person so authorised shall be entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual member of Investec plc.

Restrictions on voting

No member shall be entitled to vote either in person or by proxy at any general meeting or class meeting in respect of any shares held by him if any call or other sum then payable by him in respect of that share remains unpaid. In addition no member shall be entitled to vote if he has been served with a notice after failure to provide Investec plc with information concerning interests in those shares required to be provided under the Companies Act.

Schedule A to the directors' report (continued)

Deadlines for exercising voting rights

Votes are exercisable at a general meeting of Investec plc in respect of which the business being voted upon is being heard. Votes may be exercised in person, by proxy, or in relation to corporate members, by corporate representatives. The Articles provide a deadline for submission of proxy forms of not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting.

Variation of rights

Subject to the Companies Act, the Articles specify that rights attached to any class of shares may be varied with the written consent of the holders of not less than three-fourths in nominal value of the issued shares of that class, or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of those shares. At every such separate general meeting the quorum shall be two persons or, if there is only one holder, that holder at least holding or representing by proxy at least one-third in nominal value of the issued shares of the class (calculated excluding any shares held as treasury shares). The rights conferred upon the holders of any shares shall not, unless otherwise expressly provided in the rights attaching to those shares, be deemed to be varied by the creation or issue of further shares ranking pari passu with them.

Where, under the company's share incentive plan, participants are the beneficial owners of the shares, but not the registered owners, the participants are not entitled to exercise any voting rights until the shares are released to the participants. Under the company's employee trust, the trustee does not vote in respect of unallocated shares.

Transfer of shares

All transfers of shares may be effected by transfer in writing in any usual or common form or in any other form acceptable to the directors. The instrument of transfer shall be signed by or on behalf of the transferor and (except in the case of fully-paid shares) by or on behalf of the transferee. Transfers of shares which are in uncertificated form are effected by means of the CREST system.

The directors may, in the case of shares in certificated form, in their absolute discretion and without assigning any reason, refuse to register any transfer of shares (not being fully paid shares) provided that such discretion may not be exercised in such a way as to prevent dealings in the shares of that class from taking place on an open and proper basis. The directors may also refuse to register an allotment or transfer of shares (whether fully-paid or not) in favour of more than four persons jointly. If the directors refuse to register an allotment or transfer they shall within two months after the date on which the letter of allotment or transfer was lodged with Investec plc send to the allottee or transferee a notice of the refusal.

The directors may decline to recognise any instrument of transfer unless the instrument of transfer is in respect of only one class of share and when submitted for registration is accompanied by the relevant share certificates and such other evidence as the directors may reasonably require.

Subject to the Companies Act and regulations and applicable CREST rules, the directors may determine that any class of shares may be held in uncertificated form and that title to such shares may be transferred by means of the CREST system or that shares of any class should cease to be so held and transferred.

A number of the company's employee share plans include restrictions on transfer of shares while the shares are subject to the plans, in particular, the share incentive plan.

plc preference shares

The following are the rights and privileges which attach to the plc preference shares:

- To receive a non-cumulative preferential dividend out of the profits of Investec plc in priority to the plc ordinary shares but pari passu with the perpetual preference shares, on such dates in respect of such periods and on such other terms and conditions as may be determined by the directors prior to the allotment thereof
- The plc preference shares will rank as regards participation in profits pari passu inter se and with the most senior ranking preference shares of Investec plc in issue (if any) from time to time and with the perpetual preference shares

- On a return of capital, whether or not on a winding up (but not on a redemption or purchase of any shares by Investec plc) or otherwise, the plc preference shares will rank, pari passu inter se and with the most senior ranking preference shares of Investec plc in issue (if any) from time to time and with any other shares of Investec plc that are expressed to rank pari passu therewith as regards participation in the capital, and otherwise in priority to any other class of shares of Investec plc
- Investec plc may, at its option, redeem all or any of the plc preference shares for the time being issued and outstanding on the first call date or any dividend payment date thereafter
- Holders of plc preference shares will not be entitled to attend and vote at general meetings of Investec plc. Holders will be entitled to attend and vote at a class meeting of holders of plc preference shares.

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

The following are the rights and privileges which attach to the perpetual preference shares:

- Each perpetual preference shares will rank as regards dividends and a repayment of capital on the winding-up of Investec plc prior to the ordinary shares, the plc special converting shares, the UK DAN share, the UK DAS share, but pari passu with the plc preference shares. The perpetual preference shares shall confer on the holders, on a per perpetual preference shares and equal basis, the right on a return of capital on the winding-up of Investec plc of an amount equal to the aggregate of the nominal value and premiums in respect of perpetual preference shares issued divided by the number of perpetual preference shares in issue
- Each perpetual preference share may confer upon the holder thereof the right to receive out of the profits of Investec plc which it shall determine to distribute, in priority to the ordinary shares, the plc special converting shares, the UK DAN share and the UK DAS share, but pari passu with the plc preference shares, the preference dividend calculated in accordance with the Articles
- The holders of the perpetual preference shares shall be entitled to receive notice of and be present but not to vote, either in person or by proxy, at any meeting of Investec plc, by virtue of or in respect of the perpetual preference shares, unless either or both of the following circumstances prevail as at the date of the meeting:
  (i) The preference dividend or any part thereof remains in arrears and unpaid as determined in accordance with Article 150.2(e)(ii) after six months from the due date thereof; and
  (ii) A resolution of Investec plc is proposed which resolution directly affects the rights attached to the perpetual preference shares or the interests of the holders thereof, or a resolution of Investec plc is proposed to wind up or in relation to the winding-up of Investec plc or for the reduction of its capital, in which event the preference shareholders shall be entitled to vote only on such resolution.

Shares required for the DLC structure

Investec SSC (UK) Limited, a UK trust company, specially formed for the purpose of the DLC structure, holds the plc special voting share, the plc special converting shares, the UK DAN share and the UK DAS share. These shares can only be transferred to another UK trust company, in limited circumstances.

The plc special voting shares are specially created shares so that shareholders of both Investec plc and Investec Limited effectively vote together as a single decision-making body on matters affecting shareholders of both companies in similar ways, as set out in the Articles.

Prior to a change of control, approval of termination of the sharing agreement (which regulates the DLC), liquidation or insolvency of Investec plc, the plc special converting shares have no voting rights except in relation to a resolution proposing the (i) variation of the rights attaching to the shares or (ii) winding-up, and they have no rights to dividends. The special converting shares are held on trust for the Investec Limited ordinary shareholders.

Investec plc and Investec Limited have established dividend access trust arrangements as part of the DLC.

Investec plc has issued two dividend access shares, the UK DAS share and UK DAN share which enables Investec plc to pay dividends to the shareholders of Investec Limited. This facility may be used by the board to address imbalances in the distributable reserves of Investec plc and Investec Limited and/or to address the effects of South African exchange controls and/or if they otherwise consider it necessary or desirable.

Appointment and replacement of directors

Directors shall be no less than four and no more than 20 in number. A director is not required to hold any shares of Investec plc by way of qualification. Investec plc may by special resolution increase or reduce the maximum or minimum number of directors.

In accordance with the Articles of Association, one-third of the directors are required to retire by rotation. Furthermore, 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.

Investec plc may by ordinary resolution in accordance with the relevant provisions of the Articles appoint any person to be a director (so long as the total number of directors does not exceed the limit prescribed in the Articles). Any such director shall hold office only until the next annual general meeting and shall then be eligible for re-election.

Powers of directors

Subject to the Articles, the Companies Act, the CREST regulations and every other statute for the time being in force concerning companies and affecting Investec plc, and any directions given by ordinary or special resolution, the business of Investec plc will be managed by the board who may exercise all the powers of Investec plc.

The board may exercise all the powers of Investec plc to borrow money and to mortgage or charge any of its undertaking, property, assets and uncalled capital and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of Investec plc or of any third party.

Significant agreements: change of control

The Articles of Association of both Investec plc and Investec Limited ensure that a person cannot make an offer for one company without having made an equivalent offer to the shareholders of both companies on equivalent terms.

Pursuant to the terms of the agreements establishing the DLC structure, if either Investec plc or Investec Limited serves written notice on the other at any time after either party becomes a subsidiary of the other party or after both Investec plc and Investec Limited become subsidiaries of a third party the agreements establishing the DLC structure will terminate.

All of Investec plc's share plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control and, where applicable, subject to the satisfaction of any performance conditions at that time.

Independent auditor's report to the board of Investec plc

We have audited the accompanying special purpose financial statements of Investec plc for the year ended 31 March 2011 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated cash flow statement and notes 1 to 45. The financial statements have been prepared by management in accordance with the accounting policies.

Under the contractual arrangements implementing the Dual Listed Companies structure, Investec plc and Investec Limited effectively form a single economic enterprise, in which the economic and voting rights of shareholders are equalised. In accordance with this structure the appropriate presentation under International Financial Reporting Standards is achieved by combining the results and the financial position of both companies using merger accounting principles. Those combined financial statements are prepared separately so as to show a true and fair view in accordance with International Financial Reporting Standards.

As explained in the accounting policies, these special purpose financial statements have been prepared to present the financial position, results and cash flows of Investec plc and its subsidiaries. For the avoidance of doubt, they exclude Investec Limited and its subsidiaries.

This report is made solely to the board of Investec plc, in accordance with our engagement letter dated 27 August 2009 as amended, 8 January 2010 and 31 March 2011. Our audit work has been undertaken so that we might state to the board of Investec plc those matters we are required under International Standards on Auditing to state to them in an auditor's report and for no other purpose. To the fullest extent required by the law, we do not accept or assume responsibility to anyone other than the company and the board of Investec plc, for our audit work, for this report, or for the opinions we have formed.

Directors' responsibility for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 144, the directors are responsible for the preparation of these financial statements in accordance with the accounting policies, and for such internal control as they 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 about 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 auditor's 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, we consider internal control relevant to the company's preparation 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 company's internal control. Our audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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, the financial statements of Investec plc for the year ended 31 March, 2011 are prepared, in all material respects, in accordance with the accounting policies.

Basis of accounting and restriction on use

Without modifying our opinion, we draw attention to note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared to present the financial position and results of Investec plc and its directly owned subsidiaries as if the contractual arrangements which create the DLC structure did not exist. As a result, the financial statements may not be suitable for another purpose. Our auditors' report is intended solely for the board of Investec plc and should not be used by parties other than board of Investec plc.

Ernst & Young LLP

Ernst & Young LLP
London

21 June 2011

Notes:

1. *The maintenance and integrity of the Investec plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.*

2. *Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.*

Consolidated income statement

For the year to 31 March £'000	Notes	2011	2010
Interest income		880 797	754 064
Interest expense		(537 574)	(445 580)
Net interest income		343 223	308 484
Fee and commission income		563 263	347 116
Fee and commission expense		(103 362)	(58 272)
Principal transactions	2	253 955	272 758
Other operating income	3	48 793	29 249
Other income		762 649	590 851
Total operating income before impairment losses on loans and advances		1 105 872	899 335
Impairment losses on loans and advances	19	(240 692)	(215 740)
Operating income	9	865 180	683 595
Operating costs	4	(725 848)	(564 942)
Depreciation of operating leased assets	4/24	(16 447)	–
Operating profit before amortisation of acquired intangibles		122 885	118 653
Amortisation of acquired intangibles	26	(6 341)	–
Operating profit		116 544	118 653
Profit arising from associate converted to subsidiary	27	73 465	–
Net loss on sale of subsidiaries	27	(17 361)	–
Profit before taxation		172 648	118 653
Taxation on operating profit before amortisation of acquired subsidiaries	6	(29 717)	(13 302)
Taxation on intangibles and sale of subsidiaries	6	6 610	–
Profit after taxation		149 541	105 351
Operating losses attributable to non-controlling interests		11 452	23 234
Loss on subsidiaries attributable to non-controlling interests		3 099	–
Earnings attributable to shareholders		164 092	128 585

Investec plc excluding Investec Limited

Consolidated statement of comprehensive income

For the year to 31 March £'000	Notes	2011	2010
Profit after taxation		149 541	105 351
Other comprehensive income:			
Cash flow hedge movements taken directly to other comprehensive income	6	2 522	12 584
Gains on realisation of available-for-sale assets recycled through the income statement	6	(4 845)	(7 967)
Fair value movements on available-for-sale assets taken directly to other comprehensive income	6	24 689	19 205
Foreign currency adjustments on translating foreign operations		16 703	3 726
Pension fund actuarial gains/(losses)	31	10 157	(8 180)
Total comprehensive income		198 767	124 719
Total comprehensive income attributable to non-controlling shareholders		(14 188)	(24 774)
Total comprehensive income attributable to ordinary shareholders		199 060	133 904
Total comprehensive income attributable to perpetual preferred securities		13 895	15 589
Total comprehensive income		198 767	124 719

Consolidated balance sheet

At 31 March £'000	Notes	2011	2010
Assets			
Cash and balances at central banks		1 142 565	2 008 762
Loans and advances to banks		916 671	1 493 967
Reverse repurchase agreements and cash collateral on securities borrowed	15	1 472 948	490 494
Trading securities	16	667 028	349 217
Derivative financial instruments	17	746 710	887 295
Investment securities	18	2 386 656	1 874 840
Loans and advances to customers	19	8 150 060	7 337 543
Loans and advances to customers – Kensington warehouse assets	19	1 612 181	1 776 525
Securitised assets	20	4 162 366	4 434 465
Interests in associated undertakings	21	19 001	99 243
Deferred taxation assets	22	76 916	98 051
Other assets	23	911 287	611 753
Property and equipment	24	236 838	144 370
Goodwill	25	437 953	249 270
Intangible assets	26	126 240	27 942
		23 065 420	21 883 737
Liabilities			
Deposits by banks		899 153	1 623 534
Deposits by banks – Kensington warehouse funding		975 542	1 213 042
Derivative financial instruments	17	529 039	553 452
Other trading liabilities	28	402 326	190 295
Repurchase agreements and cash collateral on securities lent	15	612 663	545 018
Customer accounts (deposits)		10 244 943	9 059 074
Debt securities in issue	29	1 982 827	1 815 034
Liabilities arising on securitisation	20	3 646 376	3 980 657
Current taxation liabilities		55 902	69 250
Deferred taxation liabilities	22	73 095	52 929
Other liabilities	30	912 124	528 972
Pension fund liabilities	31	–	1 285
		20 333 990	19 632 542
Subordinated liabilities	32	668 270	601 576
		21 002 260	20 234 118
Equity			
Ordinary share capital	33	162	148
Perpetual preference share capital	34	151	151
Share premium	35	1 058 993	931 924
Treasury shares	36	(10 536)	(3 099)
Other reserves		292 914	100 103
Retained income		568 353	439 304
Shareholders' equity excluding non-controlling interests		1 910 037	1 468 531
Non-controlling interests	37	153 123	181 088
– Perpetual preferred securities issued by subsidiaries		176 917	178 307
– Non-controlling interests in partially held subsidiaries		(23 794)	2 781
Total equity		2 063 160	1 649 619
Total liabilities and equity		23 065 420	21 883 737

Consolidated cash flow statement

For the year to 31 March £'000	Notes	2011	2010
Operating profit adjusted for non cash items	39	426 238	378 497
Taxation paid		(35 453)	(8 789)
Increase in operating assets	39	(1 792 264)	(1 195 569)
Increase in operating liabilities	39	584 531	2 121 616
Net cash (outflow)/inflow from operating activities		(816 948)	1 295 755
Cash flow on acquisition of subsidiaries	27	56 994	(9 560)
Cash flow on disposal of group operations		80 102	–
Cash flow on net disposal/(acquisition) of associates		1 763	(483)
Cash flow on acquisition and disposal of property, equipment and intangible assets		(230 787)	(15 599)
Net cash outflow from investing activities		(91 928)	(25 642)
Dividends paid to ordinary shareholders		(45 557)	(34 532)
Dividends paid to other equity holders		(13 895)	(15 725)
Proceeds on issue of shares, net of related costs		127 076	94 160
Proceeds on (acquisition)/issue of treasury shares, net of related costs		(32 298)	17 973
Proceeds from subordinated debt raised		498 475	–
Repayment of subordinated debt		(438 246)	(168 776)
Net cash inflow/(outflow) from financing activities		95 555	(106 900)
Effects of exchange rates on cash and cash equivalents		71 522	38 420
Net (decrease)/increase in cash and cash equivalents		(741 799)	1 201 633
Cash and cash equivalents at the beginning of the year		2 686 748	1 485 115
Cash and cash equivalents at the end of the year		1 944 949	2 686 748
Cash and cash equivalents is defined as including:			
Cash and balances at central banks		1 142 565	2 008 762
On demand loans and advances to banks		802 384	677 986
Cash and cash equivalents at the end of the year		1 944 949	2 686 748

