ANNUAL REPORT 2012

Investec Bank plc
annual financial statements
2012

Out of the Ordinary®

Investec

Specialist Bank and
Asset Manager

Corporate information

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Registration number

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Investec directors

Refer to page 114.

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1

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 an international specialist bank and asset manager that provides a diverse range of financial products and services to a niche client base in three principal markets, the UK, South Africa and Australia as well as certain other countries. Investec focuses on delivering distinctive profitable solutions for its clients in three core areas of activity namely, Asset Management, Wealth & Investment and Specialist Banking.

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 an ability to be nimble, flexible and innovative. We do not seek to be all things to all people and aim to build well-defined, value-added businesses focused on serving the needs of select market niches where we can compete effectively.

Values

Distinctive performance

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

Dedicated partnership

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

Client focus

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

Cast-iron integrity

- Moral strength
- Risk consciousness
- Highest ethical standards

Philosophies

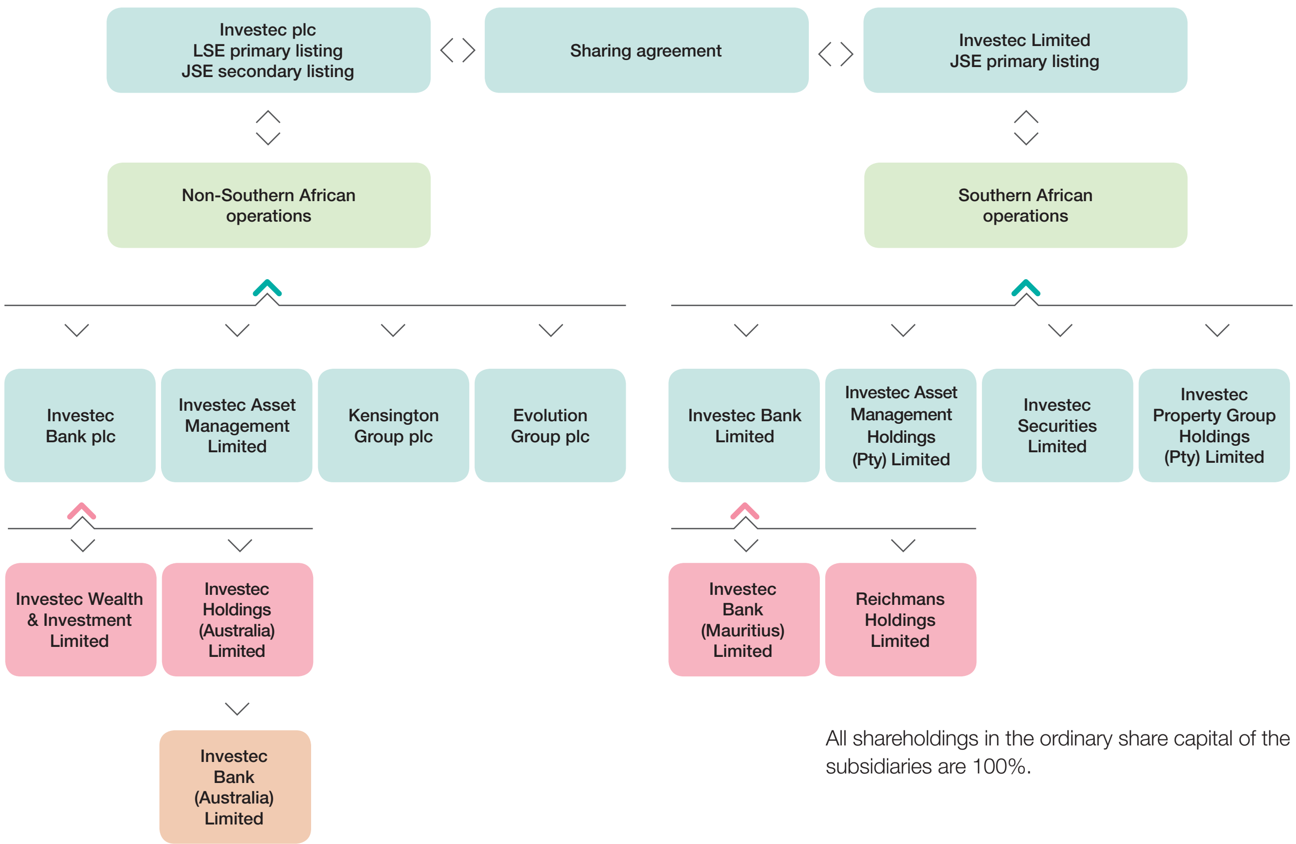
- Single organisation
- Meritocracy
- Focused businesses
- Differentiated, yet integrated
- Material employee ownership
- Creating an environment that stimulates extraordinary performance.

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

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

In terms of the DLC structure, Investec Limited is the controlling company of our businesses in Southern Africa and Mauritius and Investec plc is the controlling company of our non-Southern African businesses. Investec Limited is listed on the JSE Limited South Africa and Investec plc is listed on the London Stock Exchange. Investec Bank plc (referred to in this report as the bank) is the main banking subsidiary of Investec plc.

Our DLC structure and main operating subsidiaries as at 31 March 2012



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

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 Bank plc

Overview of the activities of Investec Bank plc

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

- Wealth & Investment (previously Rensburg Sheppards plc)
- Specialist Banking.

Introduction

The bank operates as a specialist bank and wealth manager in the UK, Europe and Australia.

Wealth & Investment

Investec Wealth & Investment provides investment management services to private clients, charities, intermediaries, pension schemes and trusts. Over 650 staff operate from offices across the UK and in Switzerland, and with combined funds under management of £13.9 billion (excluding the funds acquired from Evolution Group plc amounting to approximately £7.0 billion), Investec Wealth & Investment is one of the UK's leading providers of private client investment management services.

The European operations are conducted through Wealth Management Europe.

The services provided by Investec Wealth & Investment include:

- Investments and savings
  - Discretionary and advisory portfolio management services for private clients
  - Specialist investment management services for intermediaries, charities, pension schemes and trusts.
- Financial planning
  - 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
  - Inheritance tax planning.

Specialist Banking

The bank operates as a specialist bank, focusing on three key areas of activity: Corporate Advisory and Investment activities, Corporate and Institutional Banking activities and Private Banking activities. Each business provides specialised products and services to defined target markets. Our head office also provides certain group-wide integrating functions including risk management, information technology, finance, investor relations, marketing, human resources and organisational development. The head office is also responsible for our central funding.

Corporates/government/institutional clients

Corporate Advisory and Investment activities

- Advisory
- Institutional, research, sales and trading
- Principal investments
- Property activities

- Australia
- Hong Kong
- India
- UK and Europe
- USA

Corporate and Institutional Banking activities

- Treasury and trading services
- Specialised finance

- Australia
- Canada
- India
- UK and Europe

High income and high net worth private clients

Private Banking activities

- Transactional banking
- Lending
- Deposits
- Investments
- Advice

- Australia
- UK and Europe

Systems and infrastructure

Corporate Advisory and Investment activities

Corporate Advisory and Investment 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: advisory; institutional research, sales and trading and principal investments.

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

Property activities

Our focus is on property fund management and property investments.

Corporate and Institutional Banking activities

Corporate and Institutional Banking 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.

Private Banking activities

Private Banking 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, owner managers in mid-market companies and sophisticated investors.

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.

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Investec Bank (Australia) Limited

Investec Bank (Australia) Limited is a subsidiary of Investec Bank plc.

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 licence 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 NM Rothschild and Sons (Australia) Limited in July 2006. This created the opportunity to further its market presence in commodities and resource finance and treasury activities.

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

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

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

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

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

Financial review

Snapshot of the year and strategic focus

Highlights

Momentum in realigning our business model continues…

- The year under review has echoed the difficulties of the global macroeconomic environment with volatile markets and low levels of activity negatively impacting results, particularly in the second half of the financial year
- We have maintained revenues despite difficult markets with the quality of earnings improving substantially as we have continued to grow the proportion of revenues derived from capital light, non-lending activities
- The wealth management business accounts for 44.8% of the bank's operating profit (2011: negative 3.9%)
- The UK business benefited from improved margins, the acquisition of Rensburg Sheppards plc and lower impairments. The Australian business reported a loss as a result of additional impairments required in light of weakened residential property prices in certain sectors of the market
- Net interest income increased by 5.1% to £258.2 million and net fees and commissions increased by 73.0% to £313.3 million
- Investment income decreased by 21.9% to £110.7 million
- Impairments on loans and advances decreased by 8.0% with the credit loss charge improving from 1.98% at 31 March 2011 to 1.66%
- The bank has maintained a strong capital and liquidity position:
  - Tier 1 ratio of 11.5%
  - Cash and near cash balances rose 5.0% to £4.5 billion
  - Customer deposits increased by 7.5% to £11.1 billion
  - The ratio of loans and advances to deposits improved from 69.2% to 64.6%
  - Low gearing ratios, core loans and advances to equity fell to 4.5 times (2011: 4.6 times).

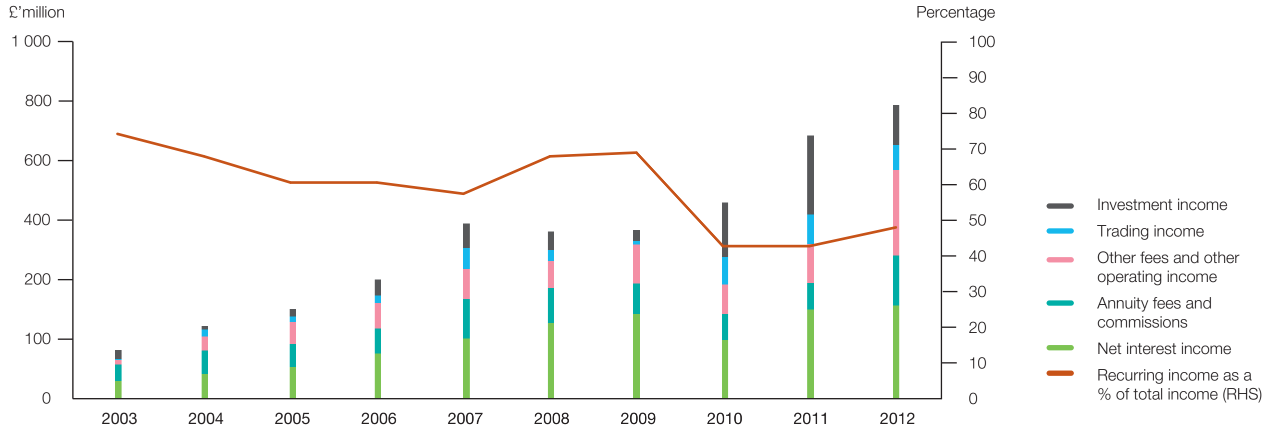
Financial features

	31 March 2012	31 March 2011	% change
Operating profit before amortisation of acquired intangibles, non-operating items, taxation and after non-controlling interests (£'000)	51 284	70 151	(26.9%)
Earnings attributable to ordinary shareholders (£'000)	18 745	46 830	(60.0%)
Cost to income ratio	73.1%	67.4%	
Total capital resources (including subordinated liabilities) (£'000)	2 369 408	2 251 387	5.2%
Total shareholders' equity (£'000)	1 726 246	1 648 254	4.7%
Total assets (£'000)	20 246 249	18 488 534	9.5%
Net core loans and advances (£'000)	7 712 000	7 629 145	1.1%
Customer accounts (deposits) (£'000)	11 103 365	10 329 009	7.5%
Cash and near cash balances (£'000)	4 484 747	4 270 813	5.0%
Funds under management (£'000)*	14 219 000	15 354 000	(7.4%)
Capital adequacy ratio	16.8%	16.1%	
Tier 1 ratio	11.5%	11.3%	

* *Excluding the funds acquired from Evolution Group plc amounting to approximately £7.0 billion.*

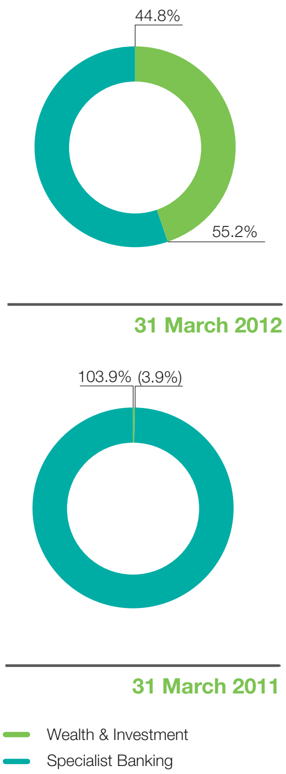
Diversified business model… continues to support a large recurring revenue base

Total operating income



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

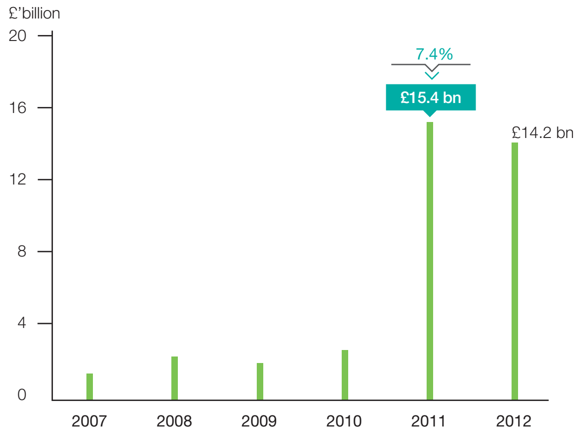
Contribution to earnings



Momentum in building our wealth management business continues…

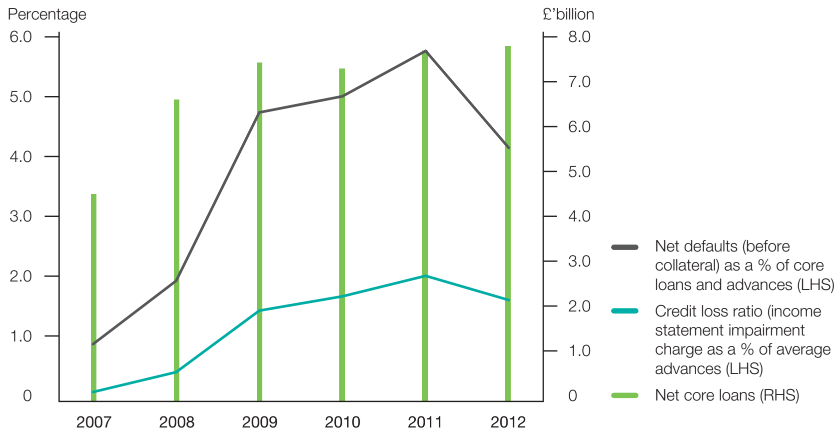
- Wealth & Investment benefited from a full year's contribution from the acquisition of Rensburg Sheppards plc.

Third party assets under management

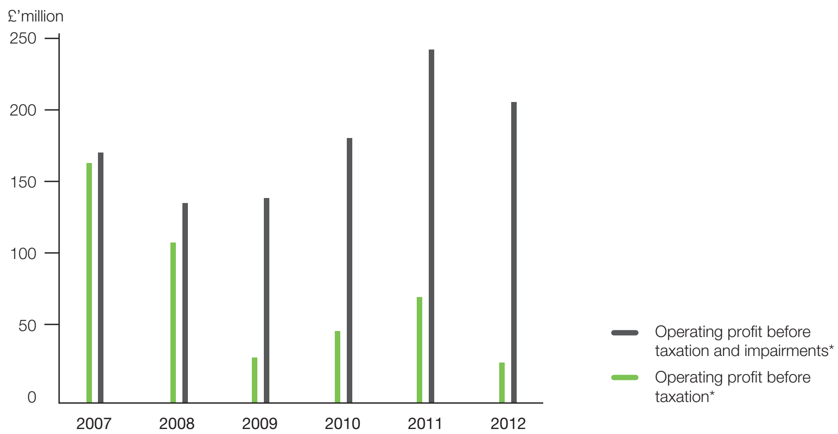


Specialist Banking held back by elevated impairments and a weaker performance from investment portfolios

Defaults and core loans



Specialist Banking operating profit*



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

- Impairments in the UK decreased from £140.3 million to £89.1 million, whilst impairments in Australia increased from £30.2 million to £67.9 million, resulting in a total decrease in impairments on loans and advances from £170.5 million to £157.0 million
- Since 31 March 2011, the default loan portfolio in Australia declined substantially due to a large portion of the portfolio being sold at the year end
- The UK reported defaults marginally higher than the prior year
- The credit loss charge as a percentage of average gross loans and advances has improved from 1.98% at 31 March 2011 to 1.66%
- The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounts to 4.11% (31 March 2011: 5.68%)
- The ratio of collateral to default loans (net of impairments) is at 1.09 times (31 March 2011: 1.27 times).

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 remains in place
- Continue to focus on:
  – Maintaining a high level of readily available, high quality liquid assets – representing 25% to 35% 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 64.6% (2011: 69.2%).

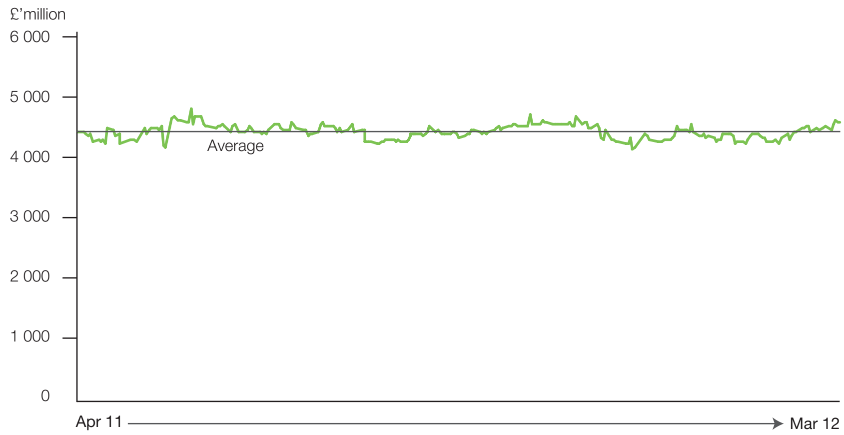
Sound capital and liquidity position maintained…

Capital adequacy and tier 1 ratios

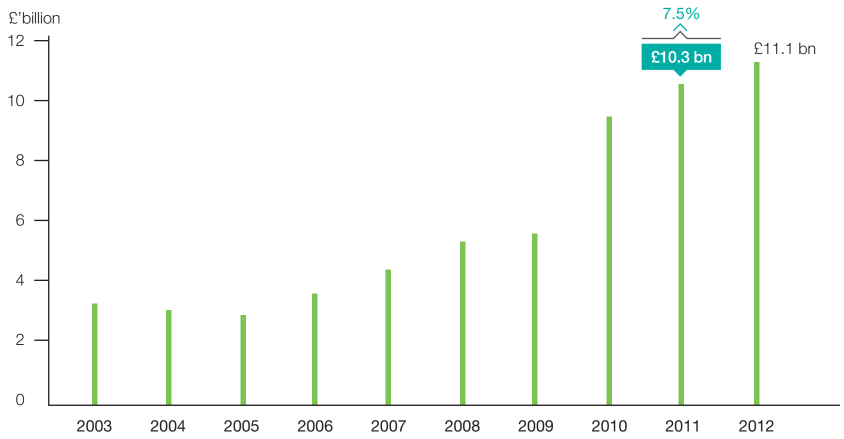
At 31 March 2012	Capital adequacy ratio	Tier 1 ratio
Investec plc	17.5%	11.6%
Investec Bank plc	16.8%	11.5%
Investec Bank (Australia) Limited	17.6%	14.6%

…and benefited from increased customer deposits and cash balances

Cash and near cash trend



Customer accounts (deposits)



Sustainability considerations

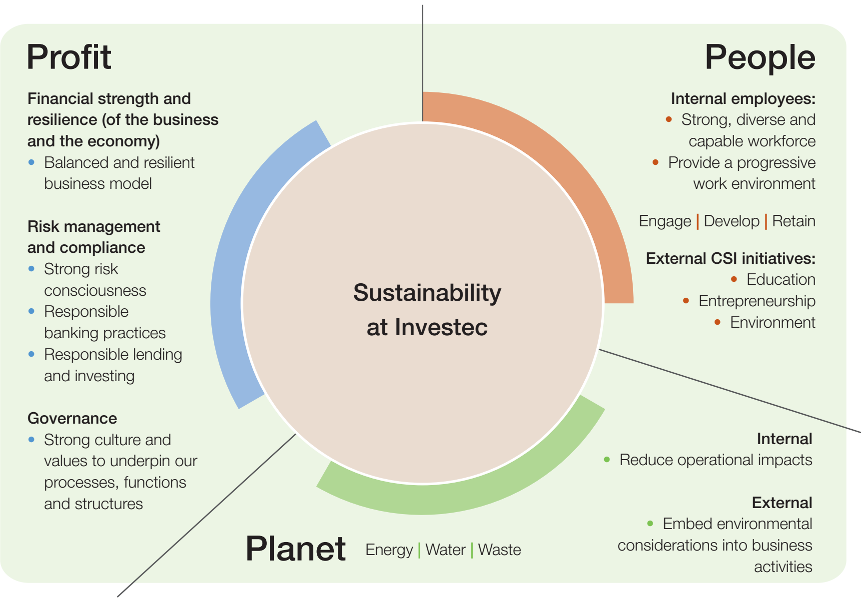
Our sustainability goals reflect our culture of continuous advancement and reaffirm our belief that sustainability in its broadest sense is about managing and positioning the group for the long term.

Investec's sustainability philosophy is based on the recognition that we are a specialist bank and asset manager driven by our commitment to our culture and values.

Guided by our purpose to create sustained long-term wealth, we seek to be a positive influence in all our core businesses and in each of the societies in which we operate. We do this by empowering communities through entrepreneurship and education and leveraging the value in our diversity.

We recognise the challenges that climate change presents to the global economy and we will consider supporting any meaningful activity that either reduces the negative impact or prolongs the life of our planet.

Sustainability for Investec is about endurance and the interdependence of the three key areas of profit, people and planet.



Highlights from the year

- Investec won the Social Impact category at the Business Charity Awards, for our work with the Bromley by Bow Centre, an internationally renowned charity which has earned a reputation as a dynamic social business that has transformed its community in east London over the last 25 years
- Investec was a finalist in the economic regeneration and community partnership categories at the 2011 Lord Mayor's Dragon Awards. These awards recognise the contributions made by London-based companies to their local communities
- Investec was placed in the top 5% overall and ranked third amongst the financial institutions in the first league tables of the Carbon Reduction Commitment Energy Efficiency Scheme
- Our Gresham Street office was awarded the Special Commendation Platinum Award in the City of London's Clean City Awards Scheme for 2011
- We published our Energy Management Plan for Gresham Street which sets the following targets on energy reductions: based on financial year 2009 reduction target of 15% in 2012 and 34% in 2020
- We completed the installation of smart energy meters across our Gresham Street offices, reducing our electricity usage by a further 6% during the period under review.

Sustainability at Investec is a key strategic issue and is about:

- Managing and positioning the group for the long term
- Building a sustainable business model that allows Investec to make a valuable contribution to society, to macro-economic stability and to our environment
- Developing a strong, diverse and capable workforce
- Growing and preserving clients' and stakeholders' wealth based on strong relationships of trust.