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

Consolidated statement of changes in equity

£'000	Ordinary share capital	Perpetual preference share capital	Share premium	Treasury shares
At 1 April 2009	143	151	838 911	(39 292)
Movement in reserves 1 April 2009 – 31 March 2010				
Profit after taxation	–	–	–	–
Cash flow hedge movements taken directly to other comprehensive income	–	–	–	–
Gains on realisation of available-for-sale assets recycled through income	–	–	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	–	–
Pension fund actuarial losses	–	–	–	–
Total comprehensive income for the year	–	–	–	–
Share-based payments adjustments	–	–	–	–
Dividends paid to ordinary shareholders	–	–	–	–
Dividends paid to perpetual preference shareholders	–	–	–	–
Dividends declared to perpetual preference shareholders	–	–	–	–
Dividends paid to perpetual preference shareholders included in minorities	–	–	–	–
Dividends paid to non-controlling interests	–	–	–	–
Issue of ordinary shares	5	–	96 572	–
Issue of perpetual preference shares	–	–	–	–
Share issue expenses	–	–	(3 559)	–
Issue of equity by subsidiaries	–	–	–	–
Acquisition of non-controlling interests	–	–	–	–
Movement of treasury shares	–	–	–	36 193
Transfer to capital reserve account	–	–	–	–
Transfer from regulatory general risk reserve	–	–	–	–
At 31 March 2010	148	151	931 924	(3 099)
Profit after taxation	–	–	–	–
Cash flow hedge movements taken directly to other comprehensive income	–	–	–	–
Gains on realisation or impairment of available-for-sale assets recycled through income	–	–	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	–	–
Pension fund actuarial gains	–	–	–	–
Total comprehensive income for the year	–	–	–	–
Share-based payments adjustments	–	–	–	–
Dividends paid to ordinary shareholders	–	–	–	–
Dividends paid to perpetual preference shareholders	–	–	–	–
Dividends declared to perpetual preference shareholders	–	–	–	–
Dividends paid to perpetual preference shareholders included in minorities	–	–	–	–
Dividends paid to non-controlling interests	–	–	–	–
Issue of ordinary shares	14	–	130 700	–
Share issue expenses	–	–	(3 631)	–
Acquisition of non-controlling interests	–	–	–	–
Non-controlling interest relating to disposal of subsidiaries	–	–	–	–
Movement of treasury shares	–	–	–	(7 437)
Transfer from capital reserve account	–	–	–	–
Transfer from regulatory general risk reserve	–	–	–	–
At 31 March 2011	162	151	1 058 993	(10 536)

Other reserves: Capital reserve account	Other reserves: Available-for-sale reserve	Other reserves: Regulatory general risk reserve	Other reserves: Cash flow hedge reserve	Other reserves: Foreign currency reserve	Retained income	Shareholders' equity excluding non-controlling interests	Non-controlling interests	Total equity
47 238	(9 520)	16 450	(16 201)	53 915	356 274	1 248 069	204 229	1 452 298
–	–	–	–	–	128 585	128 585	(23 234)	105 351
–	–	–	12 584	–	–	12 584	–	12 584
–	(7 967)	–	–	–	–	(7 967)	–	(7 967)
–	19 205	–	–	–	–	19 205	–	19 205
–	(349)	4 067	(3 893)	3 964	1 477	5 266	(1 540)	3 726
–	–	–	–	–	(8 180)	(8 180)	–	(8 180)
–	10 889	4 067	8 691	3 964	121 882	149 493	(24 774)	124 719
–	–	–	–	–	24 550	24 550	274	24 824
–	–	–	–	–	(34 532)	(34 532)	–	(34 532)
–	–	–	–	–	(3 552)	(3 552)	–	(3 552)
–	–	–	–	–	(12 037)	(12 037)	12 037	–
–	–	–	–	–	–	–	(12 037)	(12 037)
–	–	–	–	–	–	–	(136)	(136)
–	–	–	–	–	–	96 577	–	96 577
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	(3 559)	–	(3 559)
–	–	–	–	–	–	–	1 142	1 142
–	–	–	–	–	–	–	353	353
(18 216)	–	–	–	–	(14 455)	3 522	–	3 522
71	–	–	–	–	(71)	–	–	–
–	–	(1 245)	–	–	1 245	–	–	–
29 093	1 369	19 272	(7 510)	57 879	439 304	1 468 531	181 088	1 649 619
–	–	–	–	–	164 092	164 092	(14 551)	149 541
–	–	–	2 522	–	–	2 522	–	2 522
–	(4 845)	–	–	–	–	(4 845)	–	(4 845)
–	24 689	–	–	–	–	24 689	–	24 689
	434	1 295	(439)	15 040	10	16 340	363	16 703
–	–	–	–	–	10 157	10 157	–	10 157
–	20 278	1 295	2 083	15 040	174 259	212 955	(14 188)	198 767
–	–	–	–	–	29 463	29 463	–	29 463
–	–	–	–	–	(45 557)	(45 557)	–	(45 557)
–	–	–	–	–	(2 262)	(2 262)	–	(2 262)
–	–	–	–	–	(11 633)	(11 633)	11 633	–
–	–	–	–	–	–	–	(11 633)	(11 633)
–	–	–	–	–	–	–	–	–
180 433	–	–	–	–	–	311 147	–	311 147
–	–	–	–	–	–	(3 631)	–	(3 631)
–	–	–	–	–	(4 292)	(4 292)	322	(3 970)
–	–	–	–	–	–	–	(14 099)	(14 099)
(24 861)	–	–	–	–	(12 386)	(44 684)	–	(44 684)
(653)	–	–	–	–	653	–	–	–
–	–	(804)	–	–	804	–	–	–
184 012	21 647	19 763	(5 427)	72 919	568 353	1 910 037	153 123	2 063 160

Investec plc excluding Investec Limited – significant accounting policies

Basis of presentation

The group financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU) which comply with the IFRSs as issued by the International Accounting Standards Board (IASB). At 31 March 2011, IFRS standards as endorsed by the EU are identical to current IFRSs applicable to the group.

The group financial statements have been prepared on a historical cost basis, except for derivative financial instruments, financial assets and financial liabilities held at fair value through profit or loss or subject to hedge accounting and liabilities for cash-settled share-based payments that have been measured at fair value, and on a going concern.

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

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

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

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

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

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

Presentation of information

Disclosure under IFRS 7, Financial Instruments: Disclosures and IAS 1, Presentation of Financial Statements: Capital Disclosures relating to the nature and extent of risks have been included in sections marked as audited in the risk management report on pages 37 to 122.

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

Basis of consolidation

Under the contractual arrangements implementing the Dual Listed Companies (DLC) structure Investec plc and Investec Limited, the latter a company incorporated in South Africa, effectively form a single economic enterprise in which 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. Combined financial statements have been separately prepared.

These financial statements have been prepared to present the financial position and results of Investec plc and its directly owned subsidiaries as if the contractual arrangements which create the DLC structure did not exist and with this exception and the exclusion of certain other disclosures, are prepared in accordance with IFRS. 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 plc and Investec Limited combined financial statements.

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) up to the effective dates of loss of control, except entities which are classified as non-current assets held-for-sale. Subsidiaries classified as non-current assets held-for-sale are consolidated in one line item as discontinued operations.

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

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

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

Segmental reporting

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

The group's segmental reporting is presented in the form of a business analysis.

The business analysis is presented in terms of the group's six principal business divisions and Group Services and Other Activities.

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

For further detail on the group's segmental reporting basis refer to pages 6 to 9 of the divisional review section of the annual report.

Business combinations and goodwill

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

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

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

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

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

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

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

Share-based payments to employees

The group engages in equity-settled share-based payments and in certain limited circumstances cash-settled share-based payments in respect of services received from employees.

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

The liability, in respect of cash-settled share-based payments, is recognised at the current fair value at each balance sheet date based on an estimate of the number of instruments that will eventually vest, with the change in fair value being recognised in the income statement. Subsequent to vesting the liability is measured at fair value, with gains and losses recognised in the income statement until such time as the liability is settled.

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

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

Foreign currency transactions and foreign operations

The presentation currency of the group is Pounds Sterling, being the functional currency of Investec plc.

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

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

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

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

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

- Exchange differences arising on monetary items that form part of the net investment in a foreign operation are determined using closing rates and recognised as a separate component of equity (foreign currency translation reserve) upon consolidation and is recognised in the income statement upon disposal of the net investment
- Non-monetary items that are measured at historical costs are translated using the exchange rates ruling at the date of the transaction.

Revenue recognition

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

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

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

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

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

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

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

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

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

Financial instruments

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

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

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

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

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

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

- It eliminates or significantly reduces an inconsistent measurement or recognition that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or

- A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy and information about the group is provided internally on that basis to the group's key management personnel; and
- If a contract contains one or more embedded derivatives (which significantly modifies the cash flows that would be required by the contract and is not clearly prohibited from separation from the host contract) and the group has designated the entire hybrid contract as a financial instrument at fair value through profit and loss.

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

Held-to-maturity financial assets

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

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

Loans and receivables

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

- Those that the group intends to trade in which are classified as held-for-trading and those that the group designates as at fair value through profit and loss
- Those that the group designates as available-for-sale
- Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are accounted for at fair value through profit 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. Further, certain loans and receivables that are held at fair value due to being quoted on an active market, which are neither actively traded nor held-to-maturity instruments, are classified as available-for-sale financial assets.

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

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

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

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

Financial liabilities

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

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

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

Valuation of financial instruments

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

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

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

Subsequent to initial recognition, the fair value of financial instruments quoted in an active market is based on published price quotations.

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

'Day 1' profit or loss

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

Impairments of financial assets held at amortised cost

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

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

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

Investec plc excluding Investec Limited – significant accounting policies (continued)

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

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

Derecognition of financial assets and liabilities

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

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

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

Reclassification of financial instruments

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

Derivative instruments

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

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

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

Hedge accounting

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

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

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

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

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

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

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

Embedded derivatives

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

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

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset when there is both an intention to settle on a net basis (or simultaneously) and a legal right to offset exists.

Issued debt and equity financial instruments

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

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

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

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

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

Sale and repurchase agreements (including securities borrowing and lending)

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

Investec plc excluding Investec Limited – significant accounting policies (continued)

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 financial lease.

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

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

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and impairments.

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

Depreciation is provided on the depreciable amount of each component on a straight-line basis over the anticipated useful life of the asset. The depreciable amount related to each asset is determined as the difference between the cost and the residual value of the asset. The residual value is the estimated amount, net of disposal costs, that the group would currently obtain from the disposal of an asset in similar age and condition as expected at the end of its useful life.

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

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

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

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

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

Dealing properties

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

Impairment of non-financial assets

At each balance sheet date the group reviews the carrying value of non-financial assets, other than investment property and deferred tax assets, for indication of impairment. The recoverable amount, being the higher of fair value less cost to sell and value in use, is determined for any assets for which an indication of impairment is identified. If the recoverable amount of an asset is less than its carrying value, the carrying value of the asset is reduced to its recoverable value.

Impairment losses are recognised as an expense in the income statement in the period in which they are identified. Reversal of impairment losses is recognised in income in the period in which the reversal is identified, to the extent that the asset is not revalued to a carrying value that would have been calculated without impairment.

Trust and fiduciary activities

The group acts as a trustee or in other fiduciary capacities that result in the holding, placing or managing of assets for the account of and at the risk of clients.

As these are not assets of the group, they are not reflected on the balance sheet but are included at market value as part of assets under administration.

Taxation and deferred taxation

Current tax payable is provided on taxable profits at rates that are enacted or substantively enacted and applicable to the relevant period.

Deferred taxation is provided using the balance sheet method on temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base, except where such temporary differences arise from:

- The initial recognition of goodwill
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction has no effect on the income statement
- In respect of temporary differences associated with the investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets or liabilities are measured using the tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

Employee benefits

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

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

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

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

The group has no liabilities for other post retirement benefits.

Investec plc excluding Investec Limited – significant accounting policies (continued)

Intangible assets

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

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

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

Borrowing costs

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

Provisions, contingent liabilities and contingent assets

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

Standards and interpretations issued but not yet effective

The following standards and interpretations, which have been issued but are not yet effective, are applicable to the group. These standards and interpretations have not been applied in these financial statements. The group intends to comply with these standards from the effective dates.

New standards

IFRS 9 – Financial Instruments

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

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

Revised IFRS 7 – Financial Instruments: Disclosures

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

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

IAS 24 – Related Parties

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

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

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

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

IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments

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

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

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

Improvements to 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 beginning on or after 1 January 2011. The amendments are listed below.

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

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

Key management assumptions

In preparation of the financial statements the group makes estimations and applies judgement that could affect the reported amount of assets and liabilities within the next financial year. Key areas in which judgement is applied include:

- Valuation of unlisted investments in the private equity and direct investments portfolios. Key valuation inputs are based on observable market inputs, adjusted for factors that specifically apply to the individual investments and recognising market volatility. Details of unlisted investments can be found in note 16 (trading securities) and note 18 (investment securities) with further analysis contained in the risk management section on pages 83 to 85
- 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 41 to 82 in the risk management section for further analysis on impairments
- Determination of interest income and interest expense using the effective interest method involves judgement in determining the timing and extent of future cash flows.

Notes to the financial statements

For the year to 31 March £'000	Asset Management	Wealth and Investment
1. Consolidated segmental analysis		
Segmental business analysis – income statement		
2011		
Net interest income	(305)	5 643
Fee and commission income	251 789	105 377
Fee and commission expense	(72 828)	(9 682)
Principal transactions	–	(1 760)
Other operating income	356	2 654
Other income	179 317	96 589
Total operating income net of insurance claims	179 012	102 232
Impairment losses on loans and advances	–	–
Operating income	179 012	102 232
Operating costs	(126 010)	(77 224)
Depreciation of operating leased assets	–	–
Operating profit before amortisation of acquired intangibles	53 002	25 008
Operating loss attributable to non-controlling interests	–	–
Operating profit after non-controlling interests	53 002	25 008
Reconciliation to profit before taxation		
Operating profit after non-controlling interests		
Operating loss before goodwill attributable to non-controlling interests		
Amortisation of acquired intangibles		
Profit arising from associate converted to subsidiary		
Net loss on sale of subsidiaries		
Profit before tax		
Cost to income ratio	70.4%	75.5%
Total assets (£'million)	294	701

Property Activities	Private Banking	Investment Banking	Capital Markets	Group Services and Other Activities	Total group
6 178	123 733	(6 072)	226 968	(12 922)	343 223
4 628	33 453	57 849	100 825	9 342	563 263
(1 758)	(4 892)	(4 139)	(9 779)	(284)	(103 362)
3 776	20 490	31 156	143 075	57 218	253 955
57	261	8 267	36 421	777	48 793
6 703	49 312	93 133	270 542	67 053	762 649
12 881	173 045	87 061	497 510	54 131	1 105 872
–	(150 753)	–	(101 643)	11 704	(240 692)
12 881	22 292	87 061	395 867	65 835	865 180
(5 350)	(116 718)	(97 805)	(229 908)	(72 833)	(725 848)
–	–	–	(16 447)	–	(16 447)
7 531	(94 426)	(10 744)	149 512	(6 998)	122 885
–	–	12 916	326	(1 790)	11 452
7 531	(94 426)	2 172	149 838	(8 788)	134 337
					134 337
					(11 452)
					(6 341)
					73 465
					(17 361)
					172 648
41.5%	67.4%	112.3%	49.5%	134.5%	67.1%
77	6 044	502	14 002	1 445	23 065

Notes to the financial statements (continued)

For the year to 31 March £'000	Asset Management	Wealth and Investment
1. Consolidated segmental analysis (continued)		
Segmental business analysis – income statement		
2010		
Net interest income	(1 110)	–
Fee and commission income	165 981	–
Fee and commission expense	(47 056)	–
Principal transactions	–	–
Other operating income/(losses)	–	11 637
Other income	118 925	11 637
Total operating income net of insurance claims	117 815	11 637
Impairment losses on loans and advances	–	–
Operating income	117 815	11 637
Operating costs	(92 480)	–
Depreciation of operating leased assets	–	–
Operating profit before amortisation of acquired intangibles	25 335	11 637
Operating loss attributable to non-controlling interests	–	–
Operating profit after non-controlling interests	25 335	11 637
Reconciliation to profit before taxation		
Operating profit after non-controlling interests		
Operating loss before goodwill attributable to non-controlling interests		
Profit before tax		
Cost to income ratio	78.5%	–
Total assets (£'million)	195	80