Dow Jones Sustainability Indexes
Member 2011/12

JSE JOHANNESBURG STOCK EXCHANGE
SRI Index

FTSE4Good

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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 activities with financial risk activities
- 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 10% of our issued share capital.

Doing the right thing

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

Investec group's long-term strategy

- Since inception we have expanded through a combination of organic growth and strategic acquisitions
- The internationalisation of Investec is based on the following strategy:
  - Following our customer base
  - Gaining domestic competence and critical mass in our chosen geographies
  - Facilitating cross-border transactions and flow
- Our strategy for the past 20 years has been to build a diversified portfolio of businesses and geographies to support clients (institutional, corporate and private individuals) through varying markets and economic cycles
- In order to create a meaningful and balanced portfolio we need proper foundations in place which gain traction over time.

Outlook

- In the face of challenging global market conditions, we continued to pursue our strategy of realigning the business model towards less capital intensive activities and concentrating on reducing legacy issues
- Our competitive position is strong with all platforms in place and our client franchise is robust
- We have the right people and skills to take advantage of opportunities in our identified niches, focusing on winning new clients and servicing existing clients in the best possible way
- The operating environment remains unpredictable and we continue to build on the solid foundation, driving organic growth in our chosen businesses whilst maintaining strong cost and capital discipline.

Our current strategic focus is to...

- Build low capital intensive revenue
- Tightly manage costs while still investing for the future
- Maintain appropriate levels of capital and liquidity
- Continue the path of implementing our single bank strategy to create additional operational efficiencies and better service our clients
- Complete integration in Wealth & Investment and continue internationalising the offering
- Capture trade and investment opportunities between developed and emerging economies.

As the financial year closed, the Euro area economy appeared to be showing some signs of stabilisation, albeit at very low levels with the Euro area economy likely to have contracted again in Q1 2012.

The commentary and analysis of Investec Bank plc's results for the year ended 31 March 2012 provides an overview of our financial performance relative to our results for the year ended 31 March 2011. The financial information discussed below is based on the period under review, and may not necessarily reflect the financial condition or results of the operations of the bank going forward.

An overview of the operating environment impacting our business

United Kingdom

Over the 2011/12 financial year, the UK economy remained weak. The latest statistics from the Office for National Statistics show the UK economy having reported only one quarter of growth, contracting in the remaining three quarters. As the year closed, UK GDP still stood 4.3% below its pre-recession peak. Seeking to support the UK economy onto some form of recovery footing, and having fended off calls for tighter policy as inflation trended upwards, the UK Monetary Policy Committee kept policy highly expansionary during the period under review. The official bank rate remained at 0.5% throughout the year, marking three years of record low rates in March 2012. Signs of a slowdown in the economy and a tightening in credit conditions resulted in the committee sanctioning further Quantitative Easing (QE) in October 2011. Originally the MPC voted to add a further £75 billion of asset purchases to take the target to £275 billion, but the Committee raised the QE target by another £50 billion in February 2012 to £325 billion. The UK's long-term sovereign credit rating remained at AAA according to all the main ratings agencies, but both Moody's and Fitch placed Britain on a negative outlook in the 2011/12 period. However, there was not a perceptible market reaction to this news with confidence aided by the Chancellor's continued tough emphasis on 'Plan A' for fiscal consolidation.

Eurozone

As the 2011/12 financial year got underway, the Euro area economy was showing signs of recovery, assisted by some settling in Euro crisis tensions. With inflation having been subject to upward pressures following increases in oil and commodity prices, the ECB Governing Council voted to raise its main refinancing rate by 25bps in both April and July 2011, to 1.5%. When the ECB voted to lift the refi rate in July the economic outlook had already begun to deteriorate rapidly, not helped by agreement on a second Greek bailout unravelling fairly soon after it was announced. Further, talk of private sector bondholder losses, subsequently enforced, also raised the level of unease. From June 2011, concerns over the vulnerability of various peripheral Euro area sovereign markets, especially Italy and Spain, also began to weigh more heavily on markets, triggering a sharp tightening in credit conditions through summer 2011 onwards. To help get the flow of credit moving again, and to assist banks in refinancing an estimated €240 billion of maturing liabilities in the first three months of 2012, the ECB held two three-year Longer-Term Refinancing Operations (LTROs), whose combined take-up exceeded €1 trillion. Indeed at the end of March 2012 the Eurosystem had over €750 billion of excess liquidity The second Greek bailout was eventually renegotiated and rubber stamped in March 2012, easing fears of an uncontrolled default by the Hellenic Republic. Sentiment was also stabilised towards the end of the financial year by Euro area authorities giving the go ahead to run the two rescue facilities, the European Financial Stability Facility and its replacement, the European Stability Mechanism, in tandem, thereby raising Europe's bailout capacity by €200 billion to €700 billion. As the financial year closed, the Euro area economy appeared to be showing some signs of stabilisation, albeit at very low levels with the Euro area economy likely to have contracted again in the first half of 2012. With Euro crisis risks continuing to loom large and with Spain and Italy still in the frame for further bouts of contagion, the Eurozone entered the new 2012/13 financial year on a weak and vulnerable footing.

Australia

As the 2011/12 financial year got underway, the Australian economy was recovering quickly from the floods that weighed heavily on the Q1 2011 growth outturn. In the third and fourth quarters the economy continued to expand, but at a more moderate pace than in Q2. Consumption and investment remained robust through the year, with the latter continuing to gain support from buoyant Asian resource demand. As fears over the Euro area debt crisis, and some signs of slowing growth in China risked weighing on growth in the period ahead, the Reserve Bank opted to add the safety net of a cut in the cash rate, reducing it by 25bps in November and December 2011 to 4.25%. A few nerves over possible upside risks to inflation, as oil prices began to track upwards again at the turn of 2012, put on ice any further moves to ease policy at the start of 2012. As the financial year closed the cash rate remained at 4.25%. The Australian Dollar exhibited periods of extreme strength at points during the period, exceeding the USD1.10 level in July 2011. It was then subject to selling pressure in October and November as risk-appetite took a hit; this took it below parity, but it subsequently closed the 2011/12 financial year at USD1.0350.

Consumption and investment remained robust through the year, with the latter continuing to gain support from buoyant Asian resource demand.

United States

The US economy continued to grow moderately through the 2011/12 financial year, with disruption from political fights over the US debt ceiling, and the impact of spring 2011's sharp increase in oil prices, weighing on growth, but not putting the brakes on recovery altogether. In the period under review US GDP surpassed its pre-recession peak, with the continued growth helping to bring the unemployment rate down from 9.0% in April 2011 to 8.2% in March 2012. Over the financial year as a whole, the US economy grew by 1.7%. However, housing market activity remained heavily depressed, with only a few signs of a modest increase in activity appearing at the turn of 2012. US monetary policy remained highly accommodating throughout the financial year, with the Federal Reserve having stayed nervous about the downside risks posed, particularly by the continuation of the Euro area sovereign debt crisis. Not content with the pace of improvement in the labour market and fearful of the Euro crisis, the Fed sought to ease policy by introducing written guidance into its policy statements in August 2011. The statements sought to convince markets that Fed policy would remain loose for a sustained period, with the wording of the statement in August implying the Federal funds target rate would remain close to current lows, of 0.0% – 0.25% until mid-2013. In January 2012, the Federal Reserve extended that language to imply that rates would remain low for even longer, until at least through late-2014.

Fears over the sluggishness of the US housing sector, and the extent to which this could weigh on the jobs recovery, may have been the decisive factor in encouraging the Fed to embark on 'Operation Twist' in September 2011. Under the programme, the Fed is selling USD400 billion of shorter-term Treasury securities and using the proceeds to buy longer-term Treasury securities, extending the average maturity of the Fed's security portfolio and aiming to put downward pressure on longer-term rates. As the final quarter of the 2011/12 financial year progressed, the US appeared to shift onto a firmer recovery footing, with survey data continuing to have firmed and with the jobs recovery somewhat brighter too. As the financial year drew to a close, the US outlook remained bright, but with the threat of an oil price increase weighing on consumer spending and growth, a continuing threat.

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

	Period ended 31 March 2012	Period ended 31 March 2011	% change	Average over the period: 1 April 2011 to 31 March 2012
Market indicators				
FTSE All share	3 003	3 068	(2.1%)	2 930
Australia All ords	4 420	4 929	(10.3%)	4 417
S&P 500	1 408	1 326	6.2%	1 279
Nikkei	10 084	9 755	3.4%	9 183
Dow Jones	13 212	12 320	7.2%	12 160
Exchange rates				
US Dollar/Euro	1.33	1.42	(6.3%)	1.38
Euro/Pounds Sterling	1.20	1.13	6.2%	1.16
Australian Dollar/Pounds Sterling	1.54	1.55	(0.6%)	1.52
US Dollar/Pounds Sterling	1.60	1.60		1.60
Rates				
UK overnight	0.48%	0.45%		0.52%
UK 10 year	2.20%	3.69%		2.63%
UK clearing banks base rate	0.50%	0.50%		0.50%
LIBOR – three month	1.03%	0.82%		0.94%
Reserve Bank of Australia cash target rate	4.25%	4.75%		4.55%
US 10 year	2.21%	3.47%		2.41%
Commodities				
Gold	USD1 667/oz	USD1 432/oz	16.4%	USD1 647/oz
Gas Oil	USD1 014/mt	USD993/mt	2.1%	USD960/mt
Platinum	USD1 639/oz	USD1 768/oz	(7.3%)	USD1 676/oz
Macroeconomic				
UK GDP (% change over the period)	0.3%	1.8%		
UK per capita GDP	24 031	23 362	2.9%	
Australia GDP (% change over the period)	2.6%	2.4%		
Australia per capita GDP (A$)	63 744	60 178	5.9%	

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 in the UK and Australia. We have a number of other distribution and origination channels which support our underlying core businesses for example in Canada, Channel Islands, Hong Kong, India, Ireland, Switzerland and the USA. We are organised as a network comprising two principal business divisions: Wealth & Investment and Specialist Banking.

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 – primarily reflected as
Wealth & 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
Specialist Banking			
	• Lending activities	• Rate environment • Size of portfolios • Clients' capital and infrastructural investments • Client activity	• Net interest income • Fees and commissions • Investment income
	• Cash and near cash balances	• Rate environment • Capital employed in the business and capital adequacy targets • Asset and liability management policies and risk appetite • Regulatory requirements	• Net interest income • Trading income arising from balance sheet management activities
	• 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 • Fees and commissions

An overview of our key income drivers (continued)

Business activity	Key income drivers	Income impacted primarily by	Income statement – primarily reflected as
Specialist Banking (continued)			
	• Investments made (including listed and unlisted equities; debt securities; investment properties) • Gains or losses on investments • Dividends received	• Macro- and microeconomic market conditions • Availability of profitable exit routes • Whether appropriate market conditions exist to maximise gains on sale • Attractive investment opportunities • Credit spreads	• Net interest income • Investment income
	• Advisory services	• The demand for our specialised advisory services, which, in turn, is affected by applicable tax, regulatory and other macro- and micro-economic fundamentals	• Fees and commissions
	• Derivative sales, trading and hedging	• Client activity • Market conditions • Asset and liability creation • Product innovation • Market risk factors, primarily volatility and liquidity	• Fees and commissions • Trading income arising from customer flow
	• Transactional banking services	• Levels of activity • Ability to create innovative products • Appropriate systems infrastructure	• Net interest income • Fees and commissions

Risks relating to our operations

An overview of key risks

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

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

Key risks	Reference
Credit and counterparty risk exposes us to losses caused by financial or other problems experienced by our clients	See pages 38 to 68
Liquidity risk may impair our ability to fund our operations	See pages 83 to 92
Our net interest earnings and net asset value may be adversely affected by interest rate risk	See pages 80 to 83
Market, business and general economic conditions and fluctuations could adversely affect our businesses in a number of ways	See pages 69 to 78
We may be unable to recruit, retain and motivate key personnel	See the Investec group's 2012 annual report
Employee misconduct could cause harm that is difficult to detect	See pages 92 to 95
Operational risk may disrupt our business or result in regulatory action	See pages 92 to 95
We may be vulnerable to the failure of our systems and breaches of our security systems	See pages 92 to 95
We may have insufficient capital in the future and may be unable to secure additional financing when it is required	See pages 96 to 104
The financial services industry in which we operate is intensely competitive	See pages 16 to 18
Legal and regulatory risks are substantial in our businesses	See pages 95 and 96
Reputational, strategic and business risk	See page 95
We may be exposed to pension risk in our UK operations.	See page 95

Additional risks and uncertainties not presently known to us or that we currently deem immaterial may in the future also negatively impact our business operations.

Overview

The bank posted a decrease in operating profit after non-controlling interests of 26.9% to £51.3 million (2011: £70.2 million). The balance sheet remains strong with a capital adequacy ratio of 16.8% (2011: 16.1%).

Unless the context indicates otherwise, all income statement comparatives in the review below relate to the results of the year ended 31 March 2011.

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

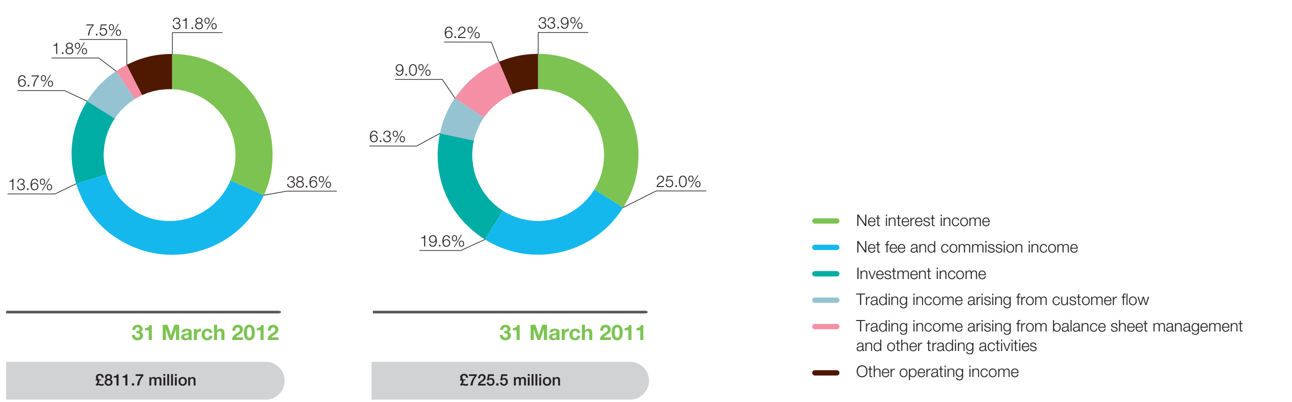
Total operating income before impairment losses on loans and advances of £811.7 million is 11.9% higher than the prior year. The various components of total operating income are analysed below.

£'000	31 March 2012	% of total income	31 March 2011	% of total income	% change
Net interest income	258 203	31.8%	245 722	33.9%	5.1%
Net fee and commission income	313 326	38.6%	181 076	25.0%	73.0%
Investment income	110 719	13.6%	141 833	19.6%	(21.9%)
Trading income arising from					
– customer flow	54 043	6.7%	46 198	6.3%	17.0%
– balance sheet management and other trading activities	14 860	1.8%	65 069	9.0%	(77.2%)
Other operating income	60 510	7.5%	45 590	6.2%	32.7%
Total operating income before impairment losses on loans and advances	811 661	100.0%	725 488	100.0%	11.9%

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 2012	% of total income	31 March 2011	% of total income	% change
Wealth & Investment	124 335	15.3%	11 143	1.5%	>100.0%
Specialist Banking	687 326	84.7%	714 345	98.5%	(3.8%)
Total operating income before impairment losses on loans and advances	811 661	100.0%	725 488	100.0%	11.9%

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



Net interest income

Net interest income increased by 5.1% to £258.2 million (2011: £245.7 million) largely as a result of improved margins on the bank's lending portfolios partially offset by higher subordinated debt costs.

A further analysis of interest received and interest paid is provided in the tables below.

For the year ended 31 March 2012 £'000	Notes	UK and Europe Balance sheet value	UK and Europe Interest received	Australia Balance sheet value	Australia Interest received	Total group Balance sheet value	Total group Interest received
Cash, near cash and bank debt and sovereign debt securities	1	5 319 852	46 508	1 010 485	59 939	6 330 337	106 447
Core loans and advances	2	5 763 693	352 669	1 948 307	186 654	7 712 000	539 323
Private Client		3 431 419	200 531	1 593 600	158 697	5 025 019	359 228
Corporate, institutional and other clients		2 332 274	152 138	354 707	27 957	2 686 981	180 095
Other debt securities and other loans and advances		2 171 109	123 958	81 860	4 310	2 252 969	128 268
Other interest earning assets	3	640 255	23 305	–	–	640 255	23 305
Total interest earning assets		13 894 908	546 440	3 040 652	250 903	16 935 561	797 343

For the year ended 31 March 2012 £'000	Notes	UK and Europe Balance sheet value	UK and Europe Interest paid	Australia Balance sheet value	Australia Interest paid	Total group Balance sheet value	Total group Interest paid
Deposits by banks and other debt-related securities	4	2 923 159	68 409	777 186	62 939	3 700 345	131 348
Customer accounts		9 566 762	205 229	1 536 603	83 708	11 103 365	288 937
Other interest bearing liabilities	5	508 668	24 605	526 946	33 569	1 035 614	58 174
Subordinated liabilities		596 807	56 336	46 355	4 345	643 162	60 681
Total interest bearing liabilities		13 595 396	354 579	2 887 090	184 561	16 482 486	539 140
Net interest income			191 861		66 342		258 203

For the year ended 31 March 2011 £'000	Notes	UK and Europe Balance sheet value	UK and Europe Interest received	Australia Balance sheet value	Australia Interest received	Total group Balance sheet value	Total group Interest received
Cash, near cash and bank debt and sovereign debt securities	1	4 543 615	18 941	1 005 685	52 918	5 549 300	71 859
Core loans and advances	2	5 553 704	316 869	2 075 441	187 343	7 629 145	504 212
Private Client		3 378 214	178 218	1 820 449	158 958	5 198 663	337 176
Corporate, institutional and other clients		2 175 490	138 651	254 992	28 385	2 430 482	167 036
Other debt securities and other loans and advances		1 760 322	131 817	133 466	6 746	1 893 788	138 563
Other interest earning assets	3	655 303	17 261	–	–	655 303	17 261
Total interest earning assets		12 512 944	484 888	3 214 592	247 007	15 727 536	731 895

Notes

1. *Comprises (as per the balance sheet) cash and balances at central banks; loans and advances to banks; reverse repurchase agreements; sovereign debt securities; bank debt securities.*
2. *Comprises (as per the balance sheet) loans and advances to customers; own originated loans and advances to customers securitised.*
3. *Comprises (as per the balance sheet) – other securitised assets.*
4. *Comprises (as per the balance sheet) deposits by banks; debt securities in issue; repurchase agreements.*
5. *Comprises (as per the balance sheet) liabilities arising on securitisation of own originated assets; liabilities arising on securitisation of other assets.*

Net interest income (continued)

For the year ended 31 March 2011 £'000	Notes	UK and Europe		Australia		Total group	
		Balance sheet value	Interest paid	Balance sheet value	Interest paid	Balance sheet value	Interest paid
Deposits by banks and other debt-related securities	4	2 181 385	40 908	1 000 122	56 577	3 181 507	97 485
Customer accounts		8 907 207	206 983	1 421 802	80 388	10 329 009	287 371
Other interest bearing liabilities	5	540 794	21 183	472 109	35 558	1 012 903	56 741
Subordinated liabilities		571 331	42 503	31 802	2 073	603 133	44 576
Total interest bearing liabilities		12 200 717	311 577	2 925 835	174 596	15 126 552	486 173
Net interest income			173 311		72 411		245 722

Notes

4. Comprises (as per the balance sheet) deposits by banks; deposits by banks – Debt securities in issue; repurchase agreements.

5. Comprises (as per the balance sheet) liabilities arising on securitisation of own originated assets; liabilities arising on securitisation.

Net fee and commission income

Net fee and commission income increased by 73.0% to £313.3 million (2011: £181.1 million). The bank benefited from the full year inclusion of the Rensburg Sheppards plc acquisition. Net fee and commission income in the Specialist Banking division increased by 15.9%, with however, transactional activity levels remaining mixed and below historic levels.

£'000	31 March 2012	31 March 2011	Variance	% change
Wealth & Investment	116 215	11 005	105 210	>100.0%
Specialist Banking	197 111	170 071	27 040	15.9%
Net fee and commission income	313 326	181 076	132 250	73.0%

Further information on net fees by type of fee and geography is provided in the tables below.

For the year ended 31 March 2012 £'000	UK and Europe	Australia	Total group
Fund management fees/fees for assets under management	98 688	5 674	104 362
Private client transactional fees	54 653	9 251	63 904
Corporate and institutional transactional and advisory services	157 335	23 531	180 866
Fee and commission income	310 676	38 456	349 132
Fee and commission expense	(32 431)	(3 375)	(35 806)
Net fees and commissions	278 245	35 081	313 326
Annuity fees (net of fees payable)	120 363	14 115	134 478
Deal	157 882	20 966	178 848

For the year ended 31 March 2011 £'000	UK and Europe	Australia	Total group
Fund management fees/fees for assets under management	8 504	7 580	16 084
Private client transactional fees	26 649	12 761	39 410
Corporate and institutional transactional and advisory services	123 171	19 697	142 868
Fee and commission income	158 324	40 038	198 362
Fee and commission expense	(13 397)	(3 889)	(17 286)
Net fees and commissions	144 927	36 149	181 076
Annuity fees (net of fees payable)	46 502	24 030	70 532
Deal	98 425	12 119	110 544

Investment income

Investment income decreased by 21.9% to £110.7 million (2011: £141.8 million) largely due to fewer realisations in the investment and fixed income portfolios.

£'000	31 March 2012	31 March 2011	Variance	% change
Wealth & Investment	(392)	701	(1 093)	(>100.0%)
Specialist Banking	111 111	141 132	(30 021)	(21.3%)
Investment income	110 719	141 833	(31 114)	(21.9%)

Further information on investment income is provided in the tables below.

For the year ended 31 March 2012 £'000	UK and Europe	Australia	Total group
Realised	110 164	(8 929)	101 235
Unrealised	7 182	(66)	7 116
Dividend income	1 847	521	2 368
Investment income	119 193	(8 474)	110 719

For the year ended 31 March 2012 £'000	Investment portfolio (listed and unlisted equities)	Debt securities (sovereign, bank and other)	Other asset categories	Total
UK and Europe	41 806	64 355	13 032	119 193
Realised	26 141	70 940	13 083	110 164
Unrealised	13 819	(6 586)	(51)	7 182
Dividend income	1 846	1	–	1 847
Australia	1 544	(334)	(9 684)	(8 474)
Realised	1 539	(784)	(9 684)	(8 929)
Unrealised	(66)	–	–	(66)
Dividend income	71	450	–	521

For the year ended 31 March 2011 £'000	UK and Europe	Australia	Total group
Realised	122 872	4 061	126 933
Unrealised	13 175	767	13 942
Dividend income	940	18	958
Investment income	136 987	4 846	141 833

For the year ended 31 March 2011 £'000	Investment portfolio (listed and unlisted equities)	Debt securities (sovereign, bank and other)	Other asset categories	Total
UK and Europe	43 886	87 907	5 194	136 987
Realised	29 521	88 157	5 194	122 872
Unrealised	13 425	(250)	–	13 175
Dividend income	940	–	–	940
Australia	915	1 578	2 353	4 846
Realised	130	1 578	2 353	4 061
Unrealised	767	–	–	767
Dividend income	18	–	–	18

Trading income

Trading income arising from customer flow increased by 17.0% to £54.0 million (2011: £46.2 million) whilst trading income arising from balance sheet management and other trading activities decreased by 77.2% to £14.9 million (2011: £65.1 million) due to profits realised on debt buy-backs in the prior year which were not repeated in the current year.

Arising from customer flow

£'000	31 March 2012	31 March 2011	Variance	% change
Wealth & Investment	(386)	(1 932)	1 546	80.0%
Specialist Banking	54 429	48 130	6 299	13.1%
Trading income arising from customer flow	54 043	46 198	7 845	17.0%

Arising from balance sheet management and other trading activities

£'000	31 March 2012	31 March 2011	Variance	% change
Wealth & Investment	(7)	(529)	522	98.7%
Specialist Banking	14 867	65 598	(50 731)	(77.3%)
Trading income arising from balance sheet management and other trading activities	14 860	65 069	(50 209)	77.2%

Other operating income

Other operating income includes associate income and income earned on an operating lease portfolio acquired during December 2010.

Impairment losses on loans and advances

Impairments in the UK decreased from £140.3 million to £89.1 million, whilst impairments in Australia increased from £30.2 million to £67.9 million, resulting in a total decrease in impairments on loans and advances from £170.5 million to £157.0 million. Since 31 March 2011, the default loan portfolio in Australia declined substantially due to a large portion of the portfolio being sold at the year end. The UK reported defaults marginally higher than the prior year. The credit loss charge as a percentage of average gross loans and advances has improved from 1.98% at 31 March 2011 to 1.66%. The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounts to 4.11% (31 March 2011: 5.68%). The ratio of collateral to default loans (net of impairments) is at 1.09 times (31 March 2011: 1.27 times). Further information is provided on pages 53 to 67.

Operating costs and depreciation

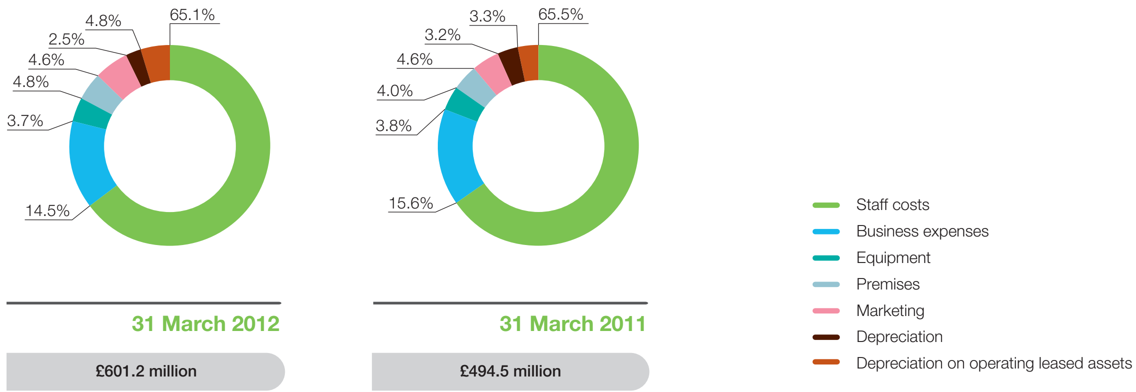
The ratio of total operating expenses to total operating income deteriorated from 67.4% to 73.1%.

Total expenses grew by 21.6% to £601.2 million (2011: £494.5 million) largely as a result of the costs associated with the restructuring of the Corporate Advisory and Investment division and the Australian business, the acquisition of Rensburg Sheppards plc, an increase in headcount in certain divisions and an increase in depreciation relating to operating leases acquired.

The various components of total expenses are analysed below.

£'000	31 March 2012	% of total expenses	31 March 2011	% of total expenses	% change
Staff costs (including directors' remuneration)	391 281	65.1%	323 746	65.5%	20.9%
Business expenses	87 428	14.5%	77 363	15.6%	13.0%
Equipment (excluding depreciation)	22 391	3.7%	18 725	3.8%	19.6%
Premises (excluding depreciation)	28 841	4.8%	19 568	4.0%	47.4%
Marketing expenses	27 687	4.6%	22 966	4.6%	20.6%
Depreciation	15 045	2.5%	15 719	3.2%	(4.3%)
Depreciation on operating leased assets	28 544	4.8%	16 447	3.3%	73.6%
Total expenses	601 217	100.0%	494 534	100.0%	21.6%

% of total expenses



Amortisation of acquired intangibles

Amortisation of acquired intangibles relates to the Wealth & Investment business and mainly comprises amortisation of amounts attributable to client relationships

Balance sheet analysis

Since 31 March 2011:

- Total shareholders' equity (including non-controlling interests) increased by 4.7% to £1.7 billion largely as a result of the issue of shares
- Total assets increased by 9.5% to £20.2 billion largely as a result of an increase in cash and near cash balances held.

Business unit review

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

Operating profit before acquired intangibles, non-operating items, taxation and after non-controlling interests

For the year ended 31 March 2012 £'000	UK and Europe	Australia	Total group
Wealth & Investment	22 997	–	22 997
Specialist Banking	94 168	(65 881)	28 287
Private Banking activities	2 895	(73 679)	(70 784)
Core Private Bank	7 745	9 602	17 347
Property loan portfolio being run off*	(4 850)	(83 281)	(88 131)
Property activities	769	3 351	4 120
Corporate Advisory and Investment activities	9 711	(3 157)	6 554
Corporate and Institutional Banking activities	120 385	12 956	133 341
Group Services and Other activities	(39 592)	(5 352)	(44 944)
Total group	117 165	(65 881)	51 284
Core business	122 015	17 400	139 415
Property loan portfolio being run off*	(4 850)	(83 281)	(88 131)
Non-controlling interest – equity			2 184
Operating profit			53 468

* *Residual property loan portfolios in Ireland and Australia which have been ring-fenced for collection and recovery and are being run-off.*

For the year ended 31 March 2011 £'000	UK and Europe	Australia	Total group
Wealth & Investment	(2 730)	–	(2 730)
Specialist Banking	72 175	706	72 881
Private Banking activities	(83 115)	(10 390)	(93 505)
Core Private Bank	(37 804)	19 276	(18 528)
Property loan portfolio being run off*	(45 311)	(29 666)	(74 977)
Property activities	376	7 155	7 531
Corporate Advisory and Investment activities	8 415	(6 716)	1 699
Corporate and Institutional Banking activities	130 311	9 860	140 171
Group Services and Other activities	16 188	797	16 985
Total group	69 445	706	70 151
Core business	114 756	30 372	145 128
Property loan portfolio being run off*	(45 311)	(29 666)	(74 977)
Non-controlling interest – equity			(9 751)
Operating profit			60 400

* *Residual property loan portfolios in Ireland and Australia which have been ring-fenced for collection and recovery and are being run-off.*

Wealth & Investment

Overview of performance and developments

- The division posted operating profit of £23.0 million and has benefited from a full year's contribution from the acquisition of Rensburg Sheppards plc which became effective 31 March 2011. Total funds under management amount to £13.9 billion (2011: £14.9 billion)
- Equity markets rose at the beginning of the financial year and the FTSE 100 exceeded the 6 000 mark during April 2011. For the first four months of the financial year, the FTSE 100 fluctuated around the region of 5 950, however, markets suffered a severe setback in early August, with sharp falls which saw the FTSE 100 dropping below 5 000. The period since then has witnessed some marked volatility, with substantial swings occurring on a day-to-day basis. These conditions have made investment decisions particularly difficult, which had a significant adverse impact on transaction volume and commission income from September 2011 until mid-January 2012. While significant risk has remained in the market, a period of relative calm in the final quarter of the financial year has seen the equity markets rising, with the FTSE 100 exceeding a level of 5 900 before falling back to end the financial year at 5 768
- While some clients view lower level of indices as being an investment opportunity, net new funds attracted into portfolios from existing clients has been notably depressed during most of the financial year, reflecting perceived risks of further volatility
- Following Investec plc's acquisition of the Evolution Group plc on 22 December 2011, the process of integrating the Williams de Broë business into the Wealth & Investment division commenced. While the integration process is ongoing, Investec Wealth & Investment Limited and Williams de Broë will continue to trade as separate entities. The integration is expected to complete during the 2012/13 financial year. Williams de Broë has approximately £7 billion funds under management, which are excluded from the total funds under management provided above
- Investec Wealth & Investment is in the process of expanding its offshore offering to clients, which will allow the business to exploit opportunities in the international and UK resident non-domiciled marketplace.

Looking forward

- The key focus of the new financial year will be to achieve the successful integration of the Williams de Broë business into the Wealth & Investment division. Several work streams are ongoing to manage the integration process and its related risks
- The future direction of equity markets continues to be uncertain. Fee income remains exposed to the actual level of the markets on the key quarterly billing dates of the financial year
- The prospect of continuing significant day-to-day volatility in the UK equity markets may lead to depressed transaction activity, potentially adversely affecting the level of commission income generated
- We continue to seek to achieve net organic growth in funds under management of 5% per annum
- The conclusions and proposals of the Retail Distribution Review (RDR) continue to be debated. The full impact that the RDR will have on the industry is yet to become apparent and we will continue to monitor developments closely over the course of the 2012/13 financial year as we progress towards the full implementation of the RDR within the industry

- The Financial Services Compensation Scheme (FSCS) raised a substantial levy on the investment management industry in the previous financial year as a result of the failure of an investment firm, Keydata. The FSCS has raised the possibility that the recent failure of MF Global may result in compensation being paid by the FSCS to the extent that further levies may be warranted. The FSCS has been unable to quantify the risk or extent of such further levies until more information regarding the losses and the likely number of eligible claimants becomes available.

Specialist Banking

Overview of performance and developments

- Specialist Banking decreased operating profit from £72.9 million to £28.3 million
- In the UK the division has benefited from improved margins and a growth in net fees and commissions, although levels of transactional activity remain mixed and below historic levels. Furthermore, impairments have decreased from £140.3 million to £89.1 million. Investment income has, however, been negatively impacted by fewer realisations in the fixed income business. In addition, in the prior year income earned on debt buy-backs was not repeated in the current year
- The Australian division has been impacted by a significant increase in impairments on the property loan portfolio, with the majority of these loans sold by the year end. The operation has continued to build its core businesses however, activity levels for the year remained muted.

Private Banking activities

Developments

UK and Europe

- Private Bank UK and Europe can be viewed in three distinct business categories: the core banking business, Ireland and the trust business
- The core banking business has experienced:
  - Improved financial performance due to an increase in operating income and reduced level of impairments
  - Increased activity levels within each of the specialist lending niches
  - Negligible overall lending book growth as redemptions have offset new activity
  - On the overall portfolio, risk has decreased and returns have risen as new deals have replaced pre-2008 transactions
  - Excellent growth in deposits, providing the group with a stable retail funding base and building the Investec franchise with a significant number of new private clients
  - Significant investment in product development and operational infrastructure to support the deposit raising business and the forthcoming launch of transactional banking
- In Ireland, the focus remains on managing the historical loan portfolio to minimise impairments. No new loans are being written within this geography
- In the trust business, the new business initiatives launched over the last year are beginning to have an impact on the revenue line. The restructuring, which took place at the beginning of the year, has reduced the cost base significantly.

Australia

- The business aims to deepen client relationships through the development of a transactional range of products:
  - The credit card offering under development was brought to pilot in March 2012 with the launch anticipated in June 2012
  - The transactional account is well into development with phase one to be launched in July 2012
  - These products will ensure that Investec remains at front of mind with the target clients
- The investment in additional skilled resources made in the prior period is beginning to pay dividends with increased productivity and output.

Looking forward

UK and Europe

The operating environment in the UK will remain challenging with low growth forecast. The European situation is creating high levels of uncertainty in the broader market. Within this operating environment, our objectives for the forthcoming period are:

- Regularly release new deposit products that allow us to provide a stable private client funding base to the group
- Provide a fresh alternative to our selected private clients with the launch of our transactional banking offering
- Build a strong franchise within the UK private client market
- Continue reducing our property concentration in the loan portfolio whilst maintaining the franchise
- Improve profitability in each of our specialist lending niches with a view to generating a satisfactory return on capital.

Australia

The operating environment in Australia is expected to remain difficult. Despite this, the outlook for this business remains positive with growth in market share and profits anticipated.

The key strategic objectives for the forthcoming period are:

- Continue to grow and dominate the medical professional market
- Deepen relationships and enhance profit through distribution of credit card and transactional products
- Broaden and diversify the deposit base
- Identify and grow into other niche markets.

Corporate Advisory and Investment activities

Developments

Advisory

UK and Europe

- The year was reasonably active across M&A, fundraising and debt advisory but mostly comprised a large number of smaller transactions
- We completed 24 M&A transactions with a value of £2.6 billion (2011: 17 M&A transactions with a value of £2.1 billion). The most notable transaction was the sale of Forth Ports for £760 million
- We completed 11 fundraisings, raising in aggregate £406 million (2011: eight fundraisings raising in aggregate £472 million). This included a £112 million fundraising for Chemring Group Plc and UK IPOs for Circle Holdings plc and Enteq Upstream plc
- With the integration of Evolution Securities we strengthened our offering within the oil, mining and property sectors and increased our number of quoted clients to 113 with an average market cap of £301 million.

Australia

- We have executed a number of advisory transactions and the pipeline is encouraging
- We have a highly experienced team well positioned to drive the business going forward
- The outlook for M&A is improving with transaction volume increasing and lending markets reopening
- 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 and increase market share significantly
- The challenging and volatile market conditions have led to higher loss ratios and reduced profitability across the trading books
- The integration of Evolution Securities has strengthened our research offering in oil and mining and added property as a new sector, while enhancing our sales trading and market making capability. We also gained new teams, namely Special Situations Sales and RSP, who provide broking services to retail brokers
- During the year we employed a closed end funds team, comprising some nine individuals who specialise in the broking of listed closed end funds.

Australia

- The Australian institutional securities business focuses on resources and is currently implementing strategies to build out and integrate corporate finance, securities and capital markets offerings in this sector.

Principal investments

Australia

- Private Equity is focused on managing and maximising the value of the existing investments in the private equity funds. As markets improve, subject to achieving appropriate value, Private Equity will look to progressively realise the remaining investments and return funds to investors
- The direct investments business is active in sourcing private equity investments for the bank and, where appropriate, to selected private clients on a syndication basis.

Property activities

UK and Europe

- The indirect property investment business has been transferred to Investec Asset Management
- We continue to be joint managers with GLL for the Investec GLL Global Special Opportunities Real Estate Fund and search for suitable acquisition opportunities.

Australia

- The Investec Property Funds have continued to perform well with strategies in place for their future realisation as we are in the process of returning capital and profits to our investors
- The portfolio of distressed loans that we acquired is performing in line with expectations, with assets being realised at a profit and for the remainder of the portfolio strong returns are anticipated.

Looking forward

Advisory

- The pipeline is positive in the UK, M&A and fundraising activity is dependent on market conditions
- 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

- The outlook in UK and Europe for the next 12 months remains challenging, however the pipeline is positive. With the strengthening of our research, sales and trading capability and the introduction of new revenue streams we are well placed to grow revenues.

Principal investments

- The Private Equity business in Australia is actively pursuing divestment opportunities for its existing portfolio. The companies in the direct investments portfolio are trading well and are on target to execute their growth plans. The outlook remains positive for these investments
- The team is focusing on sourcing new opportunities for the bank and high net worth clients. There has been an increase in both the quantity and quality of investment opportunities.

Property activities

- Notwithstanding the uncertain outlook in the short term, we believe that the prospects for Investec Property remain positive. We have good pipeline for development and there are opportunities to convert and refurbish existing holdings.

Corporate and Institutional Banking activities

Developments

Treasury and trading services

UK and Europe

- The treasury products and distribution desks have shown increased growth and profitability as the client base has grown and product offerings have broadened
- The structured equity retail distribution platforms are well established and we have recently marketed launch 33 in the UK market. We are currently one of the top two retail structured product issuers in the UK market and have recently won a number of awards for our efforts in this area.

Australia

- The central treasury was separated from the derivative sales and trading business which is now called fixed income, currencies and commodities (FIC)
- Our operational areas have been amalgamated and streamlined so there is now one support team for all treasury and markets business.

Specialised finance

UK and Europe

- The structured finance business remains very active, especially in aircraft finance.
- The credit investments and trading business has continued to take advantage of the condition of the credit markets through its fixed income investments and trading operations
- 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

- We successfully established a debt capital markets business which has been integrated with the Evolution Group, with recent successes in the retail bond market, our combined offering makes us number one in this market
- We have recently successfully closed our first securitisation of our own originated prime residential mortgages. We continue to cautiously originate mortgages in this prime market space and are looking to selectively extend our product range
- The asset finance business continues to grow. Outstanding performance from the Masterlease book purchase was demonstrated during the period
- We successfully built an efficient corporate and financial institutional distribution capability in the setting up of the Financial Markets Group.

Australia

- We have started two new business streams, asset finance and social infrastructure investment and absorbed two businesses from other parts of the bank, being structured real estate finance and growth and acquisition finance.

Looking forward

UK and Europe

- The economic outlook remains uncertain with the year ahead remaining challenging
- We continue to build a balanced business model, where we can switch easily between primary and secondary markets
- The regulatory environment is challenging and creates uncertainty
- The business is well positioned to grow significantly from current levels as market conditions improve.

Australia

- Our treasury team will continue to manage the funding and liquidity of the bank in a conservative manner. We remain one of the most liquid banks in Australia
- Our specialised finance team has a solid pipeline of transactions and we continue to grow each of our finance activities.

4

Risk and governance

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
- Coordinate risk management activities across the organisation, covering all legal entities and jurisdictions
- Give the boards reasonable assurance that the risks we are exposed to are identified and, to the best extent possible, managed and controlled
- Run appropriate risk committees, as mandated by the board.

Risk disclosures provided in line with the requirements of International Financial Reporting Standard 7 Financial Instruments: Disclosures (IFRS 7) and disclosures on capital required by International Accounting Standard 1: Presentation of Financial Statements (IAS 1) are included within this section of the annual report (pages 34 to 105) with further disclosures provided within the financial statements section (pages 135 to 238). All sections, paragraphs, tables and graphs on which an audit opinion is expressed are marked as audited.

Philosophy and approach

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 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 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.

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

This section should be read in conjunction with, and against the background provided in, the overview of the operating environment section on pages 16 to 18.

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 predetermined targets above a risk and capital weighted return. This model has been consistently applied within the group for in excess of ten years
- Credit and counterparty exposures to a select target market; our risk appetite continues to favour lower risk, income-based lending, with credit risk taken over a short to medium term. Exposure is taken against defined target clients displaying sound financial strength and integrity, a core competency and an established track record. Impairments in the UK decreased from £140.3 million to £89.1 million, whilst impairments in Australia increased from £30.2 million to £67.9 million, resulting in a total decrease in impairments on loans and advances from £170.5 million to £157.0 million. Since 31 March 2011, the default loan portfolio in Australia declined substantially due to a large portion of the portfolio being sold at the year end. The UK reported defaults marginally higher than the prior year. The credit loss charge as a percentage of average gross loans and advances has improved from 1.98% at 31 March 2011 to 1.66%. The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounts to 4.11% (31 March 2011: 5.68%)
- Limited exposure to rated and unrated structured credit investments; representing approximately 3.0% of total assets

- No exposures to peripheral European sovereign debt and limited private client and corporate client exposures to peripheral Europe amounting to approximately 1.5% of total assets. In addition the group has certain branch-related activities in Ireland, with total assets representing 1.7% of group assets
- A low leverage (gearing) ratio of 11.7 times
- A low level of net assets and liabilities exposed to the volatility of IFRS fair value accounting; with level 3 assets amounting to 2.3% of total assets
- Low equity (investment) risk exposure; within total investments comprising 2.3% of total assets
- Modest proprietary market risk within our trading portfolio. Value at risk and stress testing scenarios remain at prudent levels
- Potential losses that could arise in our trading book portfolio when stress tested under extreme market conditions (i.e. per extreme value theory) amount to less than 0.3% of total operating income
- A high level of readily available, high quality liquid assets; cash and near cash of £4.5 billion, 30.5% 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 with our banks in the UK and Australia meeting Basel III liquidity requirements
- Healthy capital ratios; we have always held capital well 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.

Investec continues to maintain a sound balance sheet with low leverage.

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 44 and 45, page 78 and pages 90 and 91), with a high level geographic summary of the most salient aspects provided below.

UK and Europe

Credit risk

The year in review remained challenging against a difficult economic background. The rebalancing of our existing portfolio away from property collateralised lending activity has led to an increase in non-property related private client and corporate lending. Core loans and advances increased marginally by 3.8% to £5.8 billion, primarily as a result of a cautious approach in accepting new loan exposures and a conscious effort to rebalance our existing portfolio mix. Default loans (net of impairments) have increased from 4.24% to 4.93% of core loans and advances and the credit loss ratio has improved from 2.13% to 1.23%, largely as a result of a decrease in impairments in our Private Client division.

Traded market risk

In the UK there has been continued growth in client activity across the interest rate and foreign exchange corporate sales desks. The structured equity desk's retail product sales have remained strong and they continue to develop their product range. On the trading side the interest rate and foreign exchange trading desks performed strongly over the year, despite the difficult environment.

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 7.3% from 1 April 2011 to £9.5 billion at 31 March 2012. Good growth was experienced in the bank's corporate and structured equity deposit book, whilst the Private Client division slowed its intake of deposits. Average cash and near cash balances amounted to £3.5 billion during the year.

Australia

Credit risk

During the year core loans and advances to customers decreased by 6.1% to A$3 billion largely as a result of the sale of the majority of our non-core property development finance portfolio. Our lending focus remains predominantly through selective growth within the professional finance business unit which provides finance to targeted members of the medical and accounting professions and selective growth within our other specialised finance portfolios. The Australian business reported a significant increase in the credit loss ratio from 1.53% to 3.34% as additional impairments were required in light of weakened residential property prices in certain sectors of the market. The ratio of default loans (net of impairments) to core loans and advances improved from 9.54% to 1.70% as a result of the sales mentioned above.

Traded market risk

Australian trading activity remains modest, with limited client flow activity and difficult foreign exchange and interest rate trading environments.

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$1.4 billion.