Property Activities	Private Banking	Investment Banking	Capital Markets	Group Services and Other Activities	Total group
(571)	142 207	(10 294)	205 090	(26 838)	308 484
5 403	64 927	49 140	63 487	(1 822)	347 116
(1 550)	(4 840)	(4 018)	(9)	(799)	(58 272)
2 427	6 965	23 946	168 742	70 678	272 758
–	(604)	16 238	79	1 899	29 249
6 280	66 448	85 306	232 299	69 956	590 851
5 709	208 655	75 012	437 389	43 118	899 335
–	(74 570)	–	(128 670)	(12 500)	(215 740)
5 709	134 085	75 012	308 719	30 618	683 595
(3 812)	(126 363)	(96 000)	(200 089)	(46 198)	(564 942)
–	–	–	–	–	–
1 897	7 722	(20 988)	108 630	(15 580)	118 653
–	–	16 862	(65)	6 437	23 234
1 897	7 722	(4 126)	108 565	(9 143)	141 887
					141 887
					(23 234)
					118 653
66.8%	60.6%	128.0%	45.7%	107.1%	62.8%
20	6 727	537	12 688	1 637	21 884

Notes to the financial statements (continued)

For the year to 31 March £'000	UK and Europe	Australia	Total group
1. Consolidated segmental analysis (continued)			
Geographical income statement analysis			
2011			
Net interest income	270 812	72 411	343 223
Fee and commission income	523 225	40 038	563 263
Fee and commission expense	(99 473)	(3 889)	(103 362)
Principal transactions	243 976	9 979	253 955
Other operating income/(losses)	51 122	(2 329)	48 793
Other income	718 850	43 799	762 649
Total operating income	989 662	116 210	1 105 872
Impairment losses on loans and advances	(210 485)	(30 207)	(240 692)
Operating income	779 177	86 003	865 180
Operating costs	(640 278)	(85 570)	(725 848)
Depreciation of operating leased assets	(16 447)	–	(16 447)
Operating profit before amortisation of acquired intangibles	122 452	433	122 885
Operating loss attributable to non-controlling interests	11 179	273	11 452
Operating profit after non-controlling interests	133 631	706	134 337
Amortisation of acquired intangibles	(6 341)	–	(6 341)
Operating profit	127 290	706	127 996
Profit arising from associate converted to subsidiary	73 465	–	73 465
Net loss on sale of subsidiaries	(17 361)	–	(17 361)
Profit before taxation	183 394	706	184 100
Taxation	(22 617)	(490)	(23 107)
Profit after taxation	160 777	216	160 993
Loss on subsidiaries attributable to non-controlling interests	3 099	–	3 099
Earnings attributable to shareholders	163 876	216	164 092
Cost to income ratio	66.4%	73.6%	67.1%
Geographical income statement analysis			
2010			
Net interest income	250 928	57 556	308 484
Fee and commission income	299 992	47 124	347 116
Fee and commission expense	(54 944)	(3 328)	(58 272)
Principal transactions	253 135	19 623	272 758
Other operating income	33 542	(4 293)	29 249
Other income	531 725	59 126	590 851
Total operating income	782 653	116 682	899 335
Impairment losses on loans and advances	(188 330)	(27 410)	(215 740)
Operating income	594 323	89 272	683 595
Operating costs	(493 206)	(71 736)	(564 942)
Depreciation of operating leased assets	–	–	–
Operating profit before amortisation of acquired intangibles	101 117	17 536	118 653
Operating loss attributable to non-controlling interests	22 578	656	23 234
Operating profit after non-controlling interests	123 695	18 192	141 887
Profit on disposal of group operations	–	–	–
Profit before taxation	123 695	18 192	141 887
Taxation	(9 426)	(3 876)	(13 302)
Earnings attributable to shareholders	114 269	14 316	128 585
Cost to income ratio	63.0%	61.5%	62.8%

At 31 March £'000	UK and Europe	Australia	Total group
1. Consolidated segmental analysis (continued)			
Geographical analysis of assets and liabilities			
2011			
Assets			
Cash and balances at central banks	987 264	155 301	1 142 565
Loans and advances to banks	820 199	96 472	916 671
Reverse repurchase agreements and cash collateral on securities borrowed	1 472 948	–	1 472 948
Trading securities	666 099	929	667 028
Derivative financial instruments	666 134	80 576	746 710
Investment securities	1 537 795	848 861	2 386 656
Loans and advances to customers	6 503 958	1 646 102	8 150 060
Loans and advances to customers – Kensington warehouse assets	1 612 181	–	1 612 181
Securitised assets	3 679 050	483 316	4 162 366
Interests in associated undertakings	17 404	1 597	19 001
Deferred taxation assets	55 934	20 982	76 916
Other assets	860 214	51 073	911 287
Property, plant and equipment	232 298	4 540	236 838
Goodwill	393 417	44 536	437 953
Intangible assets	120 855	5 385	126 240
Total assets	19 625 750	3 439 670	23 065 420
Liabilities			
Deposits by banks	895 311	3 842	899 153
Deposits by banks – Kensington warehouse funding	975 542	–	975 542
Derivative financial instruments	480 709	48 330	529 039
Other trading liabilities	402 326	–	402 326
Repurchase agreements and cash collateral on securities lent	612 663	–	612 663
Customer accounts (deposits)	8 823 141	1 421 802	10 244 943
Debt securities in issue	986 547	996 280	1 982 827
Liabilities arising on securitisation	3 174 267	472 109	3 646 376
Current taxation liabilities	55 902	–	55 902
Deferred taxation liabilities	73 095	–	73 095
Other liabilities	888 450	23 674	912 124
Pension fund liabilities	–	–	–
	17 367 953	2 966 037	20 333 990
Subordinated liabilities	636 468	31 802	668 270
Total liabilities	18 004 421	2 997 839	21 002 260

Notes to the financial statements (continued)

At 31 March £'000	UK and Europe	Australia	Total group
1. Consolidated segmental analysis (continued)			
Geographical analysis of assets and liabilities			
2010			
Assets			
Cash and balances at central banks	1 502 981	505 781	2 008 762
Loans and advances to banks	1 424 034	69 933	1 493 967
Reverse repurchase agreements and cash collateral on securities borrowed	490 494	–	490 494
Trading securities	349 217	–	349 217
Derivative financial instruments	847 039	40 256	887 295
Investment securities	1 183 798	691 042	1 874 840
Loans and advances to customers	6 038 943	1 298 600	7 337 543
Loans and advances to customers – Kensington warehouse assets	1 776 525	–	1 776 525
Securitised assets	3 916 526	517 939	4 434 465
Interests in associated undertakings	96 460	2 783	99 243
Deferred taxation assets	76 718	21 333	98 051
Other assets	598 755	12 998	611 753
Property, plant and equipment	140 032	4 338	144 370
Goodwill	207 892	41 378	249 270
Intangible assets	23 142	4 800	27 942
Total assets	18 672 556	3 211 181	21 883 737
Liabilities			
Deposits by banks	1 623 534	–	1 623 534
Deposits by banks – Kensington warehouse funding	1 213 042	–	1 213 042
Derivative financial instruments	506 178	47 274	553 452
Other trading liabilities	190 295	–	190 295
Repurchase agreements and cash collateral on securities lent	529 690	15 328	545 018
Customer accounts (deposits)	8 035 064	1 024 010	9 059 074
Debt securities in issue	661 414	1 153 620	1 815 034
Liabilities arising on securitisation	3 465 297	515 360	3 980 657
Current taxation liabilities	71 320	(2 070)	69 250
Deferred taxation liabilities	52 929	–	52 929
Other liabilities	497 250	31 722	528 972
Pension fund liabilities	1 285	–	1 285
	16 847 298	2 785 244	19 632 542
Subordinated liabilities	587 074	14 502	601 576
Total liabilities	17 434 372	2 799 746	20 234 118

For the year to 31 March £'000	UK and Europe	Australia	Total group
1. Consolidated segmental analysis (continued)			
Operating profit before goodwill, non-operating items, taxation and after non-controlling interests by geography and by division			
2011			
Asset Management	53 002	–	53 002
Wealth and Investment	25 008	–	25 008
Property Activities	376	7 155	7 531
Private Banking	(84 036)	(10 390)	(94 426)
Investment Banking	8 888	(6 716)	2 172
Capital Markets	139 978	9 860	149 838
Group Services and Other Activities	(9 585)	797	(8 788)
	133 631	706	134 337
Non-controlling interest – equity			(11 452)
Operating profit			122 885
2010			
Asset Management	25 335	–	25 335
Wealth and Investment	11 637	–	11 637
Property Activities	825	1 072	1 897
Private Banking	6 545	1 177	7 722
Investment Banking	(4 399)	273	(4 126)
Capital Markets	93 161	15 404	108 565
Group Services and Other Activities	(9 409)	266	(9 143)
	123 695	18 192	141 887
Non-controlling interest – equity			(23 234)
Operating profit			118 653

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

For the year to 31 March £'000	2011	2010
Asset Management	53 002	25 335
Wealth and Investment	25 008	11 637
Property Activities	7 531	1 897
Private Banking	(94 426)	7 722
Investment Banking		
Corporate Finance	437	(3 394)
Institutional Research, Sales and Trading	901	3 283
Principal Investments	834	(4 015)
	2 172	(4 126)
Capital Markets	149 838	108 565
Group Services and Other Activities		
International Trade Finance	2 046	2 454
Central Funding	49 261	26 799
Central Costs	(60 095)	(38 396)
	(8 788)	(9 143)
Total group	134 337	141 887

Notes to the financial statements (continued)

For the year to 31 March £'000	2011	2010
2. Principal transactions		
Dividend income	1 482	3 111
Income from trading activities assets and liabilities	84 227	105 175
Funding costs	(5 234)	(3 994)
Income from assets designated at fair value	44 280	16 066
Realised income on available-for-sale assets	5 445	8 766
Impairments on available-for-sale assets	(103)	(293)
Gains on loans and receivables	80 283	32 600
Other income	4 757	1 590
Gains on extinguishing financial liabilities	38 818	109 737
	253 955	272 758

For the year to 31 March £'000	2011	2010
3. Other operating income		
Rental income from properties	491	1 545
Operating income of non core businesses*	7 884	16 057
Income from operating leases	36 421	–
Operating income from associates	3 997	11 647
	48 793	29 249

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

For the year to 31 March £'000	Notes	2011	2010
4. Operating costs			
Staff costs		483 088	347 563
– Salaries and wages (including directors' remuneration)		386 173	281 061
– Share-based payments expense		29 463	24 550
– Social security costs		50 818	29 553
– Pensions and provident fund contributions		16 634	12 399
Premises (excluding depreciation)		32 466	28 466
Equipment (excluding depreciation)		24 654	19 612
Business expenses^		134 557	120 915
Marketing expenses		31 258	22 875
Depreciation, amortisation and impairment of property, equipment and intangibles	24/26	19 825	25 511
		725 848	564 942
Depreciation on operating leased assets		16 447	–
		742 295	564 942

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

For the year to 31 March £'000		2011	2010
4. Operating costs (continued)			
The following amounts were paid to the auditors:			
Ernst & Young fees			
Fees payable to the company's auditors for the audit of the company's accounts		518	482
Fees payable to the company's auditors and its associates for other services:			
Audit of the company's subsidiaries pursuant to legislation		3 886	3 439
Other services pursuant to legislation		1 603	375
Tax services		622	475
All other services		262	436
		6 891	5 207
KMPG fees			
Fees payable to the company's auditors and its associates for other services:			
Audit of the company's subsidiaries pursuant to legislation		570	419
Other services pursuant to legislation		–	–
Tax services		85	88
All other services		222	102
		877	609
Total		7 768	5 816

5. Share-based payments

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

For the year to 31 March £'000	AM*	WI*	PA*	PB*	IB*	CM*	GSO*	Total group
Expense charged to the income statement (included in operating costs):								
2011								
Equity-settled	3 110	1 419	364	5 794	6 270	5 419	7 087	29 463
Cash-settled	–	–	–	–	–	–	–	–
Total income statement charge	3 110	1 419	364	5 794	6 270	5 419	7 087	29 463
2010								
Equity-settled	2 653	–	162	5 280	5 365	4 176	6 914	24 550
Cash-settled	–	–	–	–	-	–	-	–
Total income statement charge	2 653	–	162	5 280	5 365	4 176	6 914	24 550

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

For the year to 31 March £'000	2011	2010
Weighted average fair value of options granted in the year	59 299	29 554

* *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*

	2011		2010	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
5. Share-based payments (continued)				
Outstanding at the beginning of the year	32 711 361	0.17	30 887 992	0.36
Granted during the year	18 737 627	0.04	12 450 500	0.03
Exercised during the year*	(6 621 114)	0.11	(8 839 040)	0.39
Expired during the year	(1 901 270)	0.87	(1 788 091)	1.34
Outstanding at the end of the year	42 926 604	0.09	32 711 361	0.17
Exercisable at the end of the year	148 546	0.74	235 402	2.11

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

	2011	2010
The exercise price range and weighted average remaining contractual life for the options are as follows:		
Options with strike prices		
Exercise price range	£1.55 – £6.52	£1.55 – £6.52
Weighted average remaining contractual life	1.59 years	2.01 years
Long-term incentive grants with no strike price		
Exercise price range	£0	£0
Weighted average remaining contractual life	3.37 years	2.98 years
The fair values of options granted where calculated using a Black-Scholes option pricing model. For options granted during the year, the inputs into the model were as follows:		
– Share price at date of grant	£4.29 – £4.98	£3.20 – £4.36
– Exercise price	£0, £4.29 – £4.98	£0, £3.20 – £4.36
– Expected volatility	30% – 37.76%	33% – 45%
– Option life	5 – 5.25 years	5 - 5.25 years
– Expected dividend yields	5.07% – 5.23%	3.97%
– Average risk-free rate	2.05% – 2.15%	2.14% – 2.58%

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

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

For the year to 31 March £'000	2011	2010
6. Taxation		
Income statement taxation charge:		
Current taxation		
UK		
Current taxation on income for the year	(2 342)	(375)
Adjustments in respect of prior years	13 238	2 983
Corporation taxation before double taxation relief	10 896	2 608
– Double taxation relief	(597)	(18 273)
	10 299	(15 665)
Europe	1 926	1 424
Australia	–	5 682
Other	179	17 809
	2 105	24 915
Total current taxation	12 404	9 250
Deferred taxation		
UK	10 518	6 962
Europe	7	14
Australia	489	(1 807)
Other	(311)	(1 117)
Total deferred taxation	10 703	4 052
Total taxation charge for the year	23 107	13 302
Comprising:		
Taxation on operating profit before acquired intangibles	29 717	13 302
Taxation on intangibles and sale of subsidiaries	(6 610)	–
	23 107	13 302
Deferred taxation comprises:		
Origination and reversal of temporary differences	16 156	10 627
Changes in deferred taxation rates	1 210	–
Adjustment in respect of prior years	(6 663)	(6 575)
	10 703	4 052
Items which affect the taxation rate going forward are:		
Estimated taxation losses arising from trading activities available for relief against future taxable income		
UK	Nil	Nil
Europe	Nil	Nil
The rates of corporation taxation for the relevant years are:	%	%
UK	28	28
Europe (average)	10	10
Australia	30	30
Profit on ordinary activities before taxation	172 648	118 653
Taxation on profit on ordinary activities	23 107	13 302
Effective taxation rate	13.4%	11.2%

Notes to the financial statements (continued)

For the year to 31 March £'000	2011	2010
6. Taxation (continued)		
The taxation charge on activities for the year is different to the standard rate as detailed below:		
Taxation on profit on ordinary activities before taxation at UK rate of 28% (2010: 28%)	48 341	33 223
Taxation adjustments relating to foreign earnings	(18 449)	3 788
Taxation relating to prior years	6 575	(3 592)
Share options accounting expense	14 749	9 392
Share options exercised during the year	(7 697)	(11 524)
Unexpired share options future taxation deduction	(9 294)	(7 102)
Non-taxable income	(17 967)	(22 622)
Net other permanent differences	12 217	9 333
Unrealised capital losses	(5 109)	2 406
Utilisation of brought forward capital losses	(1 469)	–
Change in deferred taxation rate*	1 210	–
Total taxation charge as per income statement	23 107	13 302
Other comprehensive income taxation effects:		
Cash flow hedge movements taken directly to other comprehensive income	2 552	12 584
– Pre-taxation	3 467	17 977
– Taxation effect	(945)	(5 393)
Gains on realisation or impairment of available-for-sale assets recycled through the income statement	(4 845)	(7 967)
– Pre-taxation	(5 445)	(8 628)
– Taxation effect	600	661
Fair value movements on available-for-sale assets	24 689	19 205
– Pre-taxation	33 133	22 085
– Taxation effect	(8 444)	(2 880)

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

For the year to 31 March	2011 Pence per share	2011 Total £'000	2010 Pence per share	2010 Total £'000
7. Dividends				
Ordinary dividend				
Final dividend for prior year	8.00	21 706	5.0	10 877
Interim dividend for current year	8.00	23 851	8.0	23 655
Total dividend attributable to ordinary shareholders recognised in current financial year	16.00	45 557	13.0	34 532

The directors have proposed a final dividend in respect of the financial year ended 31 March 2011 of 9.0 pence per ordinary share (31 March 2010: 8.0 pence).