Salient features

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

	31 March 2012	31 March 2011
Net core loans and advances (£'million)	7 712	7 629
Gross defaults as a % of gross core loans and advances	6.11%	7.90%
Defaults (net of impairments) as a % of net core loans and advances	4.11%	5.68%
Net defaults (after collateral and impairments) as a % of net core loans and advances	–	–
Credit loss ratio*	1.66%	1.98%
Structured credit investments as a % of total assets	3.02%	3.29%
Banking book investment and equity risk exposures as a % of total assets	2.26%	1.39%
Traded market risk: one-day value at risk (£'million)	0.6	1.1
Cash and near cash (£'million)	4 485	4 271
Customer accounts (deposits) (£'million)	11 103	10 329
Core loans to equity ratio	4.5x	4.6x
Total gearing/leverage ratio**	11.7x	11.2x
Core loans (excluding own originated assets which have been securitised) to customer deposits	64.6%	69.2%
Capital adequacy ratio	16.8%	16.1%
Tier 1 ratio	11.5%	11.3%

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

** *Total assets to total equity.*

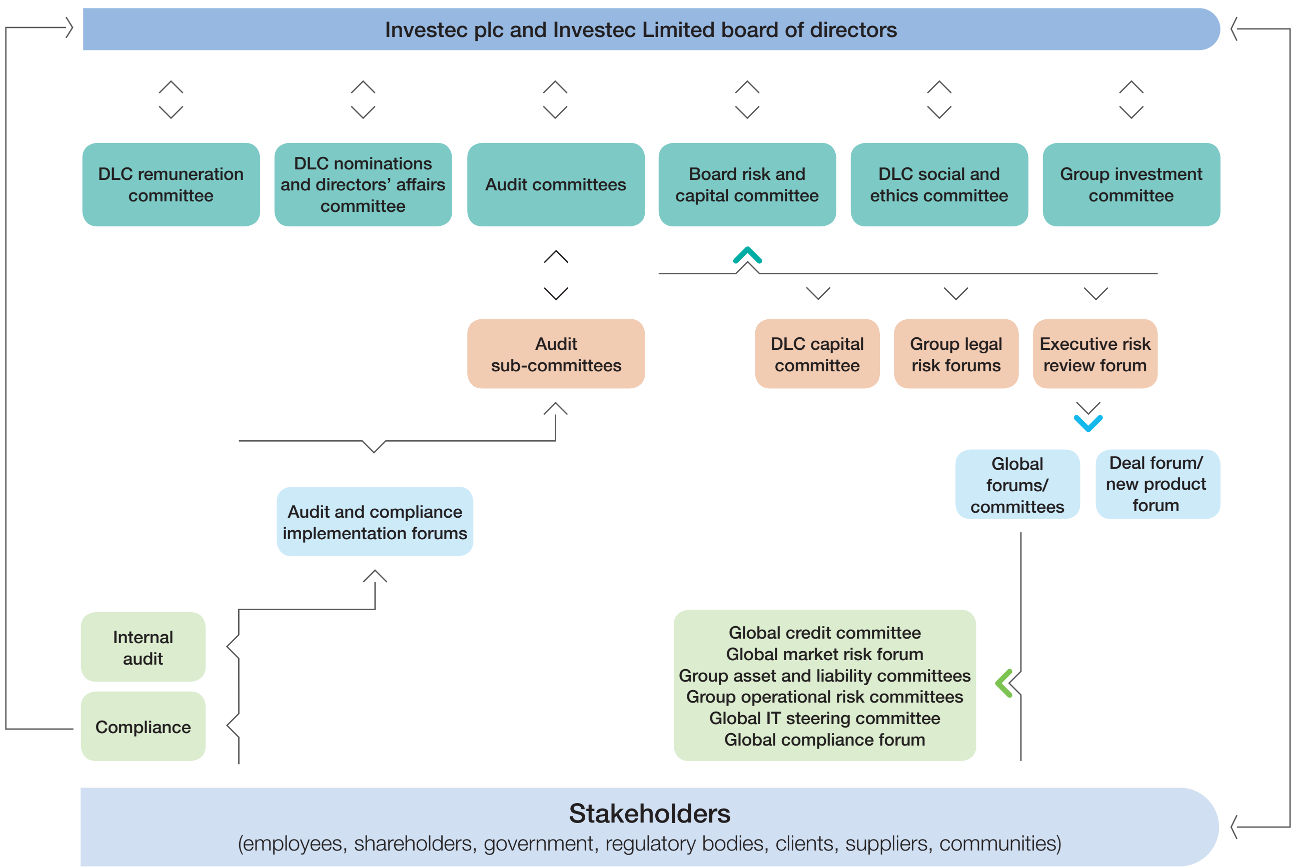
An overview of key risks

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 21. The sections that follow provide information on a number of these risk areas.

Additional risks and uncertainties not presently identified by us or that we currently deem immaterial may in the future also negatively impact our business operations.

Risk management framework, committees and forums

A number of committees and forums identify and manage risk both at 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. In terms of our definition, settlement debtors receivable in the short term (i.e. less than three days) are excluded from credit and counterparty risk due to market guaranteed settlement mechanisms
  - 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 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 for private clients.

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 assume exposure 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

There is a preference for primary exposure in the group's three main operating geographies i.e South Africa, UK and Australia. The group will accept exposures where we have a branch/banking business. The group will also tolerate exposures to other countries (Sub-Saharan) where it has core capabilities.

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 page 68 for further information).

Target clients include high net worth individuals, certain professionally qualified individuals, high income earning individuals, corporates, state owned enterprises and banks. Corporates must have scale, relevance, experienced management, able board members and strong earnings/ cash flow. Interbank lending is largely reserved for those banks and institutions in the group's core geographies of activity, which are systemic and highly rated. Direct exposures to cyclical industries and start-up ventures 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 72 and 73 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 the 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, the 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) are increasing and require a specialised understanding of the risk factors, due to both 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 regard 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 niche 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 Client and Corporate Client activities, although some credit and counterparty risk does arise in other businesses.

Private Client activities

Our Private Client activities take place in the UK (mainly London), a branch in Ireland and banking businesses in the Channel Islands and Switzerland. Credit risk arises from a number of activities which we undertake which are explained in detail below.

The structured property finance area provides senior debt and other 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 focus on tenant quality for commercial assets. Debt service cover ratios are a key consideration in the lending process supported by reasonable loan to security value ratios. 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 £20 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, accounts receivable, inventory, plant and machinery. We also provide advances against cash flow or other assets such as committed income or rights.

Specialised Lending provides structured credit facilities to high net worth individuals and their controlled entities to facilitate value creation opportunities. The team employs specialist bankers focusing on the private equity, media/music, sports, legal services and family office sectors. Facilities are structured around each client's particular requirements. Risk is mitigated through sector expertise, client quality and certainty of serviceability.

An analysis of the private client loan portfolio and asset quality information is provided on pages 66 and 67.

Corporate Client activities

The bulk of Corporate Client activities are conducted from London and Ireland. As part of the daily management of liquidity, the treasury function places funds with central banks 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 creditworthiness.

Our trading portfolio consists of positions in interest rates, foreign exchange and equities. 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, corporate lending and structured credit and securitisation 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 Corporate Client division are concentrated in the UK and to a lesser extent 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 projects themselves with a high degree of due diligence around both the delivery risks and the cash flow to repay any facilities
- Resource Finance: Resource mining transactions considered in the credit decision process must have provable reserves and strong cash flows
- Credit investments and trading: arranging and execution of Investec securitisations, and credit investments and trading in securitisations (both as principal and as broker)
- Residential Mortgage Origination and securitisation: origination of target client assets
- Corporate loans: originate and participate in senior debt facilities, covering medium to large corporates. The average counterparty exposure is approximately £7.5 million per entity, giving portfolio diversity.

An analysis of the corporate client loan portfolio and asset quality information is provided on pages 66 and 67.

Investment Banking activities

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 fair value losses on the underlying security.

Credit and counterparty risk in Australia

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

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

An analysis of the private client and corporate client loan portfolios and asset quality information is provided on pages 66 and 67.

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 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 page 53). The impairment definitions and guidelines are consistent with IFRS. IFRS differs from the requirements laid out in the 'International Convergence of Capital Measurement and Capital Standards' of the Basel II framework which has been adopted by the banking regulators in all of the locales in which we have operations. IFRS focuses on the concept of incurred loss, whereas Basel II centres on the concept of expected loss. The reconciling differences are primarily due to the fact that IFRS impairments only reflect a decrease in the value of assets with credit risk where a 'loss trigger event' has occurred, and only that portion of the expected loss which has actually been incurred at the reporting date. A loss trigger event is an event which exhibits a high correlation to the crystallisation of loss.

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

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

Collateral is assessed with reference to the sustainability of value and the likelihood of realisation.

4

Credit risk mitigation Audited

Acceptable collateral generally exhibits characteristics that allow for it to be easily identified and appropriately valued.

The bulk of collateral taken from the Private Client division 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. 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 of every commercial property offered as collateral for a lending facility before advancing funds. Revaluations of commercial properties held as collateral are undertaken at the discretion of the relevant credit committee. Residential properties are valued by desktop valuation and/or 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
- There is the intention and ability 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
- Market practice considerations.

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

An analysis of collateral is provided on page 68.

Credit and counterparty risk year in review

UK and Europe

In the year under review ongoing concerns over the vulnerability of various peripheral Euro area sovereign markets, especially Portugal, Italy, Greece and Spain, also began to weigh more heavily on markets, triggering a sharp tightening in credit conditions. Near the turn of the calendar year, conditions were eased by the European Central Bank (ECB) providing in excess of €1 trillion of three year liquidity via two long-term refinancing operations (LTROs); an agreement on the second Greek bailout; and signs that the Euro area and global authorities were taking steps to bolster the resources which could be made available to embattled Eurozone markets.

Against this difficult economic background a rebalancing in the lending portfolios has been in process during the year under review. Our lending activity in structured property lending has been significantly reduced and we have proactively managed property collateralised exposures down. The decrease in exposure to property collateralised assets has mainly been achieved through a reduction in higher risk planning and development lending. Opportunistic new transactions secured by property will continue to be pursued only if the merits of the transaction are justified and the appropriate returns for assuming the additional exposure are achieved. Lending supported by proven cash flow rather than asset value propositions continues to be favoured. Most property collateralised assets are located in the UK. Our exposure to Irish domiciled assets has been under intensive management for the past three years. Non-property collateralised lending as a percentage of gross credit exposures has increased. The trend in reducing exposure to property collateralised assets is expected to continue for some time as our asset mix rebalances.

Core loans and advances remained relatively static year-on-year with only a marginal increase of 1.6% for total private client lending activity. The rebalancing of our existing portfolio away from property collateralised related activity has led to an increase in non-property private client and corporate lending.

Default loans (net of impairments) have increased from 4.24% to 4.93% of core loans and advances. The credit loss ratio has improved from 2.22% to 1.23%. Gross default loans (before collateral and impairments) in the private client activities have risen from 9.41% at 31 March 2011 to 9.88% at 31 March 2012. The UK and Channel Islands businesses have shown a deterioration in gross default loans from 3.9% to 5.3% for the year. The Irish branch property collateralised portfolio continues to remain under intense active management but has shown no sign of further deterioration during the year.

Defaults in corporate loans were higher than in 2011. Activity levels in the first half of 2012 were strong, but dropped off in the second half of the financial year when the Eurozone crisis took hold.

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

Australia

As part of year-end reporting at 31 March 2011, Investec Australia indicated its objective to divest and exit non-core businesses unlikely to provide growth opportunities, and/or cease to fall within the framework of tightened credit risk. This resulted in closing our property development finance business, including the sale of our default loan book. To reflect this in a meaningful way, results have been allocated between ongoing core businesses and the property development finance business whose loan assets were substantially sold or recovered.

Credit risk – regulatory considerations

In order to enhance risk coverage, and in an attempt to capture the risk of the large mark to market losses incurred by many large financial institutions during the financial crisis where credit spreads on debt instruments widened substantially even without deterioration in the credit quality and ratings of the counterparties, the Basel Committee on Banking Supervision (BCBS) has introduced an additional capital charge on the over the counter (OTC) derivative portfolio of the bank. This charge is referred to as Credit Valuation Adjustment (CVA).

Further significant ratios required for disclosure in the future will include the Leverage Ratio (a measure of qualifying capital to both on- and off-balance sheet exposure pre the application of any credit conversion factors). Together with the other major banks in South Africa, Investec has been participating in a global Quantitative Impact Study (QIS) in order to gauge the impact of these and other regulatory changes being proposed by the BCBS in the Basel III framework.

In Europe, the CRD IV package is being drafted, and the FSA is expected to publish revised rules to CRD IV later in 2012. In line with Investec's prudent risk management and governance frameworks, we 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 34 to 45 describe where and how credit risk is assumed in our operations. The tables that follow provide an analysis of credit and counterparty exposures.

An analysis of gross credit and counterparty exposures

Credit and counterparty exposures increased by 1.1% to £16.9 billion largely as a result of an increase in cash and near cash balances partially offset by a decrease in off-balance sheet exposures. Cash and near cash balances increased by 5.0% to £4.5 billion and are largely reflected in the following line items in the table below: cash and balances at central banks, loans and advances to banks, sovereign debt securities.

Audited £'000	31 March 2012	31 March 2011**	% change	Average*
Cash and balances at central banks	1 835 820	1 142 538	60.7%	1 489 179
Loans and advances to banks	863 540	750 463	15.1%	807 001
Reverse repurchase agreements and cash collateral on securities borrowed	522 180	1 399 733	(62.7%)	960 956
Sovereign debt securities	1 647 271	847 880	94.3%	1 247 576
Bank debt securities	824 552	1 335 462	(38.3%)	1 080 007
Other debt securities	166 062	165 519	0.3%	165 791
Derivative financial instruments	653 160	543 909	20.1%	598 534
Securities arising from trading activities	250 071	379 927	(34.2%)	314 999
Loans and advances to customers (gross)	7 340 042	7 328 725	0.2%	7 334 384
Own originated loans and advances to customers securitised (gross)	536 297	484 163	10.8%	510 231
Other loans and advances (gross)	1 293 498	930 590	39.0%	1 112 044
Other securitised assets (gross)	34 800	44 623	(22.0%)	39 712
Other assets	2 390	183 804	(98.7%)	93 097
Property, plant and equipment	19 761	64 713	(69.5%)	42 237
Total on-balance sheet exposures	15 989 444	15 602 049	2.5%	15 795 747
Guarantees^	204 928	214 555	(4.5%)	209 742
Contingent liabilities, committed facilities and other	683 075	879 640	(22.3%)	781 358
Total off-balance sheet exposures	888 003	1 094 195	(18.8%)	991 099
Total gross credit and counterparty exposures pre collateral or other credit enhancements	16 877 447	16 696 244	1.1%	16 786 846

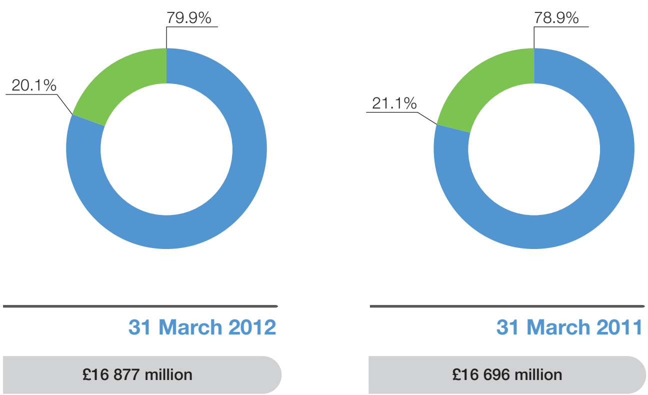
* *Where the average is based on a straight-line average.*
** *Restated as discussed on page 140.*
^ *Excludes guarantees provided to clients which are backed/secured by cash on deposit with the bank.*

An analysis of gross credit and counterparty exposures by geography

Audited £'000	UK and Europe 31 March 2012	UK and Europe 31 March 2011*	Australia 31 March 2012	Australia 31 March 2011*	Total 31 March 2012	Total 31 March 2011*
Cash and balances at central banks	1 656	988	180	155	1 836	1 143
Loans and advances to banks	796	654	68	96	864	750
Reverse repurchase agreements and cash collateral on securities borrowed	522	1 400	–	–	522	1 400
Sovereign debt securities	1 415	623	232	225	1 647	848
Bank debt securities	295	805	530	530	825	1 335
Other debt securities	84	86	82	80	166	166
Derivative financial instruments	519	463	134	81	653	544
Securities arising from trading activities	243	380	7	–	250	380
Loans and advances to customers (gross)	5 913	5 710	1 427	1 619	7 340	7 329
Own originated loans and advances to customers securitised (gross)	–	–	536	484	536	484
Other loans and advances (gross)	1 293	876	–	54	1 293	930
Other securitised assets (gross)	35	44	–	–	35	44
Other assets	2	184	–	–	2	184
Property and equipment	20	65	–	–	20	65
Total on-balance sheet exposures	12 793	12 278	3 196	3 324	15 989	15 602
Guarantees	173	174	32	40	205	214
Contingent liabilities, committed facilities and other	518	715	165	165	683	880
Total off-balance sheet exposures	691	890	197	205	888	1 094
Total gross credit and counterparty exposures pre collateral or other credit enhancements	13 484	13 167	3 393	3 529	16 877	16 696

* *Restated as discussed on page 140.*

An analysis of gross credit and counterparty exposures by geography



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	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note refer-ence	Total balance sheet
As at 31 March 2012				
Cash and balances at central banks	1 835 820	16		1 835 836
Loans and advances to banks	863 540	–		863 540
Reverse repurchase agreements and cash collateral on securities borrowed	522 180	636 958	3	1 159 138
Sovereign debt securities	1 647 271	–		1 647 271
Bank debt securities	824 552	–		824 552
Other debt securities	166 062	19 281		185 343
Derivative financial instruments	653 160	213 248		866 408
Securities arising from trading activities	250 071	122 499		372 570
Investment portfolio	–	317 313	1	317 313
Loans and advances to customers	7 340 042	(163 050)	2	7 176 992
Own originated loans and advances to customers securitised	536 297	(1 289)	2	535 008
Other loans and advances	1 293 498	774 128	3	2 067 626
Other securitised assets	34 800	605 455	4	640 255
Interest in associated undertakings	–	17 780		17 780
Deferred taxation assets	–	89 490		89 490
Other assets	2 390	1 114 436	5	1 116 826
Property and equipment	19 761^	102 941		122 702
Investment properties	–	11 500		11 500
Goodwill	–	278 574		278 574
Intangible assets	–	117 525		117 525
Total on-balance sheet exposures	15 989 444	4 256 805		20 246 249

^ *Reflects future receivables in respect of assets subject to operating lease contracts.*

1. *Largely relates to exposures that are classified as equity risk in the banking book. Further information is provided on pages 69 to 71.*
2. *Largely relates to impairments and the impact of hedge accounting.*
3. *Largely intergroup lending which is deemed to have no credit exposure.*
4. *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. The table above reflects the net credit exposure in the vehicles that the group has reflected in the 'total credit and counterparty exposure' with the maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'.*
5. *Other assets include settlement debtors which we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

Audited £'000	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note refer-ence	Total balance sheet
As at 31 March 2011*				
Cash and balances at central banks	1 142 538	9		1 142 547
Loans and advances to banks	750 463	–		750 463
Reverse repurchase agreements and cash collateral on securities borrowed	1 399 733	73 215		1 472 948
Sovereign debt securities	847 880	–		847 880
Bank debt securities	1 335 462	–		1 335 462
Other debt securities	165 519	–		165 519
Derivative financial instruments	543 909	97 303		641 212
Securities arising from trading activities	379 927	99 423		479 350
Investment portfolio	–	199 818	1	199 818
Loans and advances to customers	7 328 725	(182 895)	2	7 145 830
Own originated loans and advances to customers securitised	484 163	(848)	2	483 315
Other loans and advances	930 590	797 679	3	1 728 269
Other securitised assets	44 623	610 680	4	655 303
Interest in associated undertakings	–	13 096		13 096
Deferred taxation assets	–	62 436		62 436
Other assets	183 804	543 478	5	727 282
Property and equipment	64 713^	170 506		235 219
Goodwill	–	276 369		276 369
Intangible assets	–	126 216		126 216
Total on-balance sheet exposures	15 602 049	2 886 485		18 488 534

* *Restated as discussed on page 140.*

^ *Reflects future receivables in respect of assets subject to operating lease contracts.*

1. *Largely relates to exposures that are classified as equity risk in the banking book. Further information is provided on pages 69 to 71.*
2. *Largely relates to impairments and the impact of hedge accounting.*
3. *Largely intergroup lending which is deemed to have no credit exposure.*
4. *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. The table above reflects the net credit exposure in the vehicles that the group has reflected in the 'total credit and counterparty exposure' with the maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'.*
5. *Other assets include settlement debtors which we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

Detailed analysis of gross credit and counterparty exposures by industry as at 31 March 2012

£'000	HNW and professional individuals	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services	Finance and insurance
Cash and balances at central banks	–	–	–	1 655 761	–	180 059
Loans and advances to banks	–	–	–	–	–	863 540
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	–	522 180
Sovereign debt securities	–	–	–	1 470 206	–	177 065
Bank debt securities	–	–	–	–	–	824 552
Other debt securities	–	–	–	–	–	86 644
Derivative financial instruments	907	119	15 702	–	3 884	561 465
Securities arising from trading activities	–	–	–	202 558	–	47 513
Loans and advances to customers (gross)	4 630 972	13 559	368 128	148 830	218 778	303 584
Own originated loans and advances to customers securitised (gross)	536 297	–	–	–	–	–
Other loans and advances (gross)	–	–	–	–	–	440 548
Other securitised assets (gross)	–	–	–	–	–	34 800
Other assets	–	–	–	–	–	2 390
Property and equipment	–	398	442	1 101	5 390	1 035
Total on-balance sheet exposures	5 168 176	14 076	384 272	3 478 456	228 052	4 045 375
Guarantees	5 857	–	4 395	–	–	155 613
Contingent liabilities, committed facillities and other	282 597	–	43 810	17 683	8 684	68 831
Off-balance sheet exposures	288 454	–	48 205	17 683	8 684	224 444
Total gross credit and counterparty exposures pre collateral or other credit enhancements	5 456 630	14 076	432 477	3 496 139	236 736	4 269 819

Summary analysis of gross credit and counterparty exposures by industry

Private client loans account for 65.6% of total net 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 Client division is provided on page 40 and a more detailed analysis of the private client loan portfolio is provided on pages 66 and 67. The remainder of core loans and advances largely reside within our Corporate Client division and are evenly spread across industry sectors. A description of the type of lending we undertake within the Corporate Client division is provided on pages 40 and 41 and a more detailed analysis of the corporate client loan portfolio is provided on pages 66 and 67.

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 individuals' Private Client division clients.