This will be paid as follows:

- For Investec plc non-South African shareholders, through a dividend paid by Investec plc of 9.0 pence per ordinary share
- For Investec plc South African resident shareholders, through a dividend payment by Investec plc of 1.0 pence per ordinary share and through a dividend payment on the SA DAS share equivalent to 8.0 pence 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.

For the year to 31 March	2011		2010	
	Pence per share	Total £'000	Pence per share	Total £'000
7. Dividends (continued)				
Perpetual preference dividend				
Final dividend for prior year	7.48	1 128	16.03	2 418
Interim dividend for current year	7.52	1 134	7.52	1 134
Total dividend attributable to perpetual preference shareholders recognised in current financial year	15.00	2 262	23.55	3 552

The directors have declared a final dividend in respect of the financial year ended 31 March 2011 of 7.48 pence (Investec plc shares traded on the JSE Limited) and 7.48 pence (Investec plc shares traded on the Channel Island Stock Exchange). 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 £'000	2011	2010
Dividend attributable to perpetual preferred securities	11 633	12 037

The €200 000 000 (2010: €200 000 000) fixed/floating rate guaranteed non-voting non-cumulative perpetual preferred securities paid dividends of 7.075% in both years as set out in note 37.

For the year to 31 March £'000	2011	2010
8. Miscellaneous income statement items		
Total foreign currency losses recognised in net interest income except for financial instruments measured at fair value through income	15 568	9 424
Operating lease expenses recognised in administrative expenses split as comprises:		
Minimum lease payments	17 880	19 472
Operating lease income recognised in other operating income comprises:		
Minimum lease payments	40 821	5 612

The majority of the leases in the group are leases on property.

Notes to the financial statements (continued)

For the year to 31 March £'000	At fair value through profit or loss Trading	 Designated at inception
9. Analysis of operating income by category of financial instrument		
2011		
Net interest income	(8 874)	(45 347)
Fee and commission income	40 622	15 661
Fee and commission expense	–	(2 906)
Principal transactions	78 993	44 667
Other operating income	–	–
Other income including net interest income	110 741	12 075
Impairment losses on loans and advances	–	–
Operating income	110 741	12 075
2010		
Net interest income	(6 681)	394
Fee and commission income	27 448	9 586
Fee and commission expense	–	(2 757)
Principal transactions	101 181	16 683
Other operating income	–	–
Other income including net interest income	121 948	23 906
Impairment losses on loans and advances	–	–
Operating income	121 948	23 906

	Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non financial instruments	Other activities	Total
	13 378	781 780	76 776	(479 115)	–	4 625	343 223
	–	42 942	(38)	177	9 247	454 652	563 263
	–	(2 407)	–	(2 369)	(1 299)	(94 381)	(103 362)
	–	80 283	5 445	38 818	5 639	110	253 955
	–	–	–	–	40 418	8 375	48 793
	13 378	902 598	82 183	(442 489)	54 005	373 381	1 105 872
	(1 097)	(239 595)	–	–	–		(240 692)
	12 281	663 003	82 183	(442 489)	54 005	373 381	865 180
	18 617	702 858	41 636	(448 340)	–	–	308 484
	682	23 904	47	(642)	816	285 275	347 116
	–	(858)	–	(1 623)	(1 528)	(51 506)	(58 272)
	–	32 600	8 766	109 737	1 096	2 695	272 758
	–	–	–	–	11 647	17 602	29 249
	19 299	758 504	50 449	(340 868)	12 031	254 066	899 335
	(13 296)	(202 444)	–	–	–	–	(215 740)
	6 003	556 060	50 449	(340 868)	12 031	254 066	683 595

Notes to the financial statements (continued)

10. Analysis of financial assets and liabilities by measurement basis

At 31 March 2011 £'000	At fair value through profit or loss Trading	 Designated at inception
Assets		
Cash and balances at central banks	–	–
Loans and advances to banks	–	75 212
Reverse repurchase agreements and cash collateral on securities borrowed	455 380	–
Trading securities	569 604	97 424
Derivative financial instruments*	746 710	–
Investment securities	–	710
Loans and advances to customers	–	188 371
Loans and advances to customers – Kensington warehouse assets	–	–
Securitised assets	–	72 206
Interests in associated undertakings	–	–
Deferred taxation assets	–	–
Other assets	212 737	369
Property and equipment	–	–
Goodwill	–	–
Intangible assets	–	–
	1 984 431	434 292
Liabilities		
Deposits by banks	–	–
Deposits by banks – Kensington warehouse funding	–	–
Derivative financial instruments*	529 039	–
Other trading liabilities	402 326	–
Repurchase agreements and cash collateral on securities lent	456 413	–
Customer accounts (deposits)	–	–
Debt securities in issue	–	–
Liabilities arising on securitisation	–	–
Current taxation liabilities	–	–
Deferred taxation liabilities	–	–
Other liabilities	217 262	5 646
	1 605 040	5 646
Subordinated liabilities	–	–
	1 605 040	5 646

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges. For more information on hedges, please refer to note 43 on page 219.*

	Available-for-sale	Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
	–	–	–	1 142 565	–	1 142 565	–	1 142 565
	–	75 212	–	841 459	–	841 459	–	916 671
	–	455 380	–	1 017 568	–	1 017 568	–	1 472 948
	–	667 028	–	–	–	–	–	667 028
	–	746 710	–	–	–	–	–	746 710
	2 000 389	2 001 099	229 992	155 565	–	385 557	–	2 386 656
	–	188 371	408 043	7 553 646	–	7 961 689	–	8 150 060
	–	–	–	1 612 181	–	1 612 181	–	1 612 181
	–	72 206	–	4 090 160	–	4 090 160	–	4 162 366
	–	–	–	–	–	–	19 001	19 001
	–	–	–	–	–	–	76 916	76 916
	–	213 106	–	387 893	–	387 893	310 288	911 287
	–	–	–	–	–	–	236 838	236 838
	–	–	–	–	–	–	437 953	437 953
	–	–	–	–	–	–	126 240	126 240
	2 000 389	4 419 112	638 035	16 801 037	–	17 439 072	1 207 236	23 065 420
	–	–	–	–	899 153	899 153	–	899 153
	–	–	–	–	975 542	975 542	–	975 542
	–	529 039	–	–	–	–	–	529 039
	–	402 326	–	–	–	–	–	402 326
	–	456 413	–	–	156 250	156 250	–	612 663
	–	–	–	–	10 244 943	10 244 943	–	10 244 943
	–	–	–	–	1 982 827	1 982 827	–	1 982 827
	–	–	–	–	3 646 376	3 646 376	–	3 646 376
	–	–	–	–	–	–	55 902	55 902
	–	–	–	–	–	–	73 095	73 095
	–	222 908	–	–	260 359	260 359	428 857	912 124
	–	1 610 686	–	–	18 165 450	18 165 450	557 854	20 333 990
	–	–	–	–	668 270	668 270	–	668 270
	–	1 610 686	–	–	18 833 720	18 833 720	557 854	21 002 260

At 31 March 2010 £'000	At fair value through profit or loss Trading	 Designated at inception
10. Analysis of financial assets and liabilities by measurement basis (continued)		
Assets		
Cash and balances at central banks	–	–
Loans and advances to banks	55	32 171
Reverse repurchase agreements and cash collateral on securities borrowed	155 746	–
Trading securities	293 642	55 575
Derivative financial instruments*	887 295	–
Investment securities	–	–
Loans and advances to customers	–	197 875
Loans and advances to customers – Kensington warehouse assets	–	–
Securitised assets	–	66 156
Interests in associated undertakings	–	–
Deferred taxation assets	–	–
Other assets	160 613	–
Property and equipment	–	–
Goodwill	–	–
Intangible assets	–	–
	1 497 351	351 777
Liabilities		
Deposits by banks	–	–
Deposits by banks – Kensington warehouse funding	–	–
Derivative financial instruments*	553 452	–
Other trading liabilities	190 295	–
Repurchase agreements and cash collateral on securities lent	204 562	–
Customer accounts (deposits)	480	–
Debt securities in issue	–	–
Liabilities arising on securitisation	–	–
Current taxation liabilities	–	–
Deferred taxation liabilities	–	–
Other liabilities	161 839	–
Pension fund liabilities	–	–
	1 110 628	–
Subordinated liabilities	–	–
	1 110 628	–

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges. For more information on hedges, please refer to note 43 on page 219.*

Available-for-sale	Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
–	–	–	2 008 762	–	2 008 762	–	2 008 762
–	32 226	–	1 461 741	–	1 461 741	–	1 493 967
–	155 746	–	334 748	–	334 748	–	490 494
–	349 217	–	–	–	–	–	349 217
–	887 295	–	–	–	–	–	887 295
1 259 291	1 259 291	615 549	–	–	615 549	–	1 874 840
–	197 875	480 792	6 658 876	–	7 139 668	–	7 337 543
–	–	–	1 776 525	–	1 776 525	–	1 776 525
–	66 156	–	4 368 309	–	4 368 309	–	4 434 465
–	–	–	–	–	–	99 243	99 243
–	–	–	–	–	–	98 051	98 051
–	160 613	–	197 350	–	197 350	253 790	611 753
–	–	–	–	–	–	144 370	144 370
–	–	–	–	–	–	249 270	249 270
–	–	–	–	–	–	27 942	27 942
1 259 291	3 108 419	1 096 341	16 806 311	–	17 902 652	872 666	21 883 737
–	–	–	–	1 623 534	1 623 534	–	1 623 534
–	–	–	–	1 213 042	1 213 042	–	1 213 042
–	553 452	–	–	–	–	–	553 452
–	190 295	–	–	–	–	–	190 295
–	204 562	–	–	340 456	340 456	–	545 018
–	480	–	–	9 058 594	9 058 594	–	9 059 074
–	–	–	–	1 815 034	1 815 034	–	1 815 034
–	–	–	–	3 980 657	3 980 657	–	3 980 657
–	–	–	–	–	–	69 250	69 250
–	–	–	–	–	–	52 929	52 929
–	161 839	–	–	45 446	45 446	321 687	528 972
–	–	–	–	–	–	1 285	1 285
–	1 110 628	–	–	18 076 763	18 076 763	445 151	19 632 542
–	–	–	–	601 576	601 576	–	601 576
–	1 110 628	–	–	18 678 339	18 678 339	445 151	20 234 118

11. Reclassifications of financial instruments

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

The group did not undertake any further reclassifications under the amendment to IAS 39 in the current year.

The following table shows carrying values and fair values of the assets reclassified:

£'000	Carrying value as at 31 March 2011	Fair value as at 31 March 2011	Carrying value as at 31 March 2010	Fair value as at 31 March 2010
Trading assets reclassified to loans and receivables	55 232	32 922	89 662	79 703

If the reclassifications had not been made, the group's income before tax in 2011 would have reduced by £12.4 million (2010: a reduction of £8.1 million).

In the current year the reclassified assets have contributed £167 000 to net interest income and a loss of £15.3 million through impairments. In 2010, the reclassified assets contributed £2.6 million to net interest income and a loss of £7.8 million through impairments.

As of the date of reclassification the effective interest rates on reclassified trading assets ranged from 4.61% to 18.29%.

12. Fair value hierarchy

IFRS 7 requires that an entity disclose for each class of financial instruments measured at fair value the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety. The fair value hierarchy reflects the significance of the inputs used in making fair value measurements. The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The fair value hierarchy has the following levels:

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

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

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

At 31 March £'000	Total instruments at fair value	Valuation technique applied Level 1	Level 2	Level 3
12. Fair value hierarchy (continued)				
2011				
Assets				
Loans and advances to banks	75 212	75 212	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	455 380	–	455 380	–
Trading securities	667 028	559 955	40 979	66 094
Derivative financial instruments	746 710	63 129	652 875	30 706
Investment securities	2 001 099	1 116 024	812 496	72 579
Loans and advances to customers	188 371	–	–	188 371
Securitised assets	72 206	9 378	–	62 828
Other assets	213 106	213 106	–	–
	4 419 112	2 036 804	1 961 730	420 578
Liabilities				
Derivative financial instruments	529 039	34 619	494 420	–
Other trading liabilities	402 326	402 326	–	–
Repurchase agreements and cash collateral on securities lent	456 413	–	456 413	–
Other liabilities	222 908	222 908	–	–
	1 610 686	659 853	950 833	–
2010				
Assets				
Loans and advances to banks	32 226	32 171	55	–
Reverse repurchase agreements and cash collateral on securities borrowed	155 746	–	155 746	–
Trading securities	349 217	280 408	45 713	23 096
Derivative financial instruments	887 295	63 801	789 594	33 900
Investment securities	1 259 291	553 789	680 583	24 919
Loans and advances to customers	197 875	–	–	197 875
Securitised assets	66 156	9 049	–	57 107
Other assets	160 613	160 559	54	–
	3 108 419	1 099 777	1 671 745	336 897
Liabilities				
Derivative financial instruments	553 452	58 582	494 870	–
Other trading liabilities	190 295	190 295	–	–
Repurchase agreements and cash collateral on securities lent	204 562	–	204 562	–
Customer accounts (deposits)	480	–	480	–
Other liabilities	161 839	161 839	–	–
	1 110 628	410 716	699 912	–

12. Fair value hierarchy (continued)

Transfers between level 1 and 2

There were no transfers between level 1 and level 2 in the current year.

In the prior year £7 158 000 of derivative instruments were transferred from level 2 to level 1 as third party valuations were acquired in the year.

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

£'000	Total level 3 financial instruments	Fair value movements through income statement	Fair value movements through compre-hensive income
Net balance as at 1 April 2009	393 064	363 987	29 077
Total gains or losses	1 401	(1 301)	2 702
In the income statement	1 323	(1 301)	2 624
In the statement of comprehensive income	78	–	78
Purchases	32 702	21 006	11 696
Sales	(19 182)	–	(19 182)
Settlements	(48 949)	(43 139)	(5 810)
Transfers into level 3	9 806	7 817	1 989
Transfers out of level 3	(37 636)	(37 636)	–
Foreign exchange adjustments	5 691	5 822	(131)
Net balance as at 31 March 2010	**336 897**	**316 556**	**20 341**
Total gains or losses	19 399	13 936	5 463
In the income statement	16 682	13 936	2 746
In the statement of comprehensive income	2 717	–	2 717
Purchases	201 311	157 510	43 801
Sales	(124 184)	(116 388)	(7 796)
Issues	128	128	–
Settlements	(21 875)	(21 875)	–
Transfers into level 3	9 337	3 676	5 661
Transfers out of level 3	(562)	–	(562)
Foreign exchange adjustments	127	(984)	1 111
Net balance as at 31 March 2011	**420 578**	**352 559**	**68 019**

Instruments were transferred out of level 3 to level 2 due to improved levels of observable inputs. Instruments were transferred into level 3 when certain significant inputs to model valuations were no longer observable.

For the year to 31 March £'000	2011	2010

12. Fair value hierarchy (continued)

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

	2011	2010
Total gains or losses included in the income statement for the year		
Net interest income	11 538	–
Fee and commission income	(1 942)	2 661
Principal transactions	7 086	(1 338)
	16 682	1 323

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.

	Reflected in income statement		Reflected in comprehensive income	
£'000	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
2011				
Trading securities	8 270	7 404	–	–
Derivative financial instruments	11 948	1 071	–	–
Investment securities	–	–	3 653	4 942
Loans and advances to customers	10 168	5 720	–	–
Securitised assets	20 256	12 689	–	–
	50 642	26 884	3 653	4 942
2010				
Trading securities	13 821	6 754	–	–
Derivative financial instruments	11 297	2 221	–	–
Investment securities	–	–	16 557	10 061
Loans and advances to customers	3 052	2 157	–	–
Securitised assets	6 325	3 900	–	–
	34 495	15 032	16 557	10 061

Notes to the financial statements (continued)

At 31 March £'000	2011 Carrying amount	2011 Fair Value	2010 Carrying amount	2010 Fair Value
13. Fair value of financial instruments at amortised cost				
Assets				
Cash and balances at central banks	1 142 565	1 142 565	2 008 762	2 008 762
Loans and advances to banks	841 459	841 459	1 461 741	1 461 741
Reverse repurchase agreements and cash collateral on securities borrowed	1 017 568	1 017 568	334 748	334 748
Investment securities	385 557	385 557	615 549	615 549
Loans and advances to customers	7 961 689	7 905 664	7 139 668	6 995 806
Loans and advances to customers – Kensington warehouse assets	1 612 181	1 612 181	1 776 525	1 776 525
Securitised assets	4 090 160	4 071 705	4 368 309	4 351 328
Other assets	387 893	387 893	197 350	197 350
	17 439 072	17 364 592	17 902 652	17 741 809
Liabilities				
Deposits by banks	899 153	899 929	1 623 534	1 619 712
Loans and advances to customers – Kensington warehouse assets	975 542	975 542	1 213 042	1 213 042
Repurchase agreements and cash collateral on securities lent	156 250	156 250	340 456	340 456
Customer accounts (deposits)	10 244 943	10 243 766	9 058 594	9 053 045
Debt securities in issue	1 982 827	1 979 333	1 815 034	1 821 186
Liabilities arising on securitisation	3 646 376	3 531 694	3 980 657	3 980 657
Other liabilities	260 359	260 359	45 446	45 446
Subordinated liabilities	668 270	637 205	601 576	498 574
	18 833 720	18 684 078	18 678 339	18 572 118

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

Financial instruments for which fair value approximates carrying value

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

Fixed rate financial instruments

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

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

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

At 31 March £'000	Carrying value	Fair value adjustment		Change in fair value attributable to credit risk		Maximum exposure to credit risk	Carrying value of related credit derivatives or similar instrument
		Year to date	Cumu-lative	Year to date	Cumu-lative		
2011							
Loans and advances to banks	75 212	389	242	–	–	75 212	–
Loans and advances to customers	188 371	(1 667)	10 926	(1 582)	11 032	188 371	–
Securitised assets	27 258	(1 894)	27 258	(1 894)	27 258	27 258	–
	290 841	(3 172)	38 426	(3 476)	38 290	290 841	–
2010							
Loans and advances to banks	–	–	–	–	–	–	–
Loans and advances to customers	197 875	(5 442)	12 137	–	–	197 875	–
Securitised assets	66 156	(5 999)	21 537	–	–	66 156	–
	264 031	(11 441)	33 674	–	–	264 031	–

At 31 March £'000	Carrying value	Remaining contractual amount to be repaid at maturity	Fair value adjustment	
			Year to date	Cumulative
Financial liabilities				
2011				
Other liabilities	5 646	5 290	356	356
	5 646	5 290	356	356

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 attributable to credit risk were £nil (2010: £nil).

Notes to the financial statements (continued)

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

As part of the reverse repurchase and securities borrowing agreements the group has received securities that it is allowed to sell or re-pledge. £407 million (2010: £425 million) has been re-sold or re-pledged to third parties in connection with financing activities or to comply with commitments under short sale transactions.

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

	2011		2010	
At 31 March £'000	Carrying value	Cumulative unrealised gains/(losses)	Carrying value	Cumulative unrealised gains/ (losses)
16. Trading securities				
Listed equities	132 061	6 201	65 370	(3 029)
Unlisted equities	63 899	(6 014)	52 122	(6 956)
Promissory notes	1 325	–	–	–
Bonds	469 743	15 409	231 725	3 881
	667 028	15 596	349 217	(6 104)

17. Derivative financial instruments

The group enters into various contracts for derivatives both as principal for trading purposes and as customer for hedging foreign exchange and interest rate exposures. These include financial futures, options, swaps and forward rate agreements. The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations.

In the tables that follow notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair value of a derivative financial instrument represents the positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out by the group in an orderly market transaction at balance sheet date.

At 31 March £'000	2011 Notional principal amounts	2011 Positive fair value	2011 Negative fair value	2010 Notional principal amounts	2010 Positive fair value	2010 Negative fair value
Foreign exchange derivatives						
Forward foreign exchange contracts	5 586 644	39 458	(84 915)	1 634 672	44 879	(32 494)
Currency swaps	3 204 169	225 417	(69 102)	4 064 338	208 104	(28 050)
OTC options bought and sold	1 998 874	26 093	(12 024)	184 437	2 731	(3 379)
Other foreign exchange contracts	126 677	2 775	–	150 951	6 762	–
	10 916 364	293 743	(166 041)	6 034 398	262 476	(63 923)
Interest rate derivatives						
Caps and floors	1 009 813	3 889	(3 695)	1 072 391	1 234	(1 554)
Swaps	14 641 127	175 131	(94 168)	13 881 730	168 714	(145 048)
Forward rate agreements	438 875	103	(52)	220 655	–	(61)
Other interest rate contracts	1 123 157	–	(303)	2 719 590	786	(1 017)
OTC derivatives	17 212 972	179 123	(98 218)	17 894 366	170 734	(147 680)
Exchange traded futures	457 954	–	(113)	140 376	181	–
Exchange traded options	–	–	–	281 736	254	(141)
	17 670 926	179 123	(98 331)	18 316 478	171 169	(147 821)
Equity and stock index derivatives						
OTC options bought and sold	2 036 849	15 622	(9 809)	1 373 158	41 403	(659)
Equity swaps and forwards	228 471	4 110	(2 626)	30 647	635	(982)
OTC derivatives	2 265 320	19 732	(12 435)	1 403 805	42 038	(1 641)
Exchange traded futures	178 333	1 471	(1 024)	7 123	1 237	(1 237)
Exchange traded options	161	35 722	(17 890)	693 728	35 990	(42 239)
Warrants	–	660	–	–	449	–
	2 443 814	57 585	(31 349)	2 104 656	79 714	(45 117)
Commodity derivatives						
OTC options bought and sold	31 845	3 101	(1 060)	115 480	1 590	(1 517)
Commodity swaps and forwards	366 611	174 920	(228 712)	1 678 547	276 655	(316 603)
OTC derivatives	398 456	178 021	(229 772)	1 794 027	278 245	(318 120)
Exchange traded futures	–	–	–	848 954	227 809	(150 935)
Exchange traded options	–	–	–	–	991	(3 532)
	398 456	178 021	(229 772)	2 642 981	507 045	(472 587)
Credit derivatives						
Credit linked notes						
Credit swaps	56 917	7 430	(3 546)	69 516	13 029	(3 842)
	56 917	7 430	(3 546)	69 516	13 029	(3 842)
Embedded derivatives*		30 808	–		33 700	–
Gross fair values		746 710	(529 039)		1 067 133	(733 290)
Effect of on balance sheet netting		–	–		(179 838)	179 838
Derivatives per balance sheet		746 710	(529 039)		887 295	(553 452)

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

Notes to the financial statements (continued)

At 31 March £'000	2011 Carrying value	2010 Carrying value
18. Investment securities		
At fair value through profit or loss		
Bonds	710	–
	710	–
Available-for-sale		
Listed equities	20 251	12 447
Unlisted equities	64 339	58 324
Bonds	1 043 253	178 309
Floating rate notes	769 243	612 677
Commercial paper	102 636	396 867
Other investments	667	667
	2 000 389	1 259 291
Held-to-maturity		
Commercial paper	229 992	615 549
	229 992	615 549
Loans and receivables		
Bonds	155 565	–
	155 565	–
Total investment securities	2 386 656	1 874 840

At 31 March £'000	2011 Carrying value	2010 Carrying value
19. Loans and advances to customers		
Loans and advances to customers (post impairments)	8 150 060	7 337 543
Loans and advances to customers – Kensington warehouse assets (post impairments)	1 612 181	1 776 525
Specific and portfolio impairments included above	298 576	214 922
Gross loans and advances to customers (pre impairments)	10 060 817	9 328 990
Less: warehouse facilities and structured credit investments arising from securitisation and principal finance activities*	(2 708 609)	(2 459 226)
Less: intergroup loans	(935)	(65)
Own originated securitised assets (refer to note 20)	484 163	519 511
Gross core loans and advances to customers	7 835 436	7 389 210
For further analysis on gross core loans and advances refer to pages 57 to 71 in the risk management section.		
Specific and portfolio impairments		
Reconciliation of movements in specific and portfolio impairments:		
Loans and advances to customers		
Specific impairment		
Balance at beginning of year	126 501	89 915
Charge to the income statement	182 667	115 805
Utilised	(105 231)	(82 432)
Exchange adjustment	4 308	3 213
Balance at end of year	208 245	126 501
Portfolio impairment		
Balance at beginning of year	19 243	3 032
Charge to the income statement	(12 671)	16 245
Exchange adjustment	(14)	(34)
Balance at end of year	6 558	19 243
Kensington warehouse loans		
Specific impairment		
Balance at beginning of year	37 215	26 647
Charge to the income statement	4 619	41 442
Utilised	(21 707)	(30 375)
Exchange adjustment	108	(499)
Balance at end of year	20 235	37 215
Portfolio impairment		
Balance at beginning of year	31 963	34 449
Charge to the income statement	30 793	(2 486)
Exchange adjustment	782	–
Balance at end of year	63 538	31 963
Total specific impairments	228 480	163 716
Total portfolio impairments	70 096	51 206
Total impairments	298 576	214 922
Interest income recognised on loans that have been impaired	12 641	14 632

* *Whilst the group manages all risks (including credit risk) from a day-to-day operational perspective, these assets are within special purpose vehicles that ring fence the assets to specific credit providers and limit security to the assets in the vehicle.*

Notes to the financial statements (continued)

At 31 March £'000	2011	2010
19. Loans and advances to customers (continued)		
Reconciliation of income statement charge:		
Loans and advances	169 996	132 050
Specific impairment charged to income statement	182 667	115 805
Portfolio impairment charged to income statement	(12 671)	16 245
Securitised assets (refer note 20)	35 284	44 734
Specific impairment charged to income statement	26 833	48 050
Portfolio impairment charged to income statement	8 451	(3 316)
Kensington warehouse loans	35 412	38 956
Specific impairment charged to income statement	4 619	41 442
Portfolio impairment charged to income statement	30 793	(2 486)
Total income statement charge	240 692	215 740

At 31 March £'000	2011	2010
20. Securitised assets and liabilities arising on securitisation		
Securitised assets are made up of the following categories of assets:		
Cash and cash equivalents	433 894	456 461
Loans and advances to customers	3 750 063	3 956 332
Other financial instruments at fair value	27 258	66 156
	4 211 215	4 478 949
Total impairment of securitised assets	(48 849)	(44 484)
Total securitised assets	4 162 366	4 434 465
The associated liabilities are recorded on balance sheet in 'liabilities arising on securitisation'		
Carrying value at 31 March	3 646 376	3 980 657
Analysis of securitised assets by risk exposure		
Own originated securitised assets	484 163	519 511
Securitisation exposures arising from securitisation/principal finance activities	107 435	240 451
Total credit and counterparty exposure	591 598	759 962
Securitised assets with no legal credit exposure	3 570 768	3 674 503
Gross securitised assets	3 619 617	3 718 987
Impairment of securitised assets	(48 849)	(44 484)
Total securitised assets	4 162 366	4 434 465
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	20 064	39 503
Charge to the income statement	26 833	48 050
Utilised	(30 678)	(67 211)
Exchange adjustment	(594)	(278)
Balance at end of year	15 625	20 064
Portfolio impairments		
Balance at beginning of year	24 420	27 699
Charge to the income statement	8 451	(3 316)
Exchange adjustment	353	37
Balance at end of year	33 224	24 420
Total impairments	48 849	44 484

At 31 March £'000	2011	2010
21. Interests in associated undertakings		
Interests in associated undertakings consist of:		
Net asset value	12 284	35 570
Goodwill	6 717	63 673
Interests in associated undertakings	19 001	99 243
Analysis of the movement in our share of net assets:		
At beginning of year	35 570	27 332
Exchange adjustments	(157)	878
Disposals and acquisitions	(1 763)	483
Acquisition of controlling interest	(23 775)	–
Operating income from associates	3 997	11 647
Dividends received	(923)	(5 690)
(Losses)/gains recognised in other comprehensive income	(665)	920
At end of year	12 284	35 570
Analysis of the movement in goodwill:		
At beginning of year	63 673	63 673
Exchange adjustments	21	–
Acquisition of controlling interest	(56 977)	–
At end of year	6 717	63 673
Associated undertakings:		
Listed	–	79 282
Unlisted	19 001	19 961
	19 001	99 243
Market value of listed investments	–	177 753

Prior to 25 June 2010, the group had a holding of 47.1% (47.1% at 31 March 2010) in Rensburg Sheppards plc (RS) which was accounted for as an associated undertaking. On 25 June 2010 Investec completed the acquisition of the balance of the ordinary share capital of RS not already owned. Details of the acquisition are set out in note 27.

Notes to the financial statements (continued)

At 31 March £'000	2011	2010
22. Deferred taxation		
Deferred taxation assets	76 916	98 051
Deferred taxation liabilities	(73 095)	(52 929)
Net deferred taxation assets	3 821	45 122
The net deferred taxation assets arises from:		
Deferred capital allowances	22 307	52 287
Income and expenditure accruals	20 226	15 420
Asset in respect of unexpired options	17 153	17 081
Asset in respect of pensions liability	–	360
Unrealised fair value adjustments on financial instruments	2 259	2 901
Losses carried forward	5 617	2 944
Liability in respect of pensions surplus	(5 245)	(719)
Deferred tax on acquired intangibles	(28 921)	–
Other temporary differences	(29 575)	(45 152)
Net deferred taxation assets	3 821	45 122
Reconciliation of net deferred taxation assets:		
At beginning of year	45 122	49 279
Charge to income statement – current year taxation	(10 703)	(4 052)
Charge directly in other comprehensive income	(7 049)	(7 577)
Acquisitions	(33 856)	–
Disposals	6 385	–
Transfer to corporate taxation	–	1 708
Other	2 579	(495)
Exchange adjustments	1 343	6 259
At year end	3 821	45 122
Deferred taxation on available-for-sale and cash flow hedge reserves	2 046	1 052

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

At 31 March £'000	2011	2010
23. Other assets		
Settlement debtors	659 256	392 187
Dealing properties	58 434	18 557
Accruals and prepayments	65 217	44 048
Pension assets (refer to note 31)	20 215	2 569
Trading initial margin	25 080	19 949
Other debtors	83 085	134 443
	911 287	611 753

24. Property and equipment

At 31 March £'000	Freehold properties	Leasehold improvements	Furniture and vehicles	Equipment	Motor vehicles (operating leases)*	Total
2011						
Cost						
At beginning of year	32 894	40 373	14 984	145 903	–	234 154
Exchange adjustments	(1 157)	182	562	(4 077)	–	(4 490)
Acquisition of subsidiary undertakings	2 724	–	–	1 655	–	4 379
Additions	3 230	3 307	1 978	4 506	226 097	239 118
Disposals	–	(194)	(1 044)	(796)	(15 755)	(17 789)
Disposal of subsidiary undertakings	(30 633)	–	–	(119 500)	–	(150 133)
At end of year	7 058	43 668	16 480	27 691	210 342	305 239
Accumulated depreciation						
At beginning of year	(7 089)	(18 136)	(8 109)	(56 450)	–	(89 784)
Exchange adjustments	281	(221)	(126)	1 251	–	1 185
Disposals	–	172	760	748	632	2 312
Disposal of subsidiary undertakings	7 393	–	–	39 370	–	46 763
Depreciation charge for year	(621)	(3 068)	(2 290)	(6 451)	(16 447)	(28 877)
At end of year	(36)	(21 253)	(9 765)	(21 532)	(15 815)	(68 401)
Net carrying value	7 022	22 415	6 715	6 159	194 527	236 838
2010						
Cost						
At beginning of year	32 622	37 837	12 240	153 646	–	236 345
Exchange adjustments	(613)	693	267	(7 672)	–	(7 325)
Acquisition of subsidiary undertakings	884	–	543	46	–	1 473
Reclassifications	–	–	–	(433)	–	(433)
Additions	1	2 209	3 205	1 898	–	7 313
Disposals	–	(366)	(1 271)	(1 582)	–	(3 219)
At end of year	32 894	40 373	14 984	145 903	–	234 154
Accumulated depreciation						
At beginning of year	(5 529)	(15 265)	(7 320)	(47 680)	–	(75 794)
Exchange adjustments	(134)	(773)	(52)	865	–	(94)
Reclassifications	–	–	–	233	–	233
Disposals	–	277	1 223	776	–	2 276
Depreciation charge for year	(1 426)	(2 375)	(1 960)	(10 644)	–	(16 405)
At end of year	(7 089)	(18 136)	(8 109)	(56 450)	–	(89 784)
Net carrying value	25 805	22 237	6 875	89 453	–	144 370

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

At 31 March £'000	2011	2010
25. Goodwill		
Cost		
At beginning of year	354 553	338 578
Acquisition of subsidiaries	198 520	8 502
Disposals	(12 621)	–
Exchange adjustments	3 112	7 473
At end of year	543 564	354 553
Accumulated impairments		
At beginning of year	(105 283)	(105 207)
Exchange adjustments	(328)	(76)
At end of year	(105 611)	(105 283)
Net carrying value	437 953	249 270
Analysis of goodwill by line of business and geography		
UK and Europe		
Asset Management	88 045	88 045
Wealth and Investment	197 119	–
Private Banking	18 979	18 669
Investment Banking	6 112	17 977
Capital Markets	83 162	83 201
	393 417	207 892
Australia		
Private Banking	22 541	22 213
Investment Banking	21 995	19 165
	44 536	41 378
Total group	437 953	249 270

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, adjusted for expected future events.