	Retailers and wholesalers	Manufacturing and commerce	Construction	Commercial real estate	Residential mortgages	Mining and resources	Leisure, entertainment and tourism	Transport and communication	Total
	–	–	–	–	–	–	–	–	1 835 820
	–	–	–	–	–	–	–	–	863 540
	–	–	–	–	–	–	–	–	522 180
	–	–	–	–	–	–	–	–	1 647 271
	–	–	–	–	–	–	–	–	824 552
	–	–	6 831	56 368	–	–	12 313	3 906	166 062
	7 846	17 707	17 010	17 472	–	5 020	4 528	1 500	653 160
	–	–	–	–	–	–	–	–	250 071
	247 068	414 704	47 732	384 277	–	89 032	117 694	355 684	7 340 042
	–	–	–	–	–	–	–	–	536 297
	–	–	–	–	852 950	–	–	–	1 293 498
	–	–	–	–	–	–	–	–	34 800
	–	–	–	–	–	–	–	–	2 390
	2 569	4 375	553	1 633	–	–	330	1 935	19 761
	257 483	436 786	72 126	459 750	852 950	94 052	134 865	363 025	15 989 444
	1 614	–	–	–	–	33 828	500	3 121	204 928
	21 673	48 412	23 475	2 845	–	28 064	7 163	129 838	683 075
	23 287	48 412	23 475	2 845	–	61 892	7 663	132 959	888 003
	280 770	485 198	95 601	462 595	852 950	155 944	142 528	495 984	16 877 447

Breakdown of gross credit exposure by industry

£'000	Gross core loans and advances 31 March 2012	Gross core loans and advances 31 March 2011	Other credit and counterparty exposures 31 March 2012	Other credit and counterparty exposures 31 March 2011	Total 31 March 2012	Total 31 March 2011
HNW and professional individuals	5 167 269	5 368 323	289 361	471 587	5 456 630	5 839 910
Agriculture	13 559	16 182	517	8 655	14 076	24 837
Electricity, gas and water (utility services)	368 128	268 840	64 349	183 257	432 477	452 097
Public and non-business services	148 830	135 337	3 347 309	2 137 468	3 496 139	2 272 805
Business services	218 778	195 628	17 958	74 341	236 736	269 969
Finance and insurance	303 584	268 559	3 966 235	5 101 616	4 269 819	5 370 175
Retailers and wholesalers	247 068	175 615	33 702	13 929	280 770	189 544
Manufacturing and commerce	414 704	437 025	70 494	56 485	485 198	493 510
Construction	47 732	–	47 869	282	95 601	282
Commercial real estate	384 277	341 023	73 318	84 270	462 595	425 293
Residential mortgages	–	–	852 950	578 622	852 950	578 622
Mining and resources	89 032	122 096	66 912	58 974	155 944	181 070
Leisure, entertainment and tourism	117 694	125 194	24 834	45 151	142 528	170 345
Transport and communication	355 684	359 066	140 300	68 719	495 984	427 785
Total	7 876 339	7 812 888	9 001 108	8 883 356	16 877 447	16 696 244

Gross credit and counterparty exposures by residual contractual maturity as at 31 March 2012

£'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
Cash and balances at central banks	1 835 820	–	–	–	–	–	1 835 820
Loans and advances to banks	861 501	105	1 792	142	–	–	863 540
Reverse repurchase agreements and cash collateral on securities borrowed	522 180	–	–	–	–	–	522 180
Sovereign debt securities	460 570	144 803	8 699	190 599	–	842 600	1 647 271
Bank debt securities	83 917	12 592	86 983	468 312	–	172 748	824 552
Other debt securities	12 850	–	7 145	–	27 913	118 154	166 062
Derivative financial instruments	261 487	47 506	57 560	225 712	33 787	27 108	653 160
Securities arising from trading activities	5 910	6 543	–	174 922	243	62 453	250 071
Loans and advances to customers	1 357 044	949 891	1 070 559	3 250 688	530 491	181 369	7 340 042
Own originated loans and advances to customers securitised	68 437	52 145	68 436	322 072	25 207	–	536 297
Other loans and advances	–	–	4 512	26 713	29 326	1 232 947	1 293 498
Other securitised assets	–	–	–	–	–	34 800	34 800
Other assets	2 390	–	–	–	–	–	2 390
Property and equipment	2 620	2 580	4 041	10 520	–	–	19 761
Total on-balance sheet exposures	5 474 726	1 216 165	1 309 727	4 669 680	646 967	2 672 179	15 989 444
Guarantees	14 415	14 758	15 239	160 423	93	–	204 928
Contingent liabilities, committed facilities and other	134 405	36 293	70 177	327 680	97 898	16 622	683 075
Total off-balance sheet exposures	148 820	51 051	85 416	488 103	97 991	16 622	888 003
Total gross credit and counterparty exposures pre collateral or other credit enhancements	5 623 546	1 267 216	1 395 143	5 157 783	744 958	2 688 801	16 877 447

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

Calculation of core loans and advances to customers

Audited £'000	31 March 2012	31 March 2011
Loans and advances to customers as per the balance sheet	7 176 992	7 145 830
Add: own-originated loans and advances securitised as per the balance sheet	535 008	483 315
Net core loans and advances to customers	7 712 000	7 629 145

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

Audited £'000	31 March 2012	31 March 2011
Gross core loans and advances to customers	7 876 339	7 812 888
Total impairments	(164 339)	(183 743)
Portfolio impairments	(3 210)	(1 518)
Specific impairments	(161 129)	(182 225)
Net core loans and advances to customers	7 712 000	7 629 145
Average gross core loans and advances to customers	7 844 614	7 585 284
Current loans and advances to customers	7 154 105	6 911 792
Past due loans and advances to customers (1 – 60 days)	230 038	256 779
Special mention loans and advances to customers	10 794	27 051
Default loans and advances to customers	481 402	617 266
Gross core loans and advances to customers	7 876 339	7 812 888
Current loans and advances to customers	7 154 105	6 911 792
Gross core loans and advances to customers that are past due but not impaired	256 569	440 973
Gross core loans and advances to customers that are impaired	465 665	460 123
Gross core loans and advances to customers	7 876 339	7 812 888
Total income statement charge for impairments on loans and advances	(156 976)	(170 554)
Gross default loans and advances to customers	481 402	617 266
Specific impairments	(161 129)	(182 225)
Portfolio impairments	(3 210)	(1 518)
Defaults net of impairments	317 063	433 523
Collateral and other credit enhancements	346 560	551 279
Net default loans and advances to customers (limited to zero)	–	–
Ratios:		
Total impairments as a % of gross core loans and advances to customers	2.09%	2.35%
Total impairments as a % of gross default loans	34.14%	29.77%
Gross defaults as a % of gross core loans and advances to customers	6.11%	7.90%
Defaults (net of impairments) as a % of net core loans and advances to customers	4.11%	5.68%
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)	1.66%	1.98%

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

Audited £'000	UK and Europe 31 March 2012	UK and Europe 31 March 2011	Australia 31 March 2012	Australia 31 March 2011	Total 31 March 2012	Total 31 March 2011
Gross core loans and advances to customers	5 915 778	5 709 219	1 960 561	2 103 669	7 876 339	7 812 888
Total impairments	(152 085)	(155 515)	(12 254)	(28 228)	(164 339)	(183 743)
Portfolio impairments	(1 667)	–	(1 543)	(1 518)	(3 210)	(1 518)
Specific impairments	(150 418)	(155 515)	(10 711)	(26 710)	(161 129)	(182 225)
Net core loans and advances to customers	5 763 693	5 553 704	1 948 307	2 075 441	7 712 000	7 629 145
% of total	74.7%	72.8%	25.3%	27.2%	100.0%	100.0%
% change since 31 March 2011	3.8%		(6.1%)		1.1%	
Average gross core loans and advances to customers	5 812 499	5 607 222	2 032 115	1 978 062	7 844 614	7 585 284
Current loans and advances to customers	5 254 569	5 072 317	1 899 536	1 839 475	7 154 105	6 911 792
Past due loans and advances to customers (1 – 60 days)	215 743	232 627	14 295	24 152	230 038	256 779
Special mention loans and advances to customers	9 370	13 160	1 424	13 891	10 794	27 051
Default loans and advances to customers^	436 096	391 115	45 306	226 151	481 402	617 266
Gross core loans and advances to customers	5 915 778	5 709 219	1 960 561	2 103 669	7 876 339	7 812 888
Current loans and advances to customers	5 254 569	5 072 317	1 899 536	1 839 475	7 154 105	6 911 792
Gross core loans and advances to customers that are past due but not impaired	230 433	300 634	26 136	140 339	256 569	440 973
Gross core loans and advances to customers that are impaired	430 776	336 268	34 889	123 855	465 665	460 123
Gross core loans and advances to customers	5 915 778	5 709 219	1 960 561	2 103 669	7 876 339	7 812 888
Total income statement charge for impairments on loans and advances	(89 104)	(140 347)	(67 872)	(30 207)	(156 976)	(170 554)
Gross default loans and advances to customers^	436 098	391 115	45 306	226 151	481 402	617 266
Specific impairments	(150 418)	(155 515)	(10 711)	(26 710)	(161 129)	(182 225)
Portfolio impairments	(1 667)	–	(1 543)	(1 518)	(3 210)	(1 518)
Defaults net of impairments	284 011	235 600	33 052	197 923	317 063	433 523
Collateral and other credit enhancements	310 777	336 739	35 783	214 540	346 560	551 279
Net default loans and advances to customers (limited to zero)	–	–	–	–	–	–

^ *These numbers have declined over the period for the reason set out on page 45.*

Audited	UK and Europe		Australia		Total	
	31 March 2012	31 March 2011	31 March 2012	31 March 2011	31 March 2012	31 March 2011
Total impairments as a % of gross core loans and advances to customers	2.57%	2.72%	0.63%	1.34%	2.09%	2.35%
Total impairments as a % of gross default loans	34.87%	39.76%	27.05%	12.48%	34.14%	29.77%
Gross defaults as a % of gross core loans and advances to customers	7.37%	6.85%	2.31%	10.75%	6.11%	7.90%
Defaults (net of impairments) as a % of net core loans and advances to customers	4.93%	4.24%	1.70%	9.54%	4.11%	5.68%
Net defaults as a % of core loans and advances to customers	–	–	–	–	–	–
Credit loss ratio (i.e. income statement impairment charge as a % of average gross loans and advances)	1.23%	2.13%	3.13%	1.53%	1.66%	1.98%

An analysis of core loans and advances to customers and asset quality by geography and client type as at 31 March 2012

Audited £'000	Private Client** UK and Europe	Australia	Total
Gross core loans and advances to customers	3 562 106	1 605 163	5 167 269
Total impairments	(130 687)	(11 563)	(142 250)
Portfolio impairments	–	(1 543)	(1 543)
Specific impairments	(130 687)	(10 020)	(140 707)
Net core loans and advances to customers	3 431 419	1 593 600	5 025 019
Average gross core loans and advances	3 540 995	1 726 800	5 267 796
Current loans and advances to customers	3 008 547	1 551 702	4 560 249
Past due loans and advances to customers (1 – 60 days)	192 924	9 992	202 916
Special mention loans and advances to customers	8 834	972	9 806
Default loans and advances to customers	351 801	42 497	394 298
Gross core loans and advances to customers	3 562 106	1 605 163	5 167 269
Current loans and advances to customers	3 008 547	1 551 702	4 560 249
Gross core loans and advances to customers that are past due but not impaired	206 810	20 177	226 987
Gross core loans and advances to customers that are impaired	346 749	33 284	380 033
Gross core loans and advances to customers	3 562 106	1 605 163	5 167 269
Total income statement charge for impairments on loans and advances	(52 802)	(72 647)	(125 449)
Gross default loans and advances to customers	351 801	42 497	394 298
Specific impairments	(130 687)	(10 020)	(140 707)
Portfolio impairments	–	(1 543)	(1 543)
Defaults net of impairments	221 114	30 934	252 048
Collateral and other credit enhancements	222 624	33 235	255 859
Net default loans and advances to customers (limited to zero)	–	–	–
Total impairments as a % of gross core loans and advances to customers	3.67%	0.72%	2.75%
Total impairments as a % of gross default loans	37.15%	27.21%	36.08%
Gross defaults as a % of gross core loans and advances to customers	9.88%	2.65%	7.63%
Defaults (net of impairments) as a % of net core loans and advances to customers	6.44%	1.94%	5.02%
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)	1.41%	3.96%	2.25%

* *Largely includes lending activities within our central funding and international trade finance businesses.*

** *A further analysis of our private client and corporate client loan portfolios, broken down by type of loan, is provided on pages 66 and 67.*

	Corporate Client**			Other*			
	UK and Europe	Australia	Total	UK and Europe	Australia	Total	Total
	2 234 202	295 340	2 529 542	119 470	60 058	179 528	7 876 339
	(19 732)	(690)	(20 422)	(1 667)	–	(1 667)	(164 339)
	–	–	–	(1 667)	–	(1 667)	(3 210)
	(19 732)	(690)	(20 422)	–	–	–	(161 129)
	2 214 470	294 650	2 509 120	117 803	60 058	177 861	7 712 000
	2 135 431	274 353	2 409 784	136 072	30 962	167 034	7 844 614
	2 126 551	287 777	2 414 328	119 470	60 058	179 528	7 154 105
	22 819	4 303	27 122	–	–	–	230 038
	537	451	988	–	–	–	10 794
	84 295	2 809	87 104	–	–	–	481 402
	2 234 202	295 340	2 529 542	119 470	60 058	179 528	7 876 339
	2 126 551	287 777	2 414 328	119 470	60 058	179 528	7 154 105
	23 624	5 958	29 582	–	–	–	256 569
	84 027	1 605	85 632	–	–	–	465 665
	2 234 202	295 340	2 529 542	119 470	60 058	179 528	7 876 339
	(37 104)	4 787	(32 317)	802	(12)	790	(156 976)
	84 295	2 809	87 104	–	–	–	481 402
	(19 732)	(690)	(20 422)	–	–	–	(161 129)
	–	–	–	(1 667)	–	(1 667)	(3 210)
	64 563	2 119	66 682	(1 667)	–	(1 667)	317 063
	88 152	2 549	90 701	–	–	–	346 560
	–	–	–	–	–	–	–
	0.88%	0.23%	0.81%	1.40%	–	0.93%	2.09%
	23.41%	24.56%	23.45%	–	–	–	34.14%
	3.77%	0.95%	3.44%	–	–	–	6.11%
	2.92%	0.72%	2.66%	(1.42%)	–	(0.94%)	4.11%
	–	–	-	–	–	–	–
	1.12%	(1.74%)	0.89%	(0.59%)	0.04%	(0.47%)	1.66%

An analysis of core loans and advances to customers and asset quality by geography and client type as at 31 March 2011

Audited £'000	Private Client 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	3 577 851	1 764 226	5 342 077
Current loans and advances to customers	2 971 056	1 589 649	4 560 705
Past due loans and advances to customers (1 – 60 days)	204 866	24 152	229 018
Special mention loans and advances to customers	12 674	12 627	25 301
Default loans and advances to customers	331 291	222 008	553 299
Gross core loans and advances to customers	3 519 887	1 848 436	5 368 323
Current loans and advances to customers	2 971 056	1 589 649	4 560 705
Gross core loans and advances to customers that are past due but not impaired	272 152	135 203	407 355
Gross core loans and advances to customers that are impaired	276 679	123 584	400 263
Gross core loans and advances to customers	3 519 887	1 848 436	5 368 323
Total income statement charge for impairments on loans and advances	(123 640)	(26 862)	(150 502)
Gross default loans and advances to customers	331 291	222 008	553 299
Specific impairments	(141 673)	(26 469)	(168 142)
Portfolio impairments	–	(1 518)	(1 518)
Defaults net of impairments	189 618	194 021	383 639
Collateral and other credit enhancements	290 758	210 637	501 395
Net default loans and advances to customers (limited to zero)	–	–	–
Total impairments as a % of gross core loans and advances to customers	4.02%	1.51%	3.16%
Total impairments as a % of gross default loans	42.76%	12.61%	30.66%
Gross defaults as a % of gross core loans and advances to customers	9.41%	12.01%	10.31%
Defaults (net of impairments) as a % of net core loans and advances to customers	5.61%	10.66%	7.38%
Net defaults as a % of gross core loans and advances to customers	–	–	–
Credit loss ratio (i.e. income statement impairment charge as a % of average gross loans and advances)	3.29%	1.52%	2.71%

* *Largely includes lending activities within our central funding and international trade finance businesses.*

Corporate Client			Other*			
UK and Europe	Australia	Total	UK and Europe	Australia	Total	Total
2 036 660	253 366	2 290 026	152 673	1 866	154 539	7 812 888
(13 842)	(241)	(14 083)	–	–	–	(183 743)
–	–	–	–	–	–	(1 518)
(13 842)	(241)	(14 083)	–	–	–	(182 225)
2 022 818	253 125	2 275 943	152 673	1 866	154 539	7 629 145
1 907 079	212 029	2 119 108	122 291	1 808	124 099	7 585 284
1 948 588	247 960	2 196 548	152 673	1 866	154 539	6 911 792
27 761	–	27 761	–	–	–	256 779
487	1 263	1 750	–	–	–	27 051
59 824	4 143	63 967	–	–	–	617 266
2 036 660	253 366	2 290 026	152 673	1 866	154 539	7 812 888
1 948 588	247 960	2 196 548	152 673	1 866	154 539	6 911 792
28 483	5 135	33 618	–	–	–	440 973
59 589	271	59 860	–	–	–	460 123
2 036 660	253 366	2 290 026	152 673	1 866	154 539	7 812 888
(28 411)	(3 345)	(31 756)	11 704	–	11 704	(170 554)
59 824	4 143	63 967	–	–	–	617 266
(13 842)	(241)	(14 083)	–	–	–	(182 225)
–	–	–	–	–	–	(1 518)
45 982	3 902	49 884	–	–	–	433 523
45 982	3 902	49 884	–	–	–	551 279
–	–	–	–	–	–	–
0.68%	0.10%	0.61%	–	–	–	2.35%
23.14%	5.82%	22.02%	–	–	–	29.77%
2.94%	1.64%	2.79%	–	–	–	7.90%
2.27%	1.54%	2.19%	–	–	–	5.68%
–	–	–	–	–	–	–
1.09%	1.43%	1.12%	(9.57%)	–	(9.43%)	1.98%

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

Audited £'000	31 March 2012	31 March 2011
Default loans that are current	406 491	339
1 – 60 days	233 019	292 478
61 – 90 days	11 213	26 894
91 – 180 days	11 469	352 580
181 – 365 days	30 341	62 287
>365 days	29 701	166 518
Past due and default core loans and advances to customers (actual capital exposure)	722 234	901 096
1 – 60 days	6 300	5 166
61 – 90 days	636	11 714
91 – 180 days	1 458	36 592
181 – 365 days	6 283	44 159
>365 days	27 327	149 343
Past due and default core loans and advances to customers (actual amount in arrears)	42 004	246 974

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 2012							
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	–	230 996	9 836	6 727	4 187	4 823	256 569
Amount in arrears	–	5 374	262	193	3 499	4 388	13 716
Gross core loans and advances to customers that are impaired							
Total capital exposure	406 491	2 023	1 377	4 742	26 154	24 878	465 665
Amount in arrears	–	926	374	1 265	2 784	22 939	28 288
As at 31 March 2011							
Watchlist loans neither past due nor impaired							
Total capital exposure	–	–	–	–	–	–	–
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	258 443	25 388	48 498	44 281	64 363	440 973
Amount in arrears	–	4 261	10 503	8 530	33 712	48 718	105 724
Gross core loans and advances to customers that are impaired							
Total capital exposure	339	34 035	1 506	304 082	18 006	102 155	460 123
Amount in arrears	–	905	1 211	28 062	10 447	100 625	141 250

An age analysis of past due and default core loans and advances to customers as at 31 March 2012 (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)	–	230 038	–	–	–	–	230 038
Special mention	–	958	9 836	–	–	–	10 794
Special mention (1 – 90 days)	–	958	128	–	–	–	1 086
Special mention (61 – 90 days and item well secured)	–	–	9 708	–	–	–	9 708
Default	406 491	2 023	1 377	11 469	30 341	29 701	481 402
Sub-standard	184 398	–	–	8 627	22 073	6 365	221 463
Doubtful	78 313	2 023	1 377	2 842	8 268	23 336	116 159
Loss	143 780	–	–	–	–	–	143 780
Total	406 491	233 019	11 213	11 469	30 341	29 701	722 234

An age analysis of past due and default core loans and advances to customers as at 31 March 2012 (based on actual amount in arrears)

Audited £'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	5 347	–	–	–	–	5 347
Special mention	–	27	262	–	–	–	289
Special mention (1 – 90 days)	–	27	16	–	–	–	43
Special mention (61 – 90 days and item well secured)	–	–	246	–	–	–	246
Default	–	926	374	1 458	6 283	27 327	36 368
Sub-standard	–	–	–	205	4 443	4 595	9 243
Doubtful	–	926	374	1 253	1 840	22 732	27 125
Loss	–	–	–	–	–	–	–
Total	–	6 300	636	1 458	6 283	27 327	42 004

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

Audited £'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	256 779	–	–	–	–	256 779
Special mention	–	1 663	25 388	–	–	–	27 051
Special mention (1 – 90 days)	–	1 663	14 210	–	–	–	15 873
Special mention (61 – 90 days and item well secured)	–	–	11 178	–	–	–	11 178
Default	339	34 036	1 506	352 580	62 287	166 518	617 266
Sub-standard	–	33 138	–	142 004	50 196	65 793	291 131
Doubtful	339	898	1 506	36 793	12 091	96 193	147 820
Loss	–	–	–	173 783	–	4 532	178 315
Total	339	292 478	26 894	352 580	62 287	166 518	901 096

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

Audited £'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	4 175	–	–	–	–	4 175
Special mention	–	86	10 503	–	–	–	10 589
Special mention (1 – 90 days)	–	86	10 165	–	–	–	10 251
Special mention (61 – 90 days and item well secured)	–	–	338	–	–	–	338
Default	–	905	1 211	36 592	44 159	149 343	232 210
Sub-standard	–	7	–	8 495	36 456	48 811	93 769
Doubtful	–	898	1 211	28 079	7 662	96 000	133 850
Loss	–	–	–	18	41	4 532	4 591
Total	–	5 166	11 714	36 592	44 159	149 343	246 974

An 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 2012								
Current core loans and advances	7 154 105	–	–	7 154 105	–	(1 542)	7 152 563	–
Past due (1 – 60 days)	–	230 038	–	230 038	–	–	230 038	5 347
Special mention	–	10 794	–	10 794	–	–	10 794	289
Special mention (1 – 90 days)	–	1 086	–	1 086	–	–	1 086	43
Special mention (61 – 90 days and item well secured)	–	9 708	–	9 708	–	–	9 708	246
Default	–	15 737	465 665	481 402	(161 129)	(1 668)	318 605	36 368
Sub-standard	–	15 737	205 726	221 463	(35 792)	–	185 671	9 243
Doubtful	–	–	116 159	116 159	(38 043)	–	78 116	27 125
Loss	–	–	143 780	143 780	(87 294)	(1 668)	54 818	–
Total	7 154 105	256 569	465 665	7 876 339	(161 129)	(3 210)	7 712 000	42 004
As at 31 March 2011								
Current core loans and advances	6 911 792	–	–	6 911 792	–	(1 518)	6 910 274	–
Past due (1 – 60 days)	–	256 779	–	256 779	–	–	256 779	4 175
Special mention	–	27 051	–	27 051	–	–	27 051	10 589
Special mention (1 – 90 days)	–	15 873	–	15 873	–	–	15 873	10 251
Special mention (61 – 90 days and item well secured)	–	11 178	–	11 178	–	–	11 178	338
Default	–	157 143	460 123	617 266	(182 225)	–	435 041	232 210
Sub-standard	–	157 143	133 988	291 131	(37 755)	–	253 376	93 769
Doubtful	–	–	147 820	147 820	(35 684)	–	112 136	133 850
Loss	–	–	178 315	178 315	(108 786)	–	69 529	4 591
Total	6 911 792	440 973	460 123	7 812 888	(182 225)	(1 518)	7 629 145	246 974