UK, Europe and Australia

The three most significant cash-generating units giving rise to goodwill are Investec Asset Management, Kensington and Rensburg Sheppards plc. For Investec Asset Management, the recoverability of goodwill of £88.0 million has been tested with reference to both the underlying profitability (taking into account 2011 profits before taxation of £53.0 million (2010: £25.3 million) and budgets and plans for the next three years) and the value of the business as represented by funds under management of £30.8 billion (2010: £21.7 billion). These factors support the carrying value of goodwill.

Goodwill of £121.1 million arising on the acquisition of Kensington on 7 August 2008 was written down by £59.9 million at 31 March 2008 to £61.2 million following the managed reduction in business volumes and limited activity in securitisation markets. At 31 March 2011, the remaining goodwill has been tested for impairment on the basis of the existing book, assuming no new mortgage origination and no recovery in securitisation markets. Cash flows have been projected for a five year period using the latest available information on debts and expected repayments discounted at 11%. On this basis goodwill is above book value. Future impairment of this goodwill will largely be dependent on the timing of future repayments and the level of future business generated.

The goodwill of £197.1 million within Wealth and Investment relates to the acquisition of Rensburg Sheppards plc in the current year (refer to note 27).

25. Goodwill (continued)

Movement in goodwill

2011

The increase in goodwill relates to the acquisition of Rensburg Sheppards plc which is set out in note 27.

The reduction in goodwill relates to the sale and deconsolidation of investments previously consolidated as subsidiaries together with the sale of Rensburg Fund Management Limited.

2010

The increase in goodwill relates to the acquisition of Leasedirect Finance Limited.

At 31 March £'000	Acquired software	Core technology	Intellectual property	Client relationships*	Total
26. Intangible assets					
2011					
Cost					
At beginning of year	39 388	6 927	14 917	–	61 232
Exchange adjustments	(26)	53	(521)	–	(494)
Acquisition of subsidiary undertakings	5 856	–	–	127 500	133 356
Reclassifications	1 462	–	(1 951)	–	(489)
Additions	3 246	–	3 900	–	7 146
Disposals	(60)	–	–	–	(60)
Disposal of subsidiary undertakings	–	(6 980)	(15 100)	(14 400)	(36 480)
At end of year	49 866	–	1 245	113 100	164 211
Accumulated amortisation and impairments					
At beginning of year	(25 085)	(1 072)	(7 133)	–	(33 290)
Exchange adjustments	65	5	369	–	439
Reclassifications	–	–	–	–	–
Disposals	60	–	–	–	60
Disposal of subsidiary undertakings	–	1 067	7 080	409	8 556
Amortisation	(6 783)	–	(612)	(6 341)	(13 736)
At end of year	(31 743)	–	(296)	(5 932)	(37 971)
Net carrying value	18 123	–	949	107 168	126 240
2010					
Cost					
At beginning of year	28 617	6 879	15 912	–	51 408
Exchange adjustments	221	48	(105)	–	164
Reclassifications	2 298	–	(1 867)	–	431
Additions	8 260	–	2 141	–	10 401
Disposals	(8)	–	(1 164)	–	(1 172)
At end of year	39 388	6 927	14 917	–	61 232
Accumulated amortisation and impairments					
At beginning of year	(21 272)	(754)	(1 499)	–	(23 525)
Exchange adjustments	(310)	(9)	(109)	–	(428)
Reclassifications	1 277	–	(1 509)	–	(232)
Disposals	1	–	–	–	1
Amortisation	(4 781)	(309)	(4 016)	–	(9 106)
At end of year	(25 085)	(1 072)	(7 133)	–	(33 290)
Net carrying value	14 303	5 855	7 784	–	27 942

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

27. Acquisitions and disposals

Acquisitions

2011

Rensburg Sheppards plc (RS) became a wholly-owned subsidiary of the Investec group on 25 June 2010. Prior to this date, Investec owned 47.1% of RS and it was equity accounted for as an associate. At acquisition RS was made up of two principal trading subsidiaries, Rensburg Sheppards Investment Management Limited (RSIM) and Rensburg Fund Management Limited (RFM). RFM was subsequently sold on 18 January 2011 (see below) and RSIM was renamed Investec Wealth & Investment Limited on 31 May 2011.

As a result of requirements of the new accounting rules of IFRS 3, the group is required to fair value its 47.1% holding in RS at the date it acquired the remaining 52.9%. This has resulted in an exceptional gain of £73.5 million (net of acquisition costs) as set out below.

Investec plc issued 37 907 652 ordinary shares at a value of 476 pence each as consideration for the acquisition of RS. The acquisition was carried out by way of a scheme of arrangement under section 425 of the Companies Act under which each RS shareholder received 1.63 new Investec ordinary share for each Rensburg scheme share.

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

£'000	Book value	Fair value
Loans and advances to banks	65 449	65 449
Investment securities	2 193	1 320
Deferred taxation assets	2 095	2 095
Other assets	97 865	97 865
Property plant and equipment	4 921	4 378
Intangible assets	34 764	133 356
Total assets	**207 287**	**304 463**
Deposits by banks	534	534
Current taxation liabilities	8 823	6 915
Deferred taxation liabilities	9 996	35 951
Other liabilities	93 931	100 746
Subordinated liabilities	18 125	18 125
Total liabilities	**131 409**	**162 271**
Net assets/fair value of net assets	**75 878**	**142 192**
Goodwill*		198 520
Fair value of consideration		**340 712**
– Acquisition of 52.9% holding (i.e. 23.3 million shares) on 25 June 2010**		180 440
– Fair value of 47.1% holding (i.e. 20.7 million shares)**		160 272
Carrying value of 47.1% holding at 25 June 2010		80 752
Fair value gain arising on acquisition		79 520
Investec costs of acquisition of 52.9% holding		(6 055)
Net gain in income statement		**73 465**

* *The goodwill arising from the acquisition consists largely of the benefits expected to arise from the enhancement of the group's Wealth and Investment offering through the combination of RS with the group's existing Wealth and Investment business. None of the goodwill is expected to be deductable for corporation taxation purposes.*

** *As calculated in relation to the 37.9 million Investec plc shares issued for the remaining 52.9% shares in Rensburg Sheppards plc at £4.76 which valued Rensburg Sheppards at approximately £7.76 per share. Rensburg Sheppards plc had 43.9 million shares in issue.*

For the post-acquisition period 26 June 2010 to 31 March 2011, the operating income of Rensburg Sheppards plc totalled £88.846 million and profits before taxation and amortisation of client relationships totalled £25.551 million. The operating income of Investec would have been £890.5 million and profits before taxation and amortisation of client relationships would have totalled £122.5 million if the acquisition of RS had been on 1 April 2010 as opposed to 25 June 2010.

27. Acquisitions and disposals (continued)

On 15 October 2010 the group completed the purchase of the 33.6% non-controlling interest in Start Mortgages Holding Limited (Start) bringing the group's interest in Start to 100%.

The net cash flow on these acquisitions, inclusive of related acquisition costs and net of cash within subsidiaries acquired amounted to £56.994 million.

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

2010

On 26 February 2010 Investec plc issued 1 973 114 ordinary shares at a value of 461.2 pence each as consideration for the acquisition of 75% of the issued share capital of Leasedirect Finance Limited (LDF) an asset finance company in the UK. In the period 27 February 2010 to 31 March 2010 LDF made a profit before taxation of £109 000.

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

£'000	Book value at date of acquisition	Fair values at date of acquisition
Cash	2	2
Loans and advances to banks	72	72
Loans and advances to customers	6 295	6 295
Other assets	220	220
Property and equipment	1 473	1 473
	8 062	8 062
Deposits by banks	5 984	5 984
Current tax liability	71	71
Other liabilities	596	596
Non-controlling interests	353	353
	7 004	7 004
Net assets/fair value of net assets	1 058	1 058
Goodwill		8 502
Fair value of consideration		9 560
Fair value of cash consideration		460

Disposals

2011

The net loss on sale of subsidiaries of £17.361 million comprises a loss of £35.581 million on the sale and deconsolidation of investments previously consolidated as subsidiaries, partially offset by a gain of £18.220 million on the sale of Rensburg Fund Management Limited.

The net cash inflow on these items amounted to £80.161 million.

2010

There were no disposals of group companies in the period.

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

Notes to the financial statements (continued)

At 31 March £'000	2011	2010
29. Debt securities in issue		
Bonds and medium term notes repayable:		
Up to one year	15 590	10 171
Greater than one year but less than five years	–	16 485
	15 590	26 656
Other unlisted debt securities in issue repayable:		
Not more than three months	146 001	208 412
Over three months but not more than one year	205 793	53 773
Over one year but not more than five years	1 234 963	1 348 285
Greater than five years	380 478	177 908
	1 967 235	1 788 378
	1 982 825	1 815 034

At 31 March £'000	2011	2010
30. Other liabilities		
Settlement liabilities	568 575	287 742
Other creditors and accruals	227 051	151 288
Other non interest bearing liabilities	116 498	89 942
	912 124	528 972

At 31 March £'000	2011	2010
31. Pension commitments		
Income statement charge		
Defined benefit obligations (net income)/net expense	(505)	577
Cost of defined contribution schemes included in administration expenses	16 624	12 399
Net income statement charge in respect of pensions	16 119	12 976

The group operates pension schemes throughout its areas of operation. The majority of the schemes are defined contribution schemes with the exception of two schemes in the United Kingdom being the Guinness Mahon Pension Fund scheme (GM scheme) and the Investec Asset Management Pension scheme (IAM scheme). Both schemes are final salary pension plans with assets held in separate trustee administered funds. The schemes are closed to new members and the accrual of service ceased on 31 March 2002. The schemes have been valued at 31 March 2011 by qualified independent actuaries in accordance with IAS 19. There were no unpaid contributions in relation to the defined contribution schemes outstanding at the year end.

The major assumptions used were:

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

31. Pension commitments (continued)

Demographic assumptions:

One of the most significant demographic assumptions underlying the valuation is mortality. The specific mortality rates used are based on the PMA92 and PFA92 base tables with allowance for future improvements in line with the medium cohort projection subject to a 1% underpin. The life expectancies underlying the valuation are as follows:

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

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

At 31 March	2011		2010	
	Value at £'000	Long-term rate of return expected	Value at £'000	Long-term rate of return expected
GM Scheme				
Equities	27 937	7.70%	37 721	7.80%
Bonds	79 003	4.20%	63 336	4.40%
Cash	3 619	4.20%	3 530	4.40%
Total market value of assets	110 559		104 587	
IAM Scheme				
Equities	9 648	7.70%	8 830	7.80%
Bonds	3 336	4.20%	2 449	4.40%
Cash	503	4.20%	317	4.40%
Total market value of assets	13 487		11 596	

At 31 March	2011			2010		
£'000	GM	IAM	Total	GM	IAM	Total
Recognised in the balance sheet						
Fair value of fund assets	110 559	13 487	124 046	104 587	11 596	116 183
Present value of obligations	(91 552)	(12 279)	(103 831)	(102 018)	(12 881)	(114 899)
Net asset/(liability)	19 007	1 208	20 215	2 569	(1 285)	1 284
Amounts in balance sheet						
Assets	19 007	1 208	20 215	2 569	–	2 569
Liability	–	–	–	–	(1 285)	(1 285)
Net asset/(liability)	19 007	1 208	20 215	2 569	(1 285)	1 284
Recognised in the income statement						
Expected return on pension scheme assets	5 858	835	6 693	4 843	540	5 383
Interest on pension obligations	(5 484)	(704)	(6 188)	(5 361)	(599)	(5 960)
Net return	374	131	505	(518)	(59)	(577)
Recognised in the statement of comprehensive income						
Actuarial gains on plan assets	1 178	341	1 519	7 794	3 004	10 798
Actuarial gains/(losses)	11 334	1 145	12 479	(18 585)	(3 574)	(22 159)
Actuarial (losses)/gain	12 512	1 486	13 998	(10 791)	(570)	(11 361)
Deferred taxation	(3 420)	(421)	(3 841)	3 021	160	3 181
Actuarial (loss)/gain in statement of comprehensive income	9 092	1 065	10 157	(7 770)	(410)	(8 180)
Actual return on plan assets	7 036	1 176	8 212	12 637	3 544	16 181

31. Pension commitments (continued)

Demographic assumptions (continued)

The cumulative amount of net actuarial losses recognised in the consolidated statement of recognised income and expense of Investec plc in respect of the scheme is £13.4 million (£9.3 million net of deferred tax) (2010: £27.4 million (£19.5 million net of deferred taxation)).

At 31 March £'000	GM	IAM	Total
Changes in the fair value of defined benefit obligations			
Opening defined benefit obligation at 31 March 2009	79 586	8 907	88 493
Interest cost	5 361	599	5 960
Actuarial losses	18 585	3 574	22 159
Benefits paid	(1 514)	(199)	(1 713)
Opening defined benefit obligation at 31 March 2010	102 018	12 881	114 899
Interest cost	5 484	704	6 188
Actuarial gains	(11 334)	(1 145)	(12 479)
Benefits paid	(4 616)	(161)	(4 777)
Closing defined benefit obligation at 31 March 2010	91 552	12 279	103 831
Changes in the fair value of plan assets			
Opening defined benefit obligation at 31 March 2009	89 912	7 695	97 607
Expected return	4 843	540	5 383
Actuarial gains	7 794	3 004	10 798
Contributions by the employer	3 552	556	4 108
Benefits paid	(1 514)	(199)	(1 713)
Closing fair value of plan assets at 31 March 2010	104 587	11 596	116 183
Expected return	5 858	835	6 693
Actuarial gains	1 178	341	1 519
Contributions by the employer	3 552	876	4 428
Benefits paid	(4 616)	(161)	(4 777)
Closing fair value of plan assets at 31 March 2011	110 559	13 487	124 046

The group expects to make £4.4 million of contributions to the defined benefit schemes in the 2012 financial year.

At 31 March £'000	2011	2010	2009	2008	2007
History of experience gains and losses					
GM scheme					
Defined benefit obligation	(91 552)	(102 018)	(79 586)	(80 319)	(91 178)
Plan assets	110 559	104 587	89 912	97 950	95 356
Surplus	19 007	2 569	10 326	17 631	4 178
Experience adjustments on plan liabilities	11 334	(18 585)	1 770	11 543	(165)
Experience adjustments on plan assets	1 178	7 794	(12 838)	(2 410)	(3 315)
IAM scheme					
Defined benefit obligation	13 487	(12 881)	(8 907)	(9 144)	(11 155)
Plan assets	(12 279)	11 596	7 695	9 769	9 688
Surplus/(deficit)	1 208	(1 285)	(1 212)	625	(1 467)
Experience adjustments on plan liabilities	1 145	(3 574)	518	2 399	206
Experience adjustments on plan assets	341	3 004	(2 953)	(950)	(254)

At 31 March £'000	2011	2010
32. Subordinated liabilities		
Issued by Investec Finance plc		
– A wholly owned subsidiary of Investec Bank plc which is a wholly owned subsidiary of Investec plc		
Guaranteed subordinated step-up notes	33 979	208 575
Guaranteed undated subordinated callable step-up notes	19 471	269 983
Issued by Investec Bank plc		
Subordinated fixed rate medium-term notes	502 126	–
Issued by Investec Australia Limited		
Guaranteed subordinated medium-term notes	–	15 206
Subordinated floating rate medium-term notes	7 016	4 280
Issued by Global Ethanol Holdings Limited		
Subordinated loan notes	34 505	32 328
Issued by Kensington Group plc		
Callable subordinated notes	71 173	71 204
	668 270	601 576
Remaining maturity:		
In one year or less, or on demand	34 505	–
In more than one year, but not more than two years	–	32 328
In more than two years, but not more than five years	105 152	–
In more than five years	528 613	569 248
	668 270	601 576

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.