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

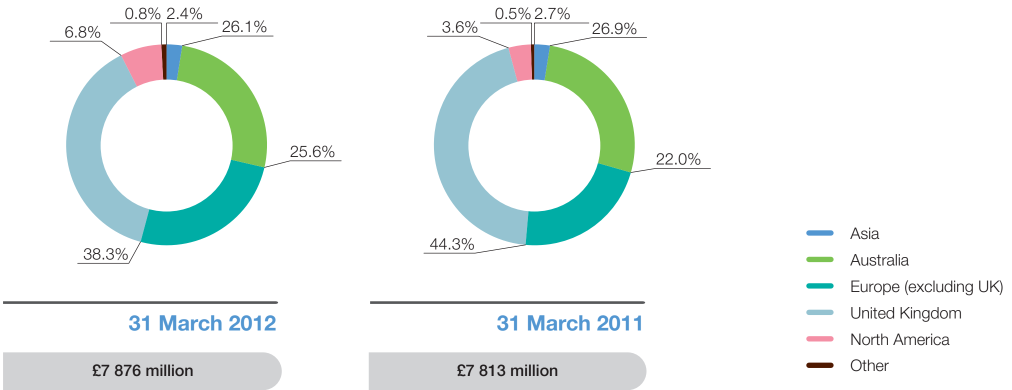
Audited £'000	Private Banking professional and HNW individuals	Corporate sector	Insurance, financial services (excluding sovereign)	Public and government sector (including central banks)	Trade finance and other	Total core loans and advances to customers
As at 31 March 2012						
Current core loans and advances	4 556 988	2 117 831	301 548	148 106	29 632	7 154 105
Past due (1 – 60 days)	202 916	25 334	1 788	–	–	230 038
Special mention	10 257	537	–	–	–	10 794
Special mention (1 – 90 days)	1 086	–	–	–	–	1 086
Special mention (61 – 90 days and item well secured)	9 171	537	–	–	–	9 708
Default	397 108	83 322	248	724	–	481 402
Sub-standard	203 310	18 153	–	–	–	221 463
Doubtful	50 018	65 169	248	724	–	116 159
Loss	143 780	–	–	–	–	143 780
Total gross core loans and advances to customers	5 167 269	2 227 024	303 584	148 830	29 632	7 876 339
Total impairments	(142 250)	(14 361)	(7 304)	(424)	–	(164 339)
Specific impairments	(140 707)	(14 361)	(5 637)	(424)	–	(161 129)
Portfolio Impairments	(1 543)	–	(1 667)	–	–	(3 210)
Net core loans and advances to customers	5 025 019	2 212 663	296 280	148 406	29 632	7 712 000
As at 31 March 2011						
Current core loans and advances	4 555 298	1 901 968	268 230	134 699	51 597	6 911 792
Past due (1 – 60 days)	229 019	27 760	–	–	–	256 779
Special mention	26 564	487	–	–	–	27 051
Special mention (1 – 90 days)	15 873	–	–	–	–	15 873
Special mention (61 – 90 days and item well secured)	10 691	487	–	–	–	11 178
Default	557 442	58 857	329	638	–	617 266
Sub-standard	251 843	39 288	–	–	–	291 131
Doubtful	131 816	15 037	329	638	–	147 820
Loss	173 783	4 532	–	–	–	178 315
Total gross core loans and advances to customers	5 368 323	1 989 072	268 559	135 337	51 597	7 812 888
Total impairments	(169 660)	(13 506)	(198)	(379)	–	(183 743)
Specific impairments	(168 142)	(13 506)	(198)	(379)	–	(182 225)
Portfolio Impairments	(1 518)	–	–	–	–	(1 518)
Net core loans and advances to customers	5 198 663	1 975 566	268 361	134 958	51 597	7 629 145

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

Audited £'000	31 March 2012	31 March 2011
Private Banking professional and HNW individuals	5 167 269	5 368 323
Corporate sector	2 227 024	1 989 072
Insurance, financial services (excluding sovereign)	303 584	268 559
Public and government sector (including central banks)	148 830	135 337
Trade finance and other	29 632	51 597
Total gross core loans and advances to customers	7 876 339	7 812 888

Additional information

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

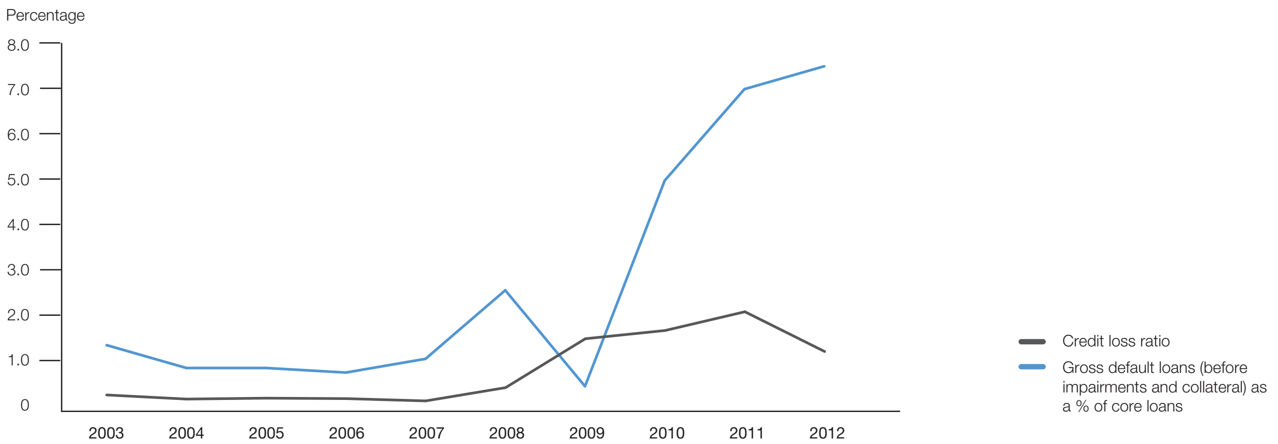


An analysis of default core loans and advances as at 31 March 2012

£'million	UK and Europe Gross core loans	Gross defaults	Collateral	Balance sheet impairments
Private Client				
Residential property	1 503	197	121	(76)
Residential property investment	611	20	16	(4)
Residential mortgages (owner occupied)	288	–	–	–
Residential property development	446	89	56	(33)
Residential estates/land/planning	158	88	49	(39)
Commercial property	1 391	138	89	(49)
Commercial property investment	1 128	48	42	(6)
Commercial property land/planning	192	76	40	(36)
Commercial property development	71	14	7	(7)
Other	668	17	13	(6)
Asset backed lending	346	–	–	–
Unlisted securities and general corporate lending	110	3	1	(2)
Unsecured lending	–	–	–	–
Other	212	14	12	(4)
Total Private Client	3 562	352	223	(131)
Corporate Client				
Acquisition finance	616	22	40	(5)
Asset finance	473	10	5	(5)
Corporate loans	709	18	18	(1)
Project finance	406	34	25	(9)
Resource finance and commodities	30	–	–	–
Total Corporate Client	2 234	84	88	(20)
Other*	119	–	–	(1)
Total group	5 915	436	311	(152)

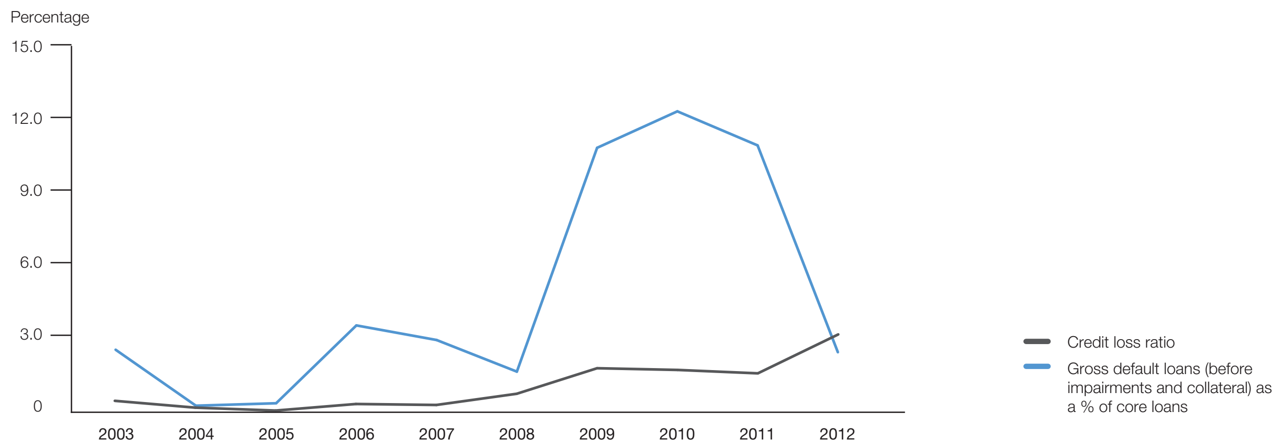
* *Largely includes lending activities within our central funding and international trade finance business.*

UK and Europe asset quality ratios



Australia				Total group			
Gross core loans	Gross defaults	Collateral	Balance sheet impairments	Gross core loans	Gross defaults	Collateral	Balance sheet impairments
263	20	16	(5)	1 766	217	137	(81)
5	–	–	–	616	20	16	(4)
81	–	–	–	369	–	–	–
136	20	16	(5)	582	109	72	(38)
41	–	–	–	199	88	49	(39)
460	7	6	(1)	1 851	145	95	(50)
448	7	6	(1)	1 576	55	48	(7)
2	–	–	–	194	76	40	(36)
10	–	–	–	81	14	7	(7)
882	15	11	(6)	1 550	32	24	(12)
624	1	–	–	970	1	–	–
152	12	10	(3)	262	15	11	(5)
62	2	1	(3)	62	2	1	(3)
44	–	–	–	256	14	12	(4)
1 605	42	33	(12)	5 167	394	256	(143)
82	–	–	–	698	22	40	(5)
39	3	3	–	512	13	8	(5)
58	–	–	–	767	18	18	(1)
51	–	–	–	457	34	25	(9)
65	–	–	–	95	–	–	–
295	3	3	–	2 529	87	91	(20)
61	–	–	–	180	–	–	(1)
1 961	45	36	(12)	7 876	481	347	(164)

Australia asset quality ratios



Collateral

A summary of total collateral

£'000	Collateral held against Core loans and advances	Other credit and counterparty exposures*	Total
As at 31 March 2012			
Eligible financial collateral	455 745	11 477	467 222
Listed shares	354 050	–	354 050
Cash	101 695	11 477	113 172
Mortgage bonds	5 789 609	–	5 789 609
Residential mortgages	1 822 665	–	1 822 665
Residential development	868 833	–	868 833
Commercial property development	317 894	–	317 894
Commercial property investments	2 780 217	–	2 780 217
Other collateral	3 985 788	1 444	3 987 232
Unlisted shares	183 496	–	183 496
Bonds other than mortgage bonds	42 813	–	42 813
Debtors, stock and other corporate assets	2 790 217	–	2 790 217
Guarantees	155 533	1 444	156 977
Other	813 729	–	813 729
Total collateral	10 231 142	12 921	10 244 063
As at 31 March 2011			
Eligible financial collateral	297 783	75 936	373 719
Listed shares	152 080	47 164	199 244
Cash	145 703	28 772	174 475
Mortgage bonds	6 434 801	136 035	6 570 836
Residential mortgages	1 749 199	–	1 749 199
Residential development	1 283 378	–	1 283 378
Commercial property development	785 370	–	785 370
Commercial property investments	2 616 854	136 035	2 752 889
Other collateral	4 836 021	–	4 836 021
Unlisted shares	405 551	–	405 551
Bonds other than mortgage bonds	334 573	–	334 573
Debtors, stock and other corporate assets	2 755 265	–	2 755 265
Guarantees	522 877	–	522 877
Other	817 755	–	817 755
Total collateral	11 568 605	211 971	11 780 576

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

Equity and investment risk in the banking book

Equity and investment risk description

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

- Principal Investments (Private Equity and Direct Investments): Investments are selected based on the track record of management, the attractiveness of the industry and the ability to build value for the existing business by implementing an agreed strategy. In addition, as a result of our local market knowledge and investment banking expertise, we are well positioned to take direct positions in listed shares where we believe that the market is mispricing the value of the underlying portfolio of assets. These investment positions are carefully researched with the intent to stimulate corporate activity.
- Lending transactions (within the Private Client and Corporate Client divisions): The manner in which we structure certain transactions results in equity, warrant and profit shares being held, predominantly within unlisted companies
- Property activities: We source development, investment and trading opportunities to create value and trade for profit within agreed risk parameters.

Management of equity and investment risk

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

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

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

Valuation and accounting methodologies

For a description of our valuation principles and methodologies refer to pages 143 to 147 and pages 170 to 174 for factors taken into consideration in determining fair value. We have a low level of assets exposed to the volatility of IFRS fair value accounting with 'level 3' assets amounting to 2.3% of total assets (refer to page 171 for further information).

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

Audited £'000 Country/category	Income (pre funding costs)				Fair value through equity
	Unrealised	Realised	Dividends and other	Total	
For the year ended 31 March 2012					
Unlisted investments	16 819	25 673	1 458	43 950	1 690
UK and Europe	16 885	24 482	1 303	42 670	2 286
Australia	(66)	1 191	155	1 280	(596)
Listed equities	(3 065)	2 007	513	(545)	(1 858)
UK and Europe	(3 065)	1 659	597	(809)	828
Australia	–	348	(84)	264	(2 686)
Investment and trading properties	(11)	(7 580)	779	(6 812)	–
UK and Europe	(11)	2 737	779	3 505	–
Australia	–	(10 317)	–	(10 317)	–
Warrants, profit shares and other embedded derivatives	–	–	1 648	1 648	–
UK and Europe	–	–	1 648	1 648	–
Australia	–	–	–	–	–
Total	13 743	20 100	4 398	38 241	(168)
For the year ended 31 March 2011					
Unlisted investments	9 473	24 965	(2 492)	31 946	(3 526)
UK and Europe	9 473	21 978	(2 696)	28 755	(2 608)
Australia	–	2 987	204	3 191	(918)
Listed equities	3 214	3 915	(19 012)	(11 884)	7 097
UK and Europe	3 214	42	(19 262)	(16 006)	5 612
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	12 222	39 817	(20 337)	31 702	3 571

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 2012	Valuation change stress test 31 March 2012*	On-balance sheet value of investments 31 March 2011	Valuation change stress test 31 March 2011*
Unlisted investments	284 272	42 641	123 533	18 530
UK and Europe	279 168	41 875	116 981	17 547
Australia	5 104	766	6 552	983
Listed equities	33 041	8 260	69 598	17 399
UK and Europe	26 060	6 515	60 657	15 164
Australia	6 981	1 745	8 941	2 235
Investment and trading properties	102 029	20 406	58 434	11 687
UK and Europe	58 336	11 667	30 554	6 111
Australia	43 693	8 739	27 880	5 576
Warrants, profit shares and other embedded derivatives	35 979	12 593	32 387	11 336
UK and Europe	35 979	12 593	32 387	11 336
Australia	–	–	–	–
Total	455 321	83 900	283 952	58 952

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

Stress test values applied

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

Stress testing summary

Based on the information as at 31 March 2012, as reflected above we could have a £84 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 102 for further detail.

Securitisation/credit investment and trading finance activities 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

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

Australia

Investec Bank (Australia) Limited acquired Experien in October 2007 (now Investec professional finance). Assets originated by the business have been securitised. These amount to A$825 million (31 March 2011: A$750 million).

Accounting policies Audited

Refer to pages 211 to 219.

Credit analysis

In terms of our analysis of our credit and counterparty risk, exposures arising from securitisation/credit investment and trading 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 Client division are reflected as part of our core lending exposures and not our securitisation/credit investment and trading 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 2012 £'million	Exposure as at 31 March 2011 £'million	Balance sheet and credit risk classification	Asset quality – relevant comments	Capital treatment
Structured credit investments*	611	608	Other debt securities and other loans and advances.		Risk-weighted or supervisory deductions against primary and secondary capital.
Rated	510	451			
Unrated	101	146			
Other	–	11			
Warehouse lines provided to own originated loans and advances to customers and investment in third party intermediary originating platforms (mortgage and auto loans)	803^	425	Other loans and advances.		Risk-weighted depending on rating of counterparty
Private Client division assets which have been securitised	535	484	Own originated loans and advances to customers securitised.	Analysed as part of the group's overall asset quality on core loans and advances as reflected on page 53	We apply securitisation rules: either risk-weighted or supervisory deductions against primary and secondary capital.

^ *Subsequent to the year end approximately £200 million of these assets were securitised.*

* *Analysed further on page 73.*

*Analysis of structured rated and unrated credit investments

£'million	31 March 2012				31 March 2011			
	Rated**	Unrated	Other	Total	Rated	Unrated	Other	Total
US corporate loans	15	–	–	15	19	–	–	19
US ABS	1	–	–	1	–	–	–	–
European ABS	8	5	–	13	3	7	–	10
European RMBS	311	88	–	399	293	130	–	423
European CMBS	56	5	–	61	65	6	–	71
European credit cards	–	–	–	–	5	–	–	5
European corporate loans	67	3	–	70	–	3	–	3
Australian RMBS	52	–	–	52	66	–	–	66
Other (credit default swaps)	–	–	–	–	–	–	11	11
Total	510	101	–	611	451	146	11	608

**Further analysis of rated structured credit investments as at 31 March 2012

£'million	AAA	AA	A	BBB	BB	B	C and below	Total
US corporate loans	–	–	–	–	14	–	1	15
US ABS	–	–	–	–	–	–	1	1
European ABS	–	3	–	5	–	–	–	8
European RMBS	160	62	23	18	4	22	22	311
European CMBS	3	15	21	4	9	–	4	56
European corporate loans	43	12	–	12	–	–	–	67
Australian RMBS	20	23	7	2	–	–	–	52
Total as at 31 March 2012	226	115	51	41	27	22	28	510
Total as at 31 March 2011	211	71	66	26	20	27	30	451

Traded market risk management

Traded market risk description Audited

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

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

Traded market risk governance structure Audited

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

Management and measurement of traded market risk

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

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

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

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

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

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

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 2012								
Commodities	–^	1	64	–	–	–	8	–
Equity derivatives	549	1 029	1 677	536	–	–	–	–
Foreign exchange	31	34	105	9	2	31	192	1
Interest rates	288	231	424	115	31	57	116	17
Consolidated*	624	1 060	1 742	610	31	68	184	19
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

* *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).*

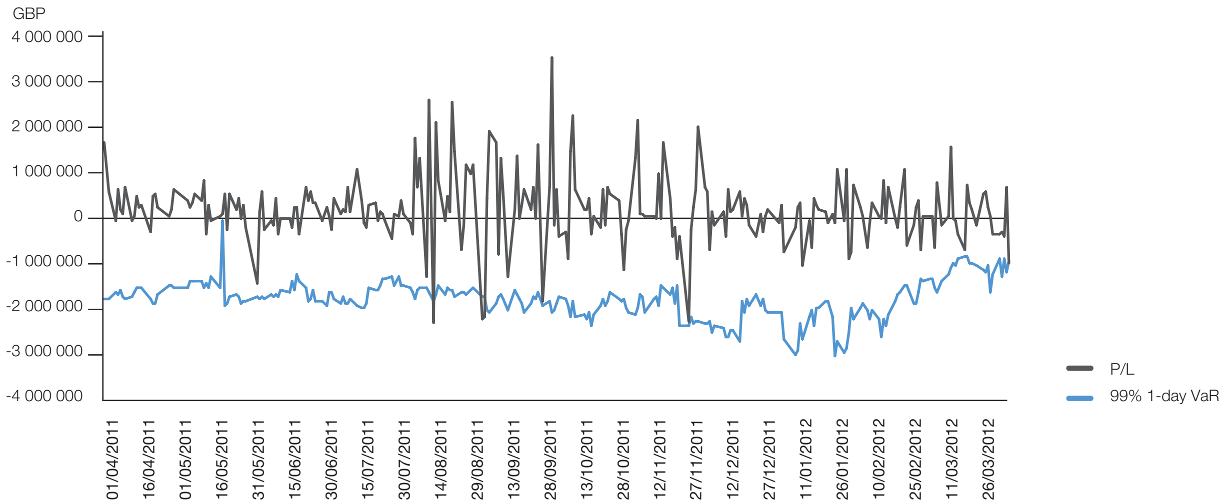
^ *The UK commodities desk was closed and all residual positions were unwound by April 2011.*

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

The average VaR utilisation was lower than that in 2011 and the VaR at year end was close to the low for the year at £0.6 million, mainly as a result of a reduction in risk on the structured equity derivatives desk. There were four exceptions over the year i.e. where the loss was greater than the 99% one-day VaR. This is more than the expected two to three exceptions per year at the 99% level. Most of these exceptions came in the second quarter of the year with the increased volatility experienced during the height of the European Sovereign crisis.

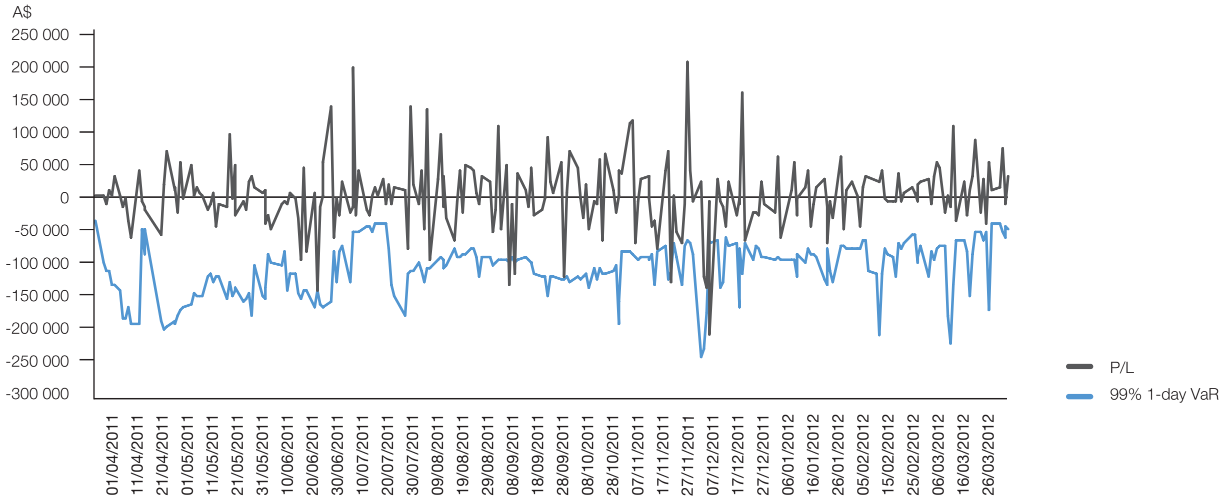
99% 1-day VaR backtesting



Australia

Average VaR utilisation for 2012 remained at the moderate levels experienced in 2011. There have been five exceptions i.e. where the loss is greater than the VaR. This is more than the expected number of exceptions at the 99% level as a result of the unusually high levels of market volatility, specifically in interest rate and foreign exchange markets where the Australian trading activity was most active.

99% 1-day VaR backtesting



ETL

Audited	UK and Europe 95% (one-day) £'000	Australia 95% (one-day) A$'000
31 March 2012		
Equity derivatives	846	–
Foreign exchange	48	2
Interest rates	367	40
Consolidated*	876	40
31 March 2011		
Commodities	71	10
Equity derivatives	1 339	–
Foreign exchange	13	8
Interest rates	409	30
Consolidated*	1 636	40

* *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.*

Stress testing

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

Audited	UK and Europe using 99% EVT £'000	Australia using 99% EVT A$'000
31 March 2012		
Equity derivatives	2 467	–
Foreign exchange	119	6
Interest rates	659	70
Consolidated	2 230	71

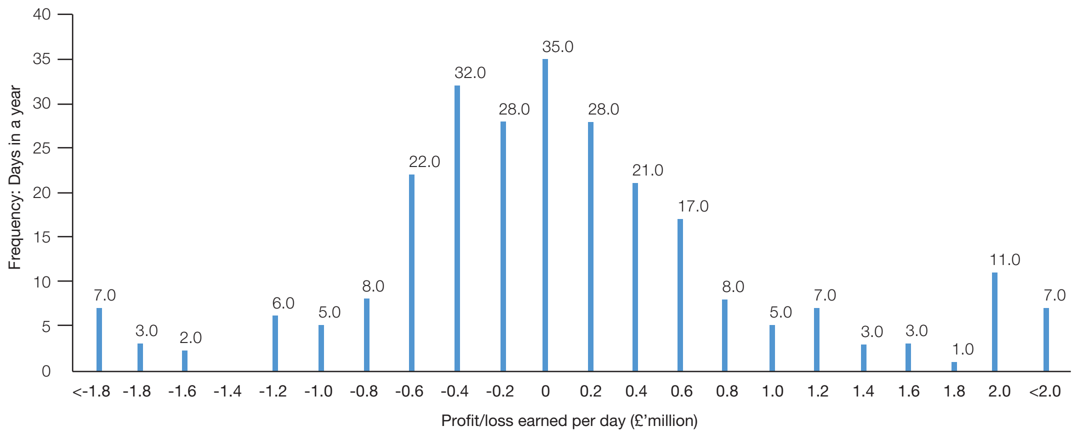
Audited	UK and Europe using VaR £'000	Australia using VaR A$'000
31 March 2011		
Commodities	266	–
Equity derivatives	3 782	–
Foreign exchange	33	15
Interest rates	2 087	121
Consolidated	3 915	273

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 139 days out of a total of 252 days in the trading business. The average daily trading revenue generated for the year ended 31 March 2012 was £120 635 (2011: £144 616).

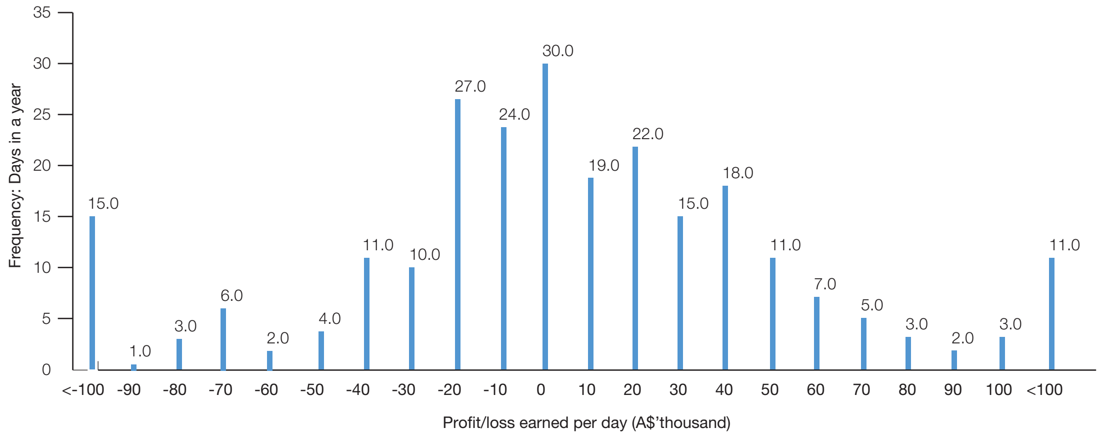
Profit and loss



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 133 days out of a total of 249 days in the trading business. The average daily trading loss generated for the year ended 31 March 2012 was A$6 056 (2011: revenue of A$1 393).

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 reconciled 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 there has been continued growth in client activity across the interest rate and foreign exchange corporate sales desks. The structured equity desk's retail product sales have remained strong and they continue to develop their product range. On the trading side the interest rate and foreign exchange trading desks performed strongly over the year, despite the difficult environment.

Australian trading activity remains modest, with limited client flow activity and difficult foreign exchange and interest rate trading environments.

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 pages 234 and 235.

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

Balance sheet risk management

Balance sheet risk description

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

Balance sheet risk governance structure and risk mitigation

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

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

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

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

The ALCO's typically comprise the managing director, the head of risk, the head of Corporate Client, economists, divisional heads, the balance sheet risk management team, the treasurer, private client representatives and any appropriate co-opted personnel. The ALCO's meet on a monthly basis to discuss the balance sheet, market conditions and decide on strategies to mitigate any undesirable liquidity and interest rate risk. The group's central treasury function is mandated to manage the liquidity mismatch and non-trading interest rate risk arising from our asset and liability portfolios on a day-to-day basis. The treasurer is required to exercise tight control of funding, liquidity, concentration and non-trading interest rate risk within parameters defined by the board approved risk appetite policy. Most non-trading interest rate risk and asset funding requirements are transferred from the originating business to the treasury function.

The group's central treasury function directs pricing for all deposit products (including deposit products offered to the private clients), establishes and maintains access to stable wholesale funds with the appropriate tenor and pricing characteristics, 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.

We maintain an internal funds transfer pricing system based on prevailing market rates. Our funds transfer pricing system charges the businesses the price of short-term and long-term liquidity. The costs and risks of liquidity are clearly and transparently attributed to business lines and are understood by business line management.

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. It identifies and measures internal and external liquidity warning signals which permit early detection of liquidity issues through daily liquidity reporting, and performs scenario analysis which quantifies our exposure, thus providing a comprehensive and consistent governance framework. The balance sheet risk team further pro-actively identifies proposed best risk practice and measures adopted in the broader market and implements the changes where relevant.

The scenario modelling and daily liquidity stress tests are designed to measure and manage the liquidity position such that payment obligations can be met under a wide range of normal, company-specific and market-driven stress scenarios. These scenarios consider 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.

The integrated balance sheet risk management framework is based on similar methodologies as those contemplated under the BCBS 'liquidity risk measurement standards and monitoring' and is compliant with the 'principles of sound liquidity risk management and supervision' as well as 'guidelines for the management of interest rate risk on the banking book'.

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.

Non-trading interest rate risk in the banking book is an inherent consequence of conducting banking activities, and arises from the provision of retail and wholesale (non-trading) banking products and services.

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

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

Non-trading interest rate risk description Audited

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

Sources of interest rate risk include:

- Repricing risk: Arises from the timing differences in the fixed rate maturity and floating rate repricing of bank assets, liabilities and off-balance sheet derivative positions. This affects the interest rate margin realised between lending income and borrowing costs, when applied to our rate sensitive portfolios
- Yield curve risk: Repricing mismatches also expose the bank to changes in the slope and shape of the yield curve
- Basis risk: Arises from imperfect correlation in the adjustments of the rates earned and paid on different instruments with otherwise similar repricing characteristics
- Optionality: We are not materially exposed to optionality risk, as contract breakage penalties on fixed-rate advances specifically cover this risk, while prepayment optionality is restricted to variable rate contracts and has no impact on interest rate risk.

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.

Management and measurement of non-trading interest rate risk

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

- The group complies with the BCBS framework for assessing banking book (non-trading) interest rate risk
- The management of interest rate risk in the banking book is centralised within Central Treasury and Central Treasury is mandated by the board to actively manage the liquidity mismatch and non-trading interest rate risk arising from our asset and liability portfolios
- The treasurer is required to exercise tight control of funding, liquidity, concentration and non-trading interest rate risk within parameters defined by the Risk Appetite Policy
- 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. The bank swaps its fixed deposits and loans with maturities greater than one year to three-month risk in the wholesale market via interest rate swaps
- Central Treasury directs pricing for all deposit products (including deposit products offered to the private clients), in so doing we manage access to funding at cost-effective levels

- The bank 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 provides long-term stable funding for our asset creation activity
- Central Treasury is the primary interface to the wholesale market
- 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 from both earnings and economic value perspectives, with the aim to protect and enhance net interest income in accordance with the board approved risk management framework and risk appetite. The standard tools that are used to measure non-trading interest rate risk as defined above are:

- the repricing gap;
- net interest income sensitivity (also referred to as earnings risk); and
- economic value (or NPV) sensitivity.

This is consistent with the standardised interest rate measurement recommended by the Basel II framework for assessing banking book (non-trading) interest rate risk.

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

Our Risk Appetite Policy requires that interest rate risk arising from fixed interest loans risk is transferred from the originating business to the central treasury function by match-funding. In turn, Central Treasury hedges all fixed rate assets with a term of more than one year on a deal-by-deal basis to within three-months repricing with the use of variable vs. fixed interest rate swaps. The market for these vanilla swaps is deep, with the result that such hedging is efficient. Likewise, Central Treasury also hedges all fixed rate deposits with a term of more than one year to within three-months repricing. These derivative hedging trades are executed with the bank's interest rate trading desk. Limits exist to ensure there is no undesired risk retained within any business or product area.

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 duration of the banking group's discretionary liquid asset portfolio, or through derivative transactions which transfer the risk into the trading books within the Corporate Client division to be traded with the external market. The Central Treasury mandate allows for a tactical response to market opportunities which may arise during changing interest rate cycles. Any resultant interest rate position is managed under the Market Risk Limits.

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 2012

£'million	Not >3 months	>3 months but <6 months	>6 months but <1 year	> 1 year but <5 years	>5 years	Non-rate	Total non-trading
Cash and short-term funds – banks	2 415	–	3	1	–	26	2 445
Investment/trading assets	1 361	145	112	218	499	436	2 771
Securitised assets	316	–	–	–	–	324	640
Advances	6 237	181	197	466	9	–	7 090
Non-rate assets	–	–	–	180	–	1 337	1 517
Assets	10 329	326	312	865	508	2 123	14 463
Deposits – banks	(506)	(27)	(30)	(39)	–	(15)	(617)
Deposits – retail	(7 195)	(1 226)	(555)	(413)	–	(70)	(9 459)
Negotiable paper	(584)	(519)	–	(88)	–	–	(1 191)
Investment/trading liabilities	(803)	–	–	(170)	–	(157)	(1 130)
Securitised liabilities	(258)	–	–	–	–	(250)	(508)
Subordinated liabilities	–	–	–	(34)	(598)	–	(632)
Non-rate assets	(7)	–	–	–	–	(890)	(897)
External liabilities	(9 353)	(1 772)	(585)	(744)	(598)	(1 382)	(14 434)
Intercompany loans	501	–	–	255	352	69	1 177
Shareholders' funds	(67)	–	–	–	–	(1 271)	(1 338)
Balance sheet	1 408	(1 446)	(273)	376	262	(462)	(135)
Off-balance sheet	395	87	640	(405)	(457)	202	462
Repricing gap	1 805	(1 359)	367	(29)	(195)	(259)	330
Cumulative repricing gap	1 805	446	813	784	589	330	

Australia – interest rate sensitivity as at 31 March 2012

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	383	–	–	–	–	–	383
Investment/trading assets	1 091	30	–	183	–	6	1 310
Securitised assets	233	60	134	389	9	–	825
Advances	1 769	45	74	200	26	65	2 179
Other assets	–	–	–	–	–	534	534
Assets	3 476	135	208	772	35	605	5 231
Deposits – non-banks	(1 562)	(531)	(73)	(138)	(11)	(56)	(2 371)
Negotiable paper	(506)	(7)	(8)	(650)	–	(27)	(1 198)
Securitised liabilities	(813)	–	–	–	–	–	(813)
Subordinated loans	(71)	–	–	–	–	–	(71)
Other liabilities	–	–	–	–	–	(181)	(181)
Liabilities	(2 952)	(538)	(81)	(788)	(11)	(264)	(4 634)
Intercompany loans	–	–	–	–	–	–	–
Shareholders' funds	–	–	–	–	–	(597)	(597)
Balance sheet	524	(403)	127	(16)	24	(256)	–
Off-balance sheet	109	(37)	(101)	63	(24)	(10)	–
Repricing gap	633	(440)	26	47	–	(266)	–
Cumulative repricing gap	633	193	219	266	266	–	

Economic value sensitivity as at 31 March 2012

For the reasons outlined above, 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 the values of the mark-to-market values of the lending and deposit taking activities, should such a hypothetical scenario arise. This sensitivity effect does not have a significant direct impact on our equity.

UK and Europe

	Sensitivity to the following interest rates (expressed in original currencies)				
’million	GBP	USD	EUR	Other (GBP)	All (GBP)
200bp down	(25.9)	1.2	0.9	(0.2)	(24.0)
200bp up	25.9	(1.2)	(0.9)	0.2	24.0

Australia

’million	AUD
200bp down	(5.91)
200bp up	5.91

Liquidity risk

Liquidity risk description Audited

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 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 in the normal course of business, without adversely affecting 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, to be implemented in 2015 and 2018
- The risk appetite is clearly defined by the board and each geographic entity must have its own board approved policies with respect to liquidity risk management

Investec Bank plc cash and near cash
up 5% to
£4 485 million

- Each geographic entity must be self sufficient from a funding and liquidity standpoint 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 collection 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 both domestic and offshore markets through the Central Treasury divisions
- The 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.

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

Management uses assumptions-based planning and scenario modelling that considers market conditions, prevailing interest rates, and projected balance sheet growth, to estimate future funding and liquidity needs 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 structural and term funding, resulting in strong balance sheet liquidity ratios. 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 contingent event, we are able to generate sufficient liquidity to withstand short-term liquidity stress or market disruptions.

We maintain a funding structure with stable private client deposits and long-term wholesale funding well in excess of illiquid assets. We target a diversified funding base, avoiding undue concentrations by investor type, maturity, market source, instrument and currency. This validates our ability to generate funding from a broad range of sources in a variety of geographic locations, 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 client risk assets. We continue to develop products to attract and service the investment needs of our private client client base. Although the contractual repayments of many private client customer accounts are on demand or at short notice, in practice such accounts remain a stable source of funds. Our Private Client division continued to successfully raise private client deposits despite competitive pressures with total deposits increasing by 3.6% from 1 April 2011 to £12.9 billion at 31 March 2012. We also have a number of innovative retail deposit initiatives within our Corporate Client division and these continued to experience strong inflows during the financial year. On average our fixed and notice customer deposits have amounted to approximately 70% of total deposits since April 2006, thereby displaying a strong 'stickiness' and willingness to reinvest by our retail customers.

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

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

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 term 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.

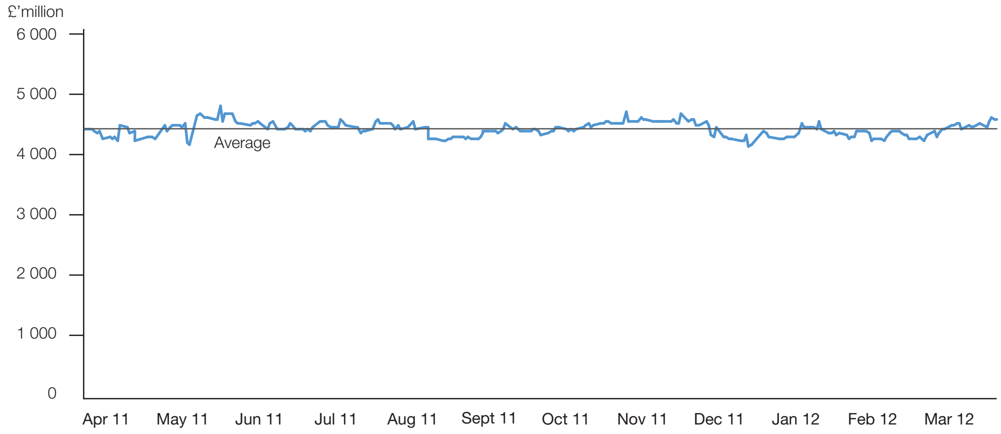
As mentioned above, we hold a liquidity buffer in the form of unencumbered readily available, high quality liquid assets, typically in the form of government or rated securities eligible for repurchase with the central bank, and near cash well in excess of the statutory requirements as protection against 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. We do not rely on interbank deposits to fund term lending. From 1 April 2011 to 31 March 2012 average cash and near cash balances over the period amounted to £4.4 billion (£3.5 billion in UK and Europe and A$1.4 billion in Australia).

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

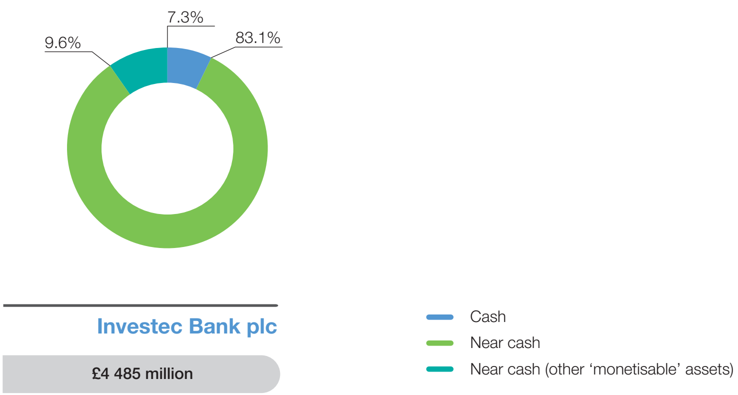
Each banking entity within the group maintains a contingency funding plan to, as far as possible, protect stakeholder interests and maintain market confidence in order to ensure a positive outcome in the event of a liquidity crisis. The liquidity contingency plans outline extensive early warning indicators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

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.

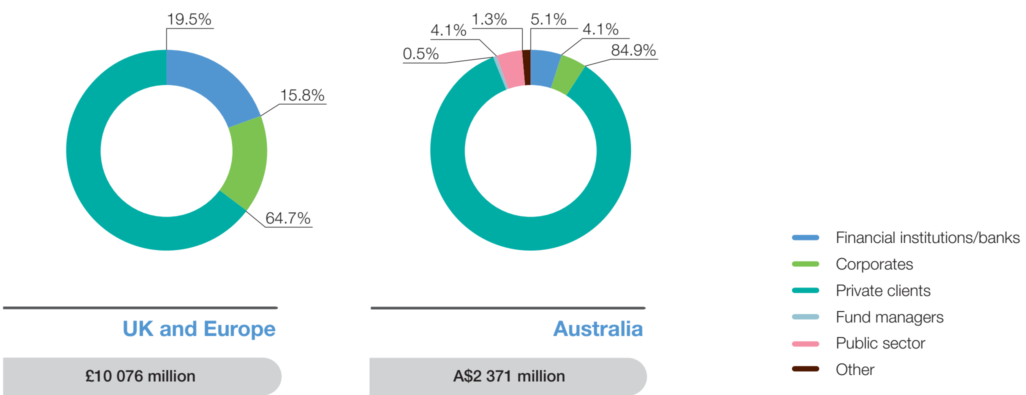
Investec Bank plc (UK, Europe and Australia) cash and near cash trend



An analysis of cash and near cash



Bank and non-bank depositor concentration by type



Liquidity mismatch

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

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

The liquidity position of the group strengthened in 2012, and we continued to enjoy strong inflows of customer deposits whilst maintaining good access to wholesale markets despite the ongoing Eurozone crisis and underlying market conditions. Our liquidity and funding profile reflects our strategy, risk appetite and business activities. 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 assets and liabilities with the underlying contractual maturity as determined by the cash flow profile for each deal
- As an integral part of the broader liquidity generation strategy, we maintain a liquidity buffer in the form of unencumbered cash, government, or 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 repo'ing or selling these securities, we have:
  - Set the time horizon to 'on demand' to monetise our statutory liquid assets for which liquidity is guaranteed by the central bank
  - Set the time horizon to one month to monetise our cash and near cash portfolio of 'available-for-sale' discretionary treasury assets, where there are deep secondary markets for this elective asset class
  - 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'. Many retail deposits, which are included within customer accounts, are repayable on demand or at short notice on a contractual basis. In practice, these instruments form a stable base for the group's operations and liquidity needs because of the broad base of customers. To this end, behavioural profiling is applied to liabilities with an 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. This is used to identify significant additional sources of structural liquidity in the form of core deposits that exhibit stable behaviour. In addition, re-investment behaviour, with profile and attrition based on history, is applied to term deposits in the normal course of business.

Many retail deposits, which are included within customer accounts, are repayable on demand or at short notice on a contractual basis.

UK and Europe

Contractual liquidity as at 31 March 2012

£'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	2 241	192	10	–	2	–	–	2 445
Investment/trading assets	435	1 047	73	169	312	851	863	3 750
Securitised assets	45	1	1	1	2	29	561	640
Advances	6	299	449	722	870	2 936	1 808	7 090
Other assets	172	795	22	12	15	95	414	1 525
Assets	**2 899**	**2 334**	**555**	**904**	**1 201**	**3 911**	**3 646**	**15 450**
Deposits – banks	(26)	(115)	(51)	(28)	(30)	(122)	(245)	(617)
Deposits – non-banks	(848)^	(1 281)	(2 568)	(2 524)	(761)	(1 365)	(112)	(9 459)
Negotiable paper	(196)	(214)	(18)	(20)	(29)	(620)	(172)	(1 269)
Securitised liabilities	(258)	–	–	–	–	–	(250)	(508)
Investment/trading liabilities	(756)	(646)	(8)	(15)	(14)	(406)	(82)	(1 927)
Subordinated liabilities	–	–	–	–	–	(34)	(598)	(632)
Other liabilities	(195)	(594)	(40)	(28)	(18)	(42)	(63)	(980)
Liabilities	**(2 279)**	**(2 850)**	**(2 685)**	**(2 615)**	**(852)**	**(2 589)**	**(1 522)**	**(15 392)**
Intercompany loans	**28**	**16**	**–**	**–**	**45**	**804**	**388**	**1 281**
Shareholders' funds	**–**	**–**	**–**	**–**	**–**	**–**	**(1 339)**	**(1 339)**
Contractual liquidity gap	**648**	**(500)**	**(2 130)**	**(1 711)**	**394**	**2 126**	**1 173**	**–**
Cumulative liquidity gap	648	(148)	(1 982)	(3 693)	(3 299)	(1 173)	–	–

Behavioural liquidity (as discussed on page 87)

£'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	1 643	(656)	(757)	166	165	(1 338)	777	–
Cumulative	1 643	987	230	396	561	(777)	–	–

^ *The deposits shown in the demand column at 31 March 2012 reflect cash margin deposits held.*

Australia

Contractual liquidity as at 31 March 2012

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	383	–	–	–	–	–	–	383
Investment/trading assets*	1 139	12	25	6	8	64	56	1 310
Securitised assets	2	29	73	79	171	461	10	825
Advances**	17	104	139	324	434	1 012	149	2 179
Other assets	–	5	27	36	81	53	332	534
External assets	1 541	150	264	445	694	1 590	547	5 231
Deposits – non-banks	(435)^	(279)	(842)	(544)	(106)	(153)	(12)	(2 371)
Negotiable paper	–	(26)	(176)	(10)	(14)	(972)	–	(1 198)
Securitised liabilities	(2)	(27)	(69)	(344)	(371)	–	–	(813)
Subordinated liabilities	–	–	–	–	–	(71)	–	(71)
Other liabilities	–	(2)	(12)	(18)	(52)	(28)	(69)	(181)
Liabilities	(437)	(334)	(1 099)	(916)	(543)	(1 224)	(81)	(4 634)
Intercompany loans	–	–	–	–	–	–	–	–
Shareholders' funds	–	–	–	–	–	–	(597)	(597)
Contractual liquidity gap	1 104	(184)	(835)	(471)	151	366	(131)	–
Cumulative liquidity gap	1 104	920	85	(386)	(235)	131	–	–

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

A$'million	Demand	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	>5 years	Total
*Investment/trading assets	–	280	135	62	137	814	118	1 546
**Advances	207	98	127	289	364	945	149	2 179

Behavioural liquidity (as discussed on page 87)

A$'million	Demand	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	>5 years	Total
Behavioural liquidity gap	1 476	(245)	(841)	(644)	28	358	(132)	–
Cumulative	1 476	1 231	390	(254)	(226)	132	–	–

^ *Includes call deposits of A$414 million and the balance reflects term deposits which have finally reached/are reaching contractual maturity.*

4

Balance sheet risk year in review

UK and Europe

The official UK Bank rate remained at 0.5% during the period under review, marking three years of record low rates. The MPC fended off some calls for a rate increase over spring 2011 while inflation was rising (CPI inflation eventually hit 5.2% in September), before signs of a slowdown in the economy and a tightening in credit conditions resulted in the committee sanctioning further Quantitative Easing (QE) in October. Originally the MPC voted to add a further £75 billion of asset purchases to take the target to £275 billion, but raised the QE target by another £50 billion in February to £325 billion. In what was a choppy year due to factors such as the weather and an extra Bank holiday for the Royal Wedding, the British economy shrank by 0.3% in the final quarter of calendar year 2011, but the general expectation is for a modest rebound in Q1 2012. The UK's long-term sovereign credit rating remains AAA according to all the main ratings agencies, but both Moody's and Fitch placed Britain on a negative outlook. However there has not been a perceptible market reaction to this news.

Signs of firm economic growth in Europe for much of the beginning of the financial year resulted in the ECB raising its main refinancing rate by 25bps in both April and July 2011, to 1.5%. However these hikes were reversed in November and December as the economic outlook began to deteriorate rapidly. At the end of March 2012 the refinance rate stood at 1.0%. As the Eurozone debt crisis continued, Portugal needed to be bailed out in May 2011, joining Greece and Ireland. Concerns over the vulnerability of various peripheral Euro area sovereign markets, especially Italy and Spain, plus the possible knock-on effects on the Eurozone banking system, triggered a major tightening in credit conditions from June 2011 onwards. To help to get the flow of credit moving again, and to help banks refinance an estimated €240 billion of liability maturities in the first three months of 2012, the ECB held two three-year Longer-Term Refinancing Operations (LTROs), whose combined take-up exceeded €1 trillion. Indeed at the end of March the Eurosystem had over €750 billion of excess liquidity. In addition, a second Greek bailout helped to ease fears of an uncontrolled default by the Hellenic Republic, despite a 53.5% nominal haircut being enforced through a bond swap. Also the Euro area authorities gave the go ahead to run the two rescue facilities, the EFSF and its replacement the ESM, in tandem, thereby raising Europe's bailout capacity by €200 billion to €700 billion. From the end of 2012 there were some signs that the Euro area economy could have begun to stabilise and by the end of the period, key yields and capital market spreads had come down sharply.

The Eurozone banks were most impacted, with US money funds refusing to place funds with them even on a short-term basis. With the announcement of the provision of USD swap lines between the Fed and the ECB as well as the announcement by the new ECB President of the three year LTRO to be held in December, panic subsided. €489 billion were provided in the first LTRO and an additional €530 billion were provided in February 2012. Appetite for risk assets, especially those with maturities shorter than the maturity date of the LTRO, increased dramatically. Various 'liquidity risk' indicators reversed their impending doom direction and markets have acquired a faintly optimistic tone. Greece did default in an orderly way but there are still questions about the ability and willingness of the Eurozone to provide the backstop facilities to ensure Spain, Portugal or Italy do not provide a new focus for sovereign risk fears.

The bank entered the year with a healthy surplus liquidity position which was managed down over the course of the year. In December the bank re-entered the mass retail funding market with two new notice products and attractive rates on term fixed rate products. The bank also improved the payoff profiles for its structured deposit offering. Both actions have seen a healthy in-flow of retail funds. No wholesale funding transactions were entered into over the course of the year as retail continued to provide the funds necessary for the business. Cash and near cash balances as at 31 March 2012 amounted to £3.6 billion (2011: £3.5 billion) with total customer deposits increasing by 7.4% during the year to £9.5 billion.

Australia

The Australian economy has remained one of the strongest advanced economies in the world, supported by the connection to Asia with the trade surplus up 1.5% of GDP. The Australian Dollar exhibited periods of extreme strength from time to time, exceeding the USD1.10 level for a while in July, but closed the 2011/12 financial year at USD1.0350. The unemployment rate has remained subdued at 5.3% albeit some signs of softness in employment growth occurred through the year and significant shifts in structural demand have been evident arising from the demand in the mining sector but weakness in retail trade. Inflation remains contained with the underlying rate remaining in the middle of the Reserve Bank of Australia's 2% – 3% target band. Public finances are in a positive condition relative to most Western governments, with Australian Commonwealth Government net debt peaking at around 9% of GDP. Credit growth, particularly at the consumer end, remains weak and the household savings ratio remains strongly positive, in part reflecting a continued cautionary approach by consumers, reflecting sensitivity to the economic headlines relating to European sovereign risk that dominated the second half of 2011. The Australian banking system has strengthened liquidity, as a result of the weak demand for credit and higher savings ratio, along with the new legislative support for covered bonds adding a new instrument for access to term debt funding. As expected, the government also reviewed the threshold level for its retail deposit guarantee, and adjusted the level from $1 million (initially set in October 2008 in response to the global financial crisis) to A$250 000 on a continuing basis. In response to the evolving environment the Reserve Bank of Australia reduced interest rates in the second half of the year with two reductions of 0.25% each to take the cash rate from 4.75% to 4.25%.

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$1.4 billion. Total customer deposits increased by 7.2% from 1 April 2011 to A$2.4 billion at 31 March 2012.

Investec group

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

- Investec Bank plc:
  - We issued a further tranche of £75 million of subordinated debt maturing February 2022
- Investec Bank (Australia) Limited (IBAL):
  - Undertook a further term securitisation of $215 million Professional Finance assets from the Impala securitisation vehicle
  - IBAL bought-back A$125 million of previously issued government guaranteed term debt.

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.

Regulatory considerations – balance sheet risk

Regulators are proposing to both strengthen and harmonise global liquidity standards and to ensure a strong financial sector and global economy. We believe that we are well positioned for the proposed regulatory reform as we have reduced risk and maintained strong capital, funding and liquidity.

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.

The group has committed itself to implementation of the BCBS guidelines for liquidity risk measurement standards and monitoring the enhanced regulatory framework to be established. 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 of these standards, whilst in other geographies we have commenced with strategies to reshape our liquidity and funding profile where necessary, as we move towards the compliance timeline.

The strategic impact of Basel III internationally is significant, and has the potential to change the business model of non-compliant banks whilst the regulatory developments could result in additional costs.

We have been an active participant in regulatory and industry forums to promote best practice standards on liquidity management.

Two key liquidity measures as defined are:

Liquidity coverage ratio (LCR)

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

Net stable funding ratio (NSFR)

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

Both the LCR and the NSFR will be subject to an observation period and will include a review clause to address any unintended consequences. 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.

UK

In December the FSA conducted its Supervisory Liquidity Review Process (SLRP) for the bank. This was followed up by its Individual Liquidity Guidance letter in February 2012.

The UK is committed to implementing the BCBS guideline. Our UK operation currently meets both the new liquidity ratios (LCR and NSFR).

The UK government's recent announcement on regulatory reform, particularly the Independent Commission on Banking, implies considerable change might lie ahead for the banking industry. Our UK business continues to engage with the regulators to establish the potential implications for the bank.

Investec Bank plc currently meets both the new liquidity ratios (LCR and NSFR).

Australia

The Australian regulatory environment has progressed, as expected, towards full introduction of Basel III standards through the release by APRA of discussion papers, draft standards and certain new laws passed by the Federal Parliament.

In respect of Liquidity, APRA released a Discussion Paper titled 'Implementing Basel III Liquidity Reforms in Australia' and a 'Draft Prudential Standard APS 210 Liquidity'. APRA proposes to apply the qualitative liquidity requirements of Basel III upon the release of the final APS 210 (expected in mid to late 2012), and the quantitative liquidity requirements for 'larger' ADIs in line with the Basel III minimums and timeframes with only minor modification relating to the national discretion provided under Basel III where clarification is required for Australian circumstances. The most notable modification being the potential allowance of a secured committed liquidity facility with the Reserve Bank of Australia as a mechanism for ADIs to cover any shortfall in Australian Dollars between the ADIs liquidity needs at its holding of HQLA (High Quality Liquid Assets) due to the insufficient supply of HQLA in Australia.

As part of the evolution of these reforms, the Federal government passed legislation enabling the issuance of Covered Bonds by Australian Banks, and the Federal Government reviewed and modified its guarantee regime for retail deposits (the Financial Claims Scheme), confirming the commitment to the scheme and lowering the coverage level from the A$1 million threshold, set in October 2008 in response to the global financial crisis, to a ongoing new threshold of A$250 000.

Investec Australia currently meets both the new liquidity ratios (LCR and NSFR).

Operational risk

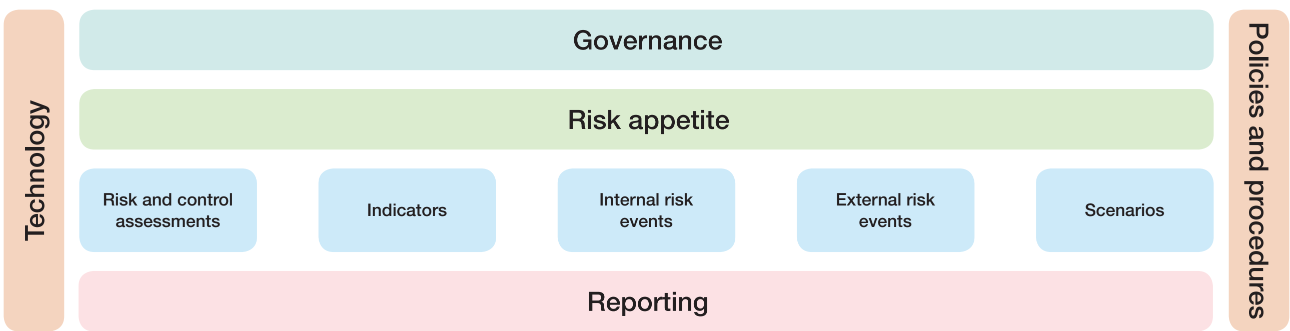
Operational risk is defined as the risk of loss or earnings volatility arising from inadequate or failed internal processes, people and systems, or from external events. Loss is not limited to financial consequences, but may affect business objectives, customer service and regulatory responsibilities.

We recognise that there is a significant risk inherent in the operations of a bank. We therefore endeavour to manage exposures and events, through the promotion of sound operational risk management practices, to an acceptable level. This is done taking the cost and benefits of mitigation into account.

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

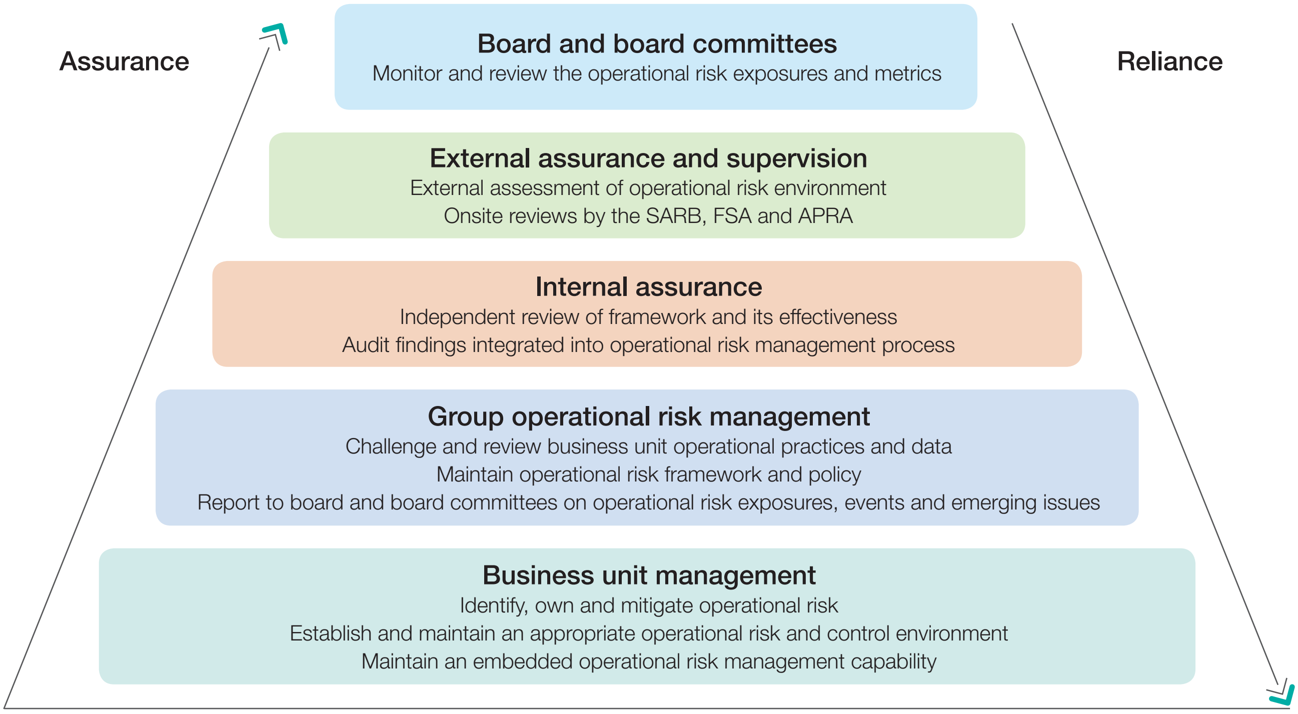
Operational risk management framework

The objective of the framework is to set out a structured and efficient approach to manage operational risk and thereby improve business performance and comply with regulatory requirements.



Governance

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



At a group level policies and practices have been established by group Operational Risk Management to ensure that operational risk is managed in an appropriate and consistent manner.

Operational risk at the business unit level is managed by embedded risk managers (ERMs). Significant risk exposures and events are subject to action and escalation by ERMs in terms of the Operational Risk Appetite policy. This policy sets out the operational risk exposure that the group is willing to accept or retain.

Operational risk practices

The following practices are key to the management of operational risk as described below:

Practice	Activity
Risk and control assessment	• Qualitative assessment to identify key risks and controls • Allows for improvement of ineffective controls and risk management decisions through an enhanced understanding of the operational risk profile.
Risk indicators	• Monitoring of risk exposures • Assists in predictive capability through provision of early warning signs.
Internal risk events	• An incident, event or loss resulting from failed processes, people and systems or external events • A causal analysis is performed to link the event and consequence to risks and controls • Enables business to identify and correct control weakness.
External risk events	• Collected from selected public sources and analysed in a similar manner to internal risk events • Analysis allows for improvement of the control environment through the awareness of possible risks.
Scenarios	• Extreme, unexpected but plausible loss events not yet experienced for which the financial and non-financial impacts are evaluated • Used to measure the exposure arising from key risks, which is considered in determining internal operational risk capital requirements.

Practice	Activity
Reporting	• Group operational risk management reports to the board, BRCC and audit committee on a regular basis • Purpose is to ensure that risk exposures are understood at all levels throughout the group and key risks are appropriately escalated and managed on a timely basis.
Technology	• An infrastructure supports practices through capture, assessment and linking of operational risks and related data.

The practices which form part of the operational risk management framework, as described above, are monitored on an ongoing basis by group Operational Risk Management and the ERMs. These components are integrated to inform each other, enabling more efficient monitoring of operational risk data integrity, compliance with the policies and practices, and the operational risk profile across the group.

Key operational risk considerations

The following risks, which may result in reduction of earnings and/or loss of value should they materialise, are a key focus of the group.

Financial crime

Financial crime is the risk of loss due to, but not limited to, fraud, forgery, theft and corruption. It also includes the execution of trades which have not been appropriately authorised. It is identified, assessed, monitored and measured to ensure that the risk of loss is understood, managed and mitigated.

Financial crime is mitigated as follows:

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

Senior management is responsible for implementing appropriate financial crime risk mitigation and control practices. Group Forensic Risk management provides and maintains the framework, policies, practices and monitoring to promote sound risk management practices and provide investigative support.

Regulatory and compliance risk

Regulatory and compliance risk relates to the failure to comply with applicable laws, regulation or codes.

It has become increasingly significant due to the extent and complexity of laws and regulations with which the group is expected to comply. Group Compliance and group Legal assist in the management of this risk through the identification and adherence to legal and regulatory requirements to which the group is or will become subject.

Information security risk

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

Process management risk

This risk of loss arises due to failed process management. Losses in this area are continually mitigated through careful consideration of control effectiveness.

Developments

During the year under review the operational risk management function revisited the operational risk governance structure to ensure alignment with sound practices, other risk disciplines and changes within the group structure. Output from other assurance activities has also been integrated to enhance the operational risk management process.

Enhancement of the risk and control environment remains a key area of focus through the constant development of the operational risk management framework as practices are advanced. This is also achieved through an increase in industry interaction, which creates awareness of best practice.

The group also monitors regulatory developments and actively engages 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 ensures that there is an exchange of information in order to enhance the mitigation of operational risks.

Business continuity management

The group maintains a global business continuity management capability which incorporates an appropriate level of resilience into the bank's operations to minimise the risk of severe operational disruptions occurring.

In the event of a major disruption, an incident management framework will be used to manage the disruption. Continuity will be achieved through a flexible and adaptable response, which includes relocating impacted business to the designated recovery site(s). Dedicated resources ensure all governance processes are in place with business and technology teams responsible for activating and managing the recovery process.

The group conducts regular exercises and testing of recovery procedures to ensure that its recovery capability remains appropriate.

Reputational risk

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

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

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

Pension risk

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

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

Primary sources at risk include:

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

The bank monitors the position of the funds closely and regularly assesses potential adverse movements in the schemes in close conjunction with external, independent advisors. Further information is provided on pages 188 to 190.

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.

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.

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

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

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

The legal risk policy is implemented through:

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

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

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

Capital management and allocation

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

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

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

Philosophy and approach

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

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

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

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

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

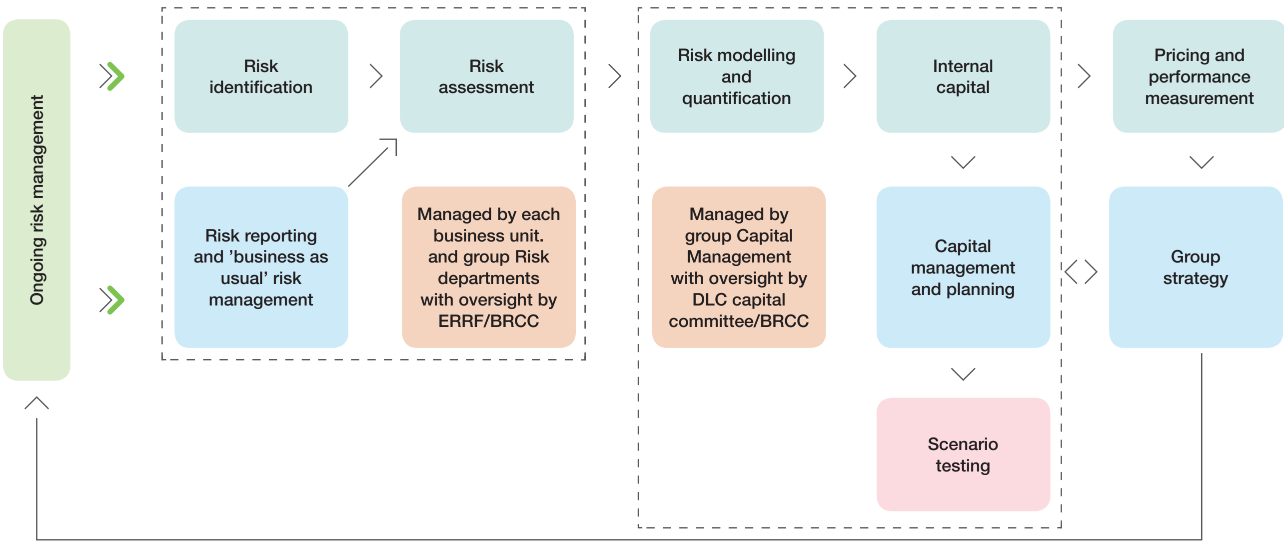
Internal capital performs a critical role in:

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

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

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

The (simplified) integration of risk and capital management



Risk assessment and identification

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

Risk reporting

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

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

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

Role of regulatory capital in capital management

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

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

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

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

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

Risk modelling and quantification (internal capital)

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

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

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

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

Capital management, planning and scenario testing

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

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

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

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

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

Pricing and performance measurement

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

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

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

Responsibility for the risk and capital management process

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

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 use of these committees ensures that capital is actively managed from the lowest and most detailed reporting level and cascades up to the ultimate responsible body – the BRCC.

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

- Business units, in particular those who conduct their business out of a regulated entity and use large amounts of capital (Private Client and Corporate Client):
  - 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 coordinates, 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 identifies, assesses and quantifies key operational risks arising from Investec's operations. Quantification is then used as the basis for the operational risk capital used held via the internal capital framework
  - Underpinning all risk management functions is their IT Support division, which ensures that all applications used to calculate and report risk are functioning properly and reconcile to underlying source systems
- Board and group executive:
  - The board has ultimate responsibility for the oversight of day-to-day risk management, capital management and ensuring that both risk and capital are managed commensurate with our strategy and risk appetite. This responsibility is mandated to BRCC
  - The BRCC has delegated management of capital to the DLC capital committee and risk management to ERRF.

Regulatory considerations – capital management

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

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

Capital disclosures in terms of Basel II

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

Capital management and allocation

Capital structure

Summary information on the terms and conditions of the main features of all capital instruments is provided on page 192.

	IBP* £'million	IBAL* A$'million
As at 31 March 2012		
Regulatory capital		
Tier 1		
Called up share capital	1 071	292
Share premium	129	–
Retained income	328	297
Treasury shares	–	–
Other reserves	194	(7)
Non-controlling interest in subsidiaries	(2)	–
Goodwill and intangible assets	(379)	(90)
Primary capital (tier 1)	1 341	492
Less: deductions	(22)	(58)
	1 319	434
Tier 2 capital		
Aggregate amount	649	98
Less: deductions	(22)	(7)
	627	91
Other deductions from tier 1 and tier 2	(26)	–
Total capital	1 920	525
As at 31 March 2011		
Regulatory capital		
Tier 1		
Called up share capital	1 026	292
Share premium	105	–
Retained income	314	364
Treasury shares	–	–
Other reserves	196	(5)
Minority interests in subsidiaries	(7)	–
Goodwill and intangible assets	(381)	(90)
Primary capital (tier 1)	1 253	561
Less