Guaranteed subordinated step-up notes

On 1 March 2004 Investec Finance plc issued £200 000 000 of 7.75% guaranteed subordinated step-up notes due in 2016 at a discount (2016 notes). Interest is paid annually. The notes are guaranteed by Investec Bank plc and are listed on the Luxembourg Stock Exchange. The step-up notes may be redeemed by the issuer, at par, at any time after 1 March 2011, subject to the prior consent of the Financial Services Authority. On 1 March 2011 the interest rate was reset to become the aggregate of 3.5% and the gross redemption yield of the relevant benchmark gilt. This rate will reset annually.

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

Guaranteed undated subordinated callable step-up notes

On 23 January 2007 Investec Finance plc issued £350 000 000 of 6.25% guaranteed undated subordinated step-up notes callable in 2017 at a discount (perpetual notes). Interest is paid semi-annually. The notes are guaranteed by Investec Bank plc and are listed on the Luxembourg Stock Exchange. The step-up notes may be redeemed by the issuer, at par, at any time after 23 January 2017, subject to the prior consent of the Financial Services Authority. On 23 January 2017 the interest rate will be reset to become three month LIBOR plus 2.11% payable quarterly in arrears.

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

32. Subordinated liabilities (continued)

Medium-term notes

Subordinated fixed rate medium-term notes (denominated in Sterling)

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

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

Subordinated floating rate medium-term notes (denomination Australian Dollars)

A$10 750 000 of floating rate medium-term notes (MTN) issued on 12 February 2010 at three month bank bills swap rate (BBSW) plus 5%. The maturity date is 12 February 2020. Interest is payable quarterly up to and excluding the early redemption date 12 February 2015. After this date, if the issuers call is not exercised, the interest will be the aggregate of three month BBSW plus 7.5% payable quarterly in arrears.

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

Subordinated loan notes

Global Ethanol Holdings Limited has issued loan notes which are redeemable on a date determined by the board of the company, at its absolute discretion. The loan notes will be redeemed on 31 December 2011.

The shareholders may agree with the company the interest (if any) which will accrue on the loan notes. They are currently non interest bearing.

Callable subordinated notes

Kensington Group plc has in issue £69 767 000 of caliable subordinated notes due 2015. As from the reset date of 21 December 2010. interest is payable at the rate of 7.285%, annually in arrears. Prior to the reset date the rate payable was 9%.

The issuer may, at its option, redeem all, but not some only of the notes at any time at par plus accrued interest, in the event of certain tax changes. The notes mature on 21 December 2015.

At 31 March	2011	2010
33. Ordinary share capital		
Investec plc		
Number of ordinary shares	Number	Number
At beginning of year	471 113 064	444 937 238
Issued during the year	66 063 025	26 175 826
At end of year	537 176 089	471 113 064
Nominal value of ordinary shares	£'000	£'000
At beginning of year	94	89
Issued during the year	14	5
At end of year	108	94
Number of special converting shares	Number	Number
At beginning of year	269 766 932	268 335 257
Issued during the year	3 069 736	1 431 675
At end of year	272 836 668	269 766 932
Nominal value of special converting shares	£'000	£'000
At beginning of year	54	53
Issued during the year	*	1
At end of year	54	54
Number of UK DAN shares	Number	Number
At beginning and end of year	1	1
Nominal value of UK DAN share	£'000	£'000
At beginning and end of year	*	*
Number of UK DAS shares	Number	Number
At beginning and end of year	1	1
Nominal value of UK DAS share	£'000	£'000
At beginning and end of year	*	*
Number of special voting shares	Number	Number
At beginning and end of year	1	1
Nominal value of special voting share	£'000	£'000
At beginning and end of year	*	*

* *Less than £1 000.*

Notes to the financial statements (continued)

33. Ordinary share capital (continued)

Staff share scheme

The group operates a share option and a share purchase scheme for employees. The number of ordinary shares conditionally allocated to employees are disclosed in note 6.

Movements in the number of share options issued (each option is in respect of one share) to employees are as follows:

At 31 March £'000	Number 2011	Number 2010
Outstanding at 1 April	32 711 361	30 887 992
Issued during the year	18 737 627	12 450 500
Exercised	(6 621 114)	(8 839 040)
Lapsed	(1 901 270)	(1 788 091)
Outstanding at 31 March	42 926 604	32 711 361

The purpose of the staff share scheme is to promote an 'esprit de corps' within the organisation, create an awareness of Investec's performance and provide an incentive to maximise individual and group performance by allowing all staff to share in the risks and rewards of the group.

The group makes awards available to staff members via the underlying share trusts. The particular instrument used varies from time to time depending on taxation legislation and factors affecting the group structure. Nevertheless, whatever the instrument chosen, its underlying value depends solely on the performance of the group's share price.

At present, the practice of the group is to give all permanent staff members a share allocation based on their annual package after completing six months of employment. In line with the objective of providing a long-term incentive for staff these share awards vest over periods varying from five to eight years.

After the initial allocation referred to above, additional allocations are made to staff members at the discretion of group management and depending on the individual performance and contribution made by the respective staff members.

At 31 March £'000	2011	2010
34. Perpetual preference shares of holding company		
Perpetual preference share capital	151	151
Perpetual preference share premium (refer to note 36)	129 407	129 407
	129 558	129 558
Issued by Investec plc		
9 381 149 (2009: 9 381 149) non-redeemable, non-cumulative, non-participating preference shares of £0.01 each, issued at a premium of £8.58 per share		
– Preference share capital	94	94
– Preference share premium	79 490	79 490
5 700 000 (2009: 5 700 000) non-redeemable, non-cumulative, non-participating preference shares of £0.01 each, issued at a premium of £8.86 per share		
– Preference share capital	57	57
– Preference share premium	49 917	49 917
Preference shareholders will receive an annual dividend if declared based on the coupon rate (being equivalent to the base rate plus 1%) multiplied by the deemed value on a daily basis and payable in two semi-annual instalments.		
An ordinary dividend will not be declared by Investec plc unless the 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 plc pays its ordinary dividends, if any, but shall be payable no later than 120 business days after 31 March and 30 September respectively.		
	129 558	129 558

At 31 March £'000	2011	2010
35. Share premium		
Share premium in respect of ordinary shares	929 586	802 517
Share premium in respect of perpetual preference shares	129 407	129 407
	1 058 993	931 924

At 31 March	2011	2010
36. Treasury shares		
	£'000	£'000
Investec plc ordinary shares	10 536	2 947
Premium paid on options to acquire Investec plc shares	–	152
Treasury shares held by subsidiaries of Investec plc	10 536	3 099
Reconciliation of treasury shares:	Number	Number
At beginning of year	1 375 533	12 517 583
Purchase of own shares by subsidiary companies	8 162 679	566 999
Shares disposed of by subsidiaries	(7 324 078)	(11 709 049)
At end of year	2 214 134	1 375 533
Market value of treasury shares:	£'000	£'000
Investec plc	12 965	7 414

At 31 March	2011	2010
37. Non-controlling interests		
Non-controlling interests in partially held subsidiaries	(23 794)	2 781
Perpetual preferred securities issued by subsidiaries	176 917	178 307
	153 123	181 088
Perpetual preferred securities issued by subsidiaries		
Issued by Investec plc subsidiaries		
€200 000 000 (2010: €200 000 000) fixed/floating rate guaranteed non-voting non-cumulative perpetual preferred securities (preferred securities) were issued by Investec Tier 1 (UK) LP (a limited partnership organised under the laws of England and Wales) on 24 June 2005. The preferred securities which are guaranteed by Investec plc are callable at the option of the issuer subject to the approval of the Financial Services Authority on the tenth anniversary of the issue and if not called are subject to a step up in coupon of one and a half times the initial credit spread above the 3-month euro-zone interbank offered rate. Until the tenth anniversary of the issue the dividend on the preferred securities will be at 7.075%. The issuer has the option not to pay a distribution when it falls due but this would then prevent the payment of ordinary dividends by the company. Under the terms of the issue there are provisions for the preferred securities to be substituted for preference shares issued by the company if Investec plc's capital ratios fall below the minimum level permitted by the regulator.	176 917	178 307
	176 917	178 307

Notes to the financial statements (continued)

At 31 March £'000	2011 Total future minimum payments	2011 Present value	2010 Total future minimum payments	2010 Present value
38. Finance lease disclosures				
Finance lease receivables included in loans and advances to customers				
Lease receivables due in:				
Less than 1 year	235 407	208 313	190 512	165 764
1 – 5 years	678 240	581 026	641 086	548 375
Later than 5 years	38 733	29 472	29 663	22 898
	952 380	818 811	861 261	737 037
Unearned finance Income	133 569		124 162	

At 31 March 2011, unguaranteed residual values accruing to the benefit of Investec were £37.9 million (2010: £38.3 million). Finance leases in the group mainly relate to leases on property.

For the year to 31 March £'000	2011	2010
39. Notes to cash flow statement		
Reconciliation of operating profit to operating profit adjusted for non-cash items:		
Operating profit	116 544	118 653
Adjustment for non-cash items included in operating profit:		
Amortisation of acquired intangibles	6 341	–
Depreciation of operating lease assets	16 447	–
Depreciation and impairment of property, equipment and intangibles	19 825	25 511
Impairment of loans and advances	240 692	215 740
Operating income from associates	(3 997)	(11 647)
Dividends received from associates	923	5 690
Share-based payment charges	29 463	24 550
Operating profit adjusted for non-cash items	426 238	378 497
Increase in operating assets		
Loans and advances to banks	690 210	(259 961)
Reverse repurchase agreements and cash collateral on securities borrowed	(982 454)	(237 247)
Trading securities	(317 811)	12 666
Derivative financial instruments	140 369	234 232
Investment securities	(485 610)	(844 086)
Loans and advances to customers	(853 581)	(234 782)
Securitised assets	236 815	190 550
Other assets	(220 202)	(56 941)
	(1 792 264)	(1 195 569)
Increase in operating liabilities		
Deposits by banks	(897 207)	(1 554 114)
Derivative financial instruments	(24 413)	(141 770)
Other trading liabilities	212 031	(1 602)
Reverse repurchase agreements and cash collateral on securities lent	67 645	(503 532)
Customer accounts (deposits)	1 185 869	3 823 981
Debt securities in issue	165 790	870 415
Securitised liabilities	(332 278)	(405 161)
Other liabilities	207 094	33 399
	584 531	2 121 616

At 31 March £'000	2011	2010
40. Commitments		
Undrawn facilities	860 557	511 620
Other commitments	242	48 061
	860 799	559 681
The group has entered into forward foreign exchange contracts and loan commitments in the normal course of its banking business for which the fair value is recorded on balance sheet.		
Operating lease commitments		
Future minimum lease payments under non-cancellable operating leases:		
Less than 1 year	18 986	19 704
1 – 5 years	52 337	59 077
Later than 5 years	12 598	24 548
	83 921	103 329
At 31 March 2011, Investec was obligated under a number of operating leases for properties, computer equipment and office equipment for which the future minimum lease payments extend over a number of years.		
The majority of the leases have renewal options.		
Operating lease receivables		
Future minimum lease payments under non-cancellable operating leases:		
Less than 1 year	107 635	4 839
1 – 5 years	92 058	8 430
Later than 5 years	1 519	–
	201 212	13 269

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

At 31 March	Carrying amount		Related liability	
£'000	2011	2010	2011	2010
Pledged assets				
Loans and advances to customers	28 042	226 745	27 822	187 727
Loans and advances to banks	227 576	229 323	227 576	229 323
Investment securities	117 696	173 905	53 077	166 308
Reverse repurchase agreements and cash collateral on securities borrowed	20 965	–	11 143	–
Trading securities	416 330	214 164	363 648	210 964
	810 609	844 137	683 266	794 322

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

Notes to the financial statements (continued)

At 31 March £'000	2011	2010
41. Contingent liabilities		
Guarantees and assets pledged as collateral security:		
– Guarantees and irrevocable letters of credit	61 404	59 666
	61 404	59 666

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

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

Financial Services Compensation Scheme

The UK Financial Services Compensation Scheme (FSCS) provides compensation to customers of UK authorised financial institutions in the event that an institution which is a participating member of the FSCS is unable, or is likely to be unable, to pay claims against it. The FSCS raises annual levies from participating members to meet its management expenses and compensation costs. Individual participating members make payments based on their level of participation (in the case of deposits, the proportion that their protected deposits represent of total protected deposits) at 31 December each year. The FSCS has borrowed from HM Treasury to fund the compensation costs. These borrowings are on an interest-only basis until September 2011.

Investec Bank plc is a participating member of the FSCS and the bank has accrued £2 million for its share of levies that will be raised by the FSCS, including the interest on the loan from HM Treasury, in respect of the two levy years to 31 March 2012.

If the remaining available assets of the defaulting institutions are insufficient to allow the FSCS to repay the HM Treasury loan when due, the FSCS will agree a schedule of repayments of any remaining principal outstanding with HM Treasury, which will be recouped from the industry in the form of additional levies.

At the date of these financial statements, it is not possible to estimate whether there will ultimately be additional levies on the industry, the level of Investec's market participation or other factors that may affect the amounts or timing of amounts that may ultimately become payable, nor the effect that such levies may have upon operating results in any particular financial period.

Legal proceedings

Investec operates in a legal and regulatory environment that exposes it to litigation risks. As a result, Investec is involved in disputes and legal proceedings which arise in the ordinary course of business. Investec does not expect the ultimate resolution of any of the proceedings to which Investec is party to have a significant adverse effect on the financial position of the group. These claims, if any, cannot be reasonably estimated at this time.

For the year to 31 March £'000	2011	2010
42. Related party transactions		
Transactions, arrangements and agreements involving directors and others		
Particulars of transactions, arrangements and agreements entered into by the group with directors and connected persons and companies controlled by them, and with officers of the company, were as follows:		
Directors, key management and connected persons and companies controlled by them		
Loans		
At beginning of year	16 323	19 908
Increase in loans	15 466	10 106
Repayment of loans	(10 338)	(13 691)
At end of year	21 451	16 323
Guarantees		
At beginning of year	495	1 993
Additional guarantees granted	–	495
Guarantees cancelled	(495)	(1 993)
At end of year	–	495
Deposits		
At beginning of year	(40 000)	(31 186)
Increase in deposits	(30 198)	(27 816)
Decrease in deposits	20 592	19 002
At end of year	(49 606)	(40 000)

The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security as for comparable transactions with persons of a similar standing or where applicable, with other employees. The transactions did not involve more than the normal risk of repayment. None of these loans have been impaired.

For the year to 31 March £'000	Investec Limited and subsidiaries	Associates	Total
Transactions with other related parties			
For the year ended 31 March 2011			
Assets			
Loans and advances to banks	11 792	–	11 792
Loans and advances to customers	936	8 830	9 766
Reverse repurchase agreements and cash collateral on securities borrowed	73 215	–	73 215
Derivative financial instruments	3 514	–	3 514
Other assets	10 121	–	10 121
Liabilities			
Deposits from banks	(47 736)	–	(47 736)
Customer accounts	(10 901)	–	(10 901)
Debt securities in issue	(313 968)	–	(313 968)
Derivative financial instruments	(7 698)	–	(7 698)
Subordinated liabilities	(16 102)	–	(16 102)

Notes to the financial statements (continued)

For the year to 31 March £'000	Investec Limited and subsidiaries	Associates	Total
42. Related party transactions (continued)			
Transactions with other related parties			
For the year ended 31 March 2010			
Assets			
Loans and advances to banks	29 040		29 040
Loans and advances to customers	65	44 529	44 594
Reverse repurchase agreements and cash collateral on securities borrowed	–		–
Derivative financial instruments	1 709		1 709
Other assets	–		–
Liabilities			
Deposits from banks	(44 005)		(44 005)
Customer accounts	(10 229)		(10 229)
Debt securities in issue	(163 401)		(163 401)
Derivative financial instruments	(3 221)		(3 221)
Subordinated liabilities	(15 086)		(15 086)

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

During the year to March 2011, interest of £9.3 million (2010: £4.6 million) was paid to entities in the Investec Limited group. Interest of £1.2 million (2010: £0.3 million) was received from Investec Limited group.

In the normal course of business, services are rendered between Investec plc and Investec Limited entities. In the year to 31 March 2011, this resulted in a net payment to Investec Limited of £6.8 million (2010: £3.5 million). Specific transactions of an advisory nature between group entities have resulted in a net fee payment to Investec Limited of £0.9 million (2010: £1.2 million).

Rent of £0.4 million (2010: £1.5 million) and a contribution of £0 million (2010: £0.1 million) was received from Rensburg Sheppards plc in respect of their occupation of 2 Gresham Street in its capacity as an associate until the date of acquisition. A further £0.1 million (2010: £0.4 million) was received in relation to other services provided to Rensburg Sheppards including IT and Internal Audit.

43. Hedges

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

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

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

Fair value hedges

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

At 31 March £'000	Description of financial instrument designated as hedging instrument	Fair value of hedging instrument	Cumulative gains or losses on hedging instrument	Current year gains or losses on hedging instrument	Cumulative gains or losses on hedged item	Current year gains or losses on hedged item
2011						
Assets	Interest rate swap	12 124	12 319	5 131	(11 890)	(4 342)
	Calendar swap	133	(927)	10	927	(10)
	Cross currency swap	264 313	358 113	(61 607)	(358 013)	61 607
Liabilities	Interest rate swap	(7 324)	(29 621)	35 363	35 267	(35 081)
	Fx currency swap	(1 471)	(1 471)	(1 244)	1 471	1 545
		267 775	338 413	(22 347)	(332 238)	23 719
2010						
Assets	Interest rate swap	6 105	6 083	5 236	(7 266)	(5 718)
	Calendar swap	124	(937)	820	937	(821)
	Cross currency swap	325 920	419 720	(133 364)	(419 721)	133 380
Liabilities	Interest rate swap	(49 422)	(71 707)	11 366	78 155	(14 280)
	Fx currency swap	(16 488)	(16 488)	1 483	16 174	(1 502)
		266 239	336 671	(114 459)	(331 721)	111 059

43. Hedges (continued)

Cash flow hedges

The group is exposed to variability in cash flows on future liabilities arising from changes in base interest rates. The aggregate expected cash flows are hedged based on cash flow forecasts with reference to terms and conditions present in the affected contractual arrangements. Changes in fair value are initially recognised in other comprehensive income and transferred to the income statement when the cash flow occurs. The nominal expected future cash flows that are subject to cash flow hedges are:

At 31 March £'000	Description of financial instrument designated as hedging instrument	Fair value of hedging instrument	Period cash flows are expected to occur and affect income statement
2011			
Assets	Interest rate swap	424	1 to 5 years
Liabilities	Interest rate swap	(1 654)	1 to 5 years
	Basis rate swap	(110)	3 months
		(1 340)	
2010			
Assets	Interest rate swap	504	1 to 5 years
Liabilities	Interest rate swap Var. Interest on notes	(5 395)	1 to 5 years
	Basis rate swap	(427)	3 months
		(5 318)	

There was no ineffective portion recognised in the income statement.

Hedges of net investments in foreign operations

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

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

There was no ineffective portion recognised in the income statement.

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

At 31 March £'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
2011								
Liabilities								
Deposits by banks	281 782	158 583	65 889	31 889	117 548	250 769	–	906 460
Deposits by banks – Kensington warehouse funding	–	9 386	51 504	25 499	78 124	749 176	121 078	1 034 767
Derivative financial instruments	377 026	(49)	10 573	10 354	26 861	159 095	5 674	589 534
Derivative financial instruments – held-for-trading	262 570	–	–	–	–	–	–	262 570
Derivative financial instruments – held for hedging risk	114 456	(49)	10 573	10 354	26 861	159 095	5 674	326 964
Repurchase agreements and cash collateral on securities lent	555 474	–	57 334	–	–	–	–	612 808
Customer accounts	1 544 064	1 750 789	2 538 861	3 176 564	756 069	636 647	223 268	10 626 262
Debt securities in issue	1 289	67 850	130 171	143 917	272 411	1 309 733	364 993	2 290 364
Liabilities arising on securitisation	2 000	19 539	143 181	385 747	228 250	1 411 824	1 840 739	4 031 280
Other liabilities	916 271	213 435	113 346	44 857	57 974	42 812	2 069	1 390 764
	3 677 906	2 219 533	3 110 859	3 818 827	1 537 237	4 560 056	2 557 821	21 482 239
Subordinated liabilities	–	–	637	1 247	105 843	348 644	807 728	1 264 099
On balance sheet liabilities	3 677 906	2 219 533	3 111 496	3 820 074	1 643 080	4 908 700	3 365 549	22 746 338
Off balance sheet	344 895	74 362	38 104	53 952	150 312	176 861	38 797	877 283
Total liabilities	4 022 801	2 293 895	3 149 600	3 874 026	1 793 392	5 085 561	3 404 346	23 623 621
2010								
Liabilities								
Deposits by banks	232 990	326 666	125 929	133 180	551 751	241 673	20 800	1 632 989
Deposits by banks – Kensington warehouse funding	8 555	21 054	173 861	71 372	104 858	925 784	136 274	1 441 758
Derivative financial instruments	169 763	17 569	39 116	32 385	63 893	178 441	427 855	929 022
Derivative financial instruments – held-for-trading	165 974	–	–	–	–	–	–	165 974
Derivative financial instruments – held for hedging risk	3 789	17 569	39 116	32 385	63 893	178 441	427 855	763 048
Repurchase agreements and cash collateral on securities lent	222 530	44 802	15 351	234 149	45 036	–	–	561 868
Customer accounts	1 346 409	1 490 589	2 222 875	2 632 617	440 316	1 128 926	91 250	9 352 982
Debt securities in issue	–	102 273	129 446	41 143	61 696	1 653 744	192 212	2 180 514
Liabilities arising on securitisation	599	19 806	167 800	188 549	347 336	1 840 601	1 804 658	4 369 349
Other liabilities	436 384	139 197	131 706	49 335	42 826	14 832	15 724	830 004
	2 417 230	2 161 956	3 006 084	3 382 730	1 657 712	5 984 001	2 688 773	21 298 486
Subordinated liabilities	–	(7 952)	458	23 345	224 331	246 998	307 852	795 032
On balance sheet liabilities	2 417 230	2 154 004	3 006 542	3 406 075	1 882 043	6 230 999	2 996 625	22 093 518
Off balance sheet	238 809	19 421	27 816	22 491	57 648	213 990	60 577	640 752
Total liabilities	2 656 039	2 173 425	3 034 358	3 428 566	1 939 691	6 444 989	3 057 202	22 734 270

The balances in the above table will not agree directly to the balances in the consolidated balance sheet as the table incorporates all cash flow on an undiscounted basis relating to both principal and those associated with all future coupon payments (except for trading liabilities and trading derivatives). Furthermore loan commitments are generally not recognised on the balance sheet. Trading liabilities and trading derivatives have been included in the 'demand' time bucket and not by contractual maturity because trading liabilities are typically held for short periods of time. For an unaudited analysis based on discounted cash flows please refer to pages 100 to 101.

Notes to the financial statements (continued)

At 31 March	Principal activity	Country of incorporation	Interest % 2011	Interest % 2010
45. Principal subsidiaries and associated companies – Investec plc				
Direct subsidiaries of Investec plc				
Investec 1 Limited	Investment holding	England and Wales	100.0%	100.0%
Investec Holding Company Limited	Investment holding	England and Wales	100.0%	100.0%
Indirect subsidiaries of Investec plc				
Investec Bank (Australia) Limited	Banking institution	Australia	100.0%	100.0%
Investec Holdings (UK) Limited	Holding company	England and Wales	100.0%	100.0%
Investec Bank plc	Banking institution	England and Wales	100.0%	100.0%
Investec Group (UK) PLC	Holding company	England and Wales	100.0%	100.0%
Investec Asset Finance PLC	Leasing company	England and Wales	100.0%	100.0%
Leasedirect Finance Ltd	Finance broker	England and Wales	75.0%	75.0%
Investec Finance plc	Debt issuer	England and Wales	100.0%	100.0%
Investec Group Investments (UK) Limited	Investment holding	England and Wales	100.0%	100.0%
Investec Bank (Channel Islands) Limited	Banking institution	Guernsey	100.0%	100.0%
Investec Bank (Switzerland) AG	Banking institution	Switzerland	100.0%	100.0%
Investec Trust Holdings AG	Investment holding	Switzerland	100.0%	100.0%
Investec Trust (Switzerland) S.A.	Trust company	Switzerland	100.0%	100.0%
Investec Trust (Jersey) Limited	Trust company	Jersey	100.0%	100.0%
Investec Asset Management Limited	Asset Management	England and Wales	100.0%	100.0%
Investec Ireland Limited	Financial services	Ireland	100.0%	100.0%
Investec Securities (US) LLC	Financial services	USA	100.0%	100.0%
Kensington Group plc	Financial services	England and Wales	100.0%	100.0%
Kensington Mortgages Limited	Financial services	England and Wales	100.0%	100.0%
Newbury Park Mortgage Funding Limited	Financial services	England and Wales	100.0%	100.0%
Rensburg Sheppards plc	Holding company	England and Wales	100.0%	47.1%
Investec Wealth & Investment Limited (formerly Rensburg Sheppards Investment Management Limited)	Stockbroking and portfolio management	England and Wales	100.0%	47.1%
St James's Park Mortgage Funding Limited	Financial services	England and Wales	100.0%	100.0%
Start Mortgages Limited	Financial services	Ireland	100.0%	66.4%
Investec Experien Pty Limited	Financial services	Australia	100.0%	100.0%
Guinness Mahon & Co Limited	Investment holding	England and Wales	100.0%	100.0%
All of the above subsidiary undertakings are included in the consolidated accounts				
The company has taken advantage of the exemption under section 410 (2) of the Companies Act 2006 by providing information only in relation to subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the financial statements. A complete list of subsidiary and associated undertakings will be included in the next Investec plc annual return filed with the registrar of companies.				
Principal associated companies				
Hargreave Hale Limited	Stockbroking and portfolio management	England and Wales	33.18%	35.0%

45. Principal subsidiaries and associated companies – Investec plc (continued)

Investec plc has no equity interest in the following special purpose vehicles which are consolidated on the basis of the group sharing in the risks and rewards associated with the entities:

Residential Mortgage Securities 16 plc
Residential Mortgage Securities 17 plc
Residential Mortgage Securities 18 plc
Residential Mortgage Securities 19 plc
Residential Mortgage Securities 20 plc
Residential Mortgage Securities 21 plc
Residential Mortgage Securities 22 plc
Kensington Mortgage Securities plc
Money Partners Securities 1 plc
Money Partners Securities 2 plc
Money Partners Securities 3 plc
Money Partners Securities 4 plc
Lansdowne Mortgage Securities No. 1 plc
Lansdowne Mortgage Securities No. 2 plc
Landmark Mortgage Securities No 1 plc
Landmark Mortgage Securities No 2 plc
Tamarin Securities Limited
Zebra Capital II Limited

Investec plc parent company accounts

Balance sheet

At 31 March £'000	Notes	2011	2010
Fixed assets			
Investments in subsidiary undertakings	b	1 584 528	1 302 646
Current assets			
Cash at bank and in hand			
– balances with subsidiary undertaking		9 093	71 574
– balances with other banks		968	1 047
Amounts owed by group undertakings		535 564	501 381
Tax		26 597	17 437
Other debtors		21	20
Prepayments and accrued income		116	445
		572 359	591 904
Total assets		2 156 887	1 894 550
Liabilities			
Bank loans	c	132 943	178 392
Amounts owed to group undertakings		779 709	780 175
Other liabilities		1 025	1 132
Accruals and deferred income		6 585	2 125
Total liabilities		920 262	961 824
Capital and reserves			
Called up share capital	d	162	148
Perpetual preference shares	d	151	151
Share premium account	d	1 058 993	931 923
Capital reserve	d	180 433	–
Capital redemption reserve	d	50	50
Retained earnings	d	(3 164)	454
Total capital and reserves		1 236 625	932 726
Total capital and liabilities		2 156 887	1 894 550

Approved and authorised for issue by the board of directors on 15 June 2011 and signed on its behalf by:

Stephen Koseff
Chief executive officer

Notes to Investec plc parent company accounts

a. Accounting policies

Basis of preparation

The parent accounts of Investec plc are prepared under the historical cost convention and in accordance with UK accounting standards.

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into Pounds Sterling at exchange rates at the balance sheet date. All foreign currency transactions are translated into Pounds Sterling at the exchange rate ruling at the time of the transaction. Forward foreign exchange contracts are revalued at the market rates ruling at the date applicable to their respective maturities. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the income statement.

Investments

Investments are stated at cost less any impairment in value.

Income

Dividends from subsidiaries are recognised when paid. Interest is recognised on an accrual basis.

Taxation

Corporate tax is provided on taxable profits at the current rate.

Company's own profit and loss account

The company has taken advantage of the exemption in section 408 of the Companies Act 2006 to not present its own profit and loss account.

Cash flow statement

The company has taken advantage of the exemption in Financial Reporting Standard 1 to not present its own cash flow statement. A cash flow statement, prepared under International Financial Reporting Standards, is included in the consolidated financial statements of the bank.

Financial instruments: disclosures

The company has taken advantage of the exemption in Financial Reporting Standard 29 to not present its own disclosures in respect of financial instruments as disclosures prepared in accordance with International Reporting Standards are included in the consolidated financial statements of the group.

Related party transactions

Transactions, arrangements and agreements involving directors and others are disclosed in note 42 to the group financial statements.

£'000	2011	2010
b. Investments in subsidiaries		
At beginning of year	1 302 646	1 234 571
Additions	548 122	104 000
Disposals	(266 240)	(35 925)
At end of year	1 584 528	1 302 646

On 25 June 2010, the company issued 37 907 652 shares at £4.76 each in consideration for the purchase of Rensburg Sheppards plc (RS) at a cost of £180.4 million. RS made a profit after taxation and non-controlling interests of £3.6 million in the period 1 April 2010 to 25 June 2010 and a profit after taxation and non-controlling interests of £20.0 million in the year ended 31 March 2010.

On 2 July 2010, RS was sold to Investec 1 Limited for £180.4 million settled with an issue of 18 044 000 Investec 1 Limited's ordinary shares of 0.1 pence each at a cost of £10 per share. No gain or loss was recognised on the sale.

On 24 September 2010, the company subscribed to 10 000 000 ordinary shares at £10 each of Investec 1 Limited at a cost of £100 million.

On 27 October 2010, Investec Finance (Jersey) Limited redeemed the company's holding of 22 million preference shares of £3.90 each.

On 27 October 2010, the company subscribed to 8 724 266 ordinary shares at £10 each of Investec 1 Limited at a cost of £87.2 million.

Notes to Investec plc parent company accounts (continued)

c. Bank loans

The two Schuldschein loans of €100 million each matured on 8 and 9 of March 2011 respectively. This debt was replaced by medium-term external currency borrowing of €105 million and USD70 million.

£'000	Ordinary share capital	Perpetual preference share capital	Share premium	Capital reserve	Capital redemption reserves	Profit and loss account	Total equity
d. Statement of changes in shareholders' equity							
At 1 April 2010	148	151	931 923	–	50	454	932 726
Issue expenses	–	–	(3 631)	–	–	–	(3 631)
Issue of ordinary shares	14	–	130 701	180 433	–	–	311 148
Share-based payment adjustment	–	–	–	–	–	1 495	1 495
Profit for the year	–	–	–	–	–	42 706	42 706
Dividends paid to preference shareholders	–	–	–	–	–	(2 262)	(2 262)
Dividends paid to ordinary shareholders	–	–	–	–	–	(45 557)	(45 557)
At 31 March 2011	162	151	1 058 993	180 433	50	(3 164)	1 236 625

Parent company profit and loss account

No profit and loss account is presented for the company as permitted by section 408 of the Companies Act 2006.

The company's profit for the year, determined in accordance with the Act was £42.7 million (2010: £31.1 million). There are no other recognised gains and losses other than in the profit and loss account.

e. Treasury shares

	2011	2010
Treasury shares held by Investec plc		
Number of Investec plc ordinary shares held by Investec plc	Number	Number
At 1 April	500 000	500 000
Purchase of own shares by Investec plc	75 000	–
Sale of own shares by Investec plc	(575 000)	–
At 31 March	–	500 000
	£'000	£'000
Market value of treasury shares	–	2 693

Treasury shares were being held in an employee benefit trust in relation to the Investec Share Matching Plan 2005.

Dividends on treasury shares have not been included in the profit and loss account.

f. Audit opinion

The audit opinion on the financial statements of the Investec plc parent company is included in the combined consolidated financial statements of Investec plc and Investec Limited for the year ended 31 March 2011.

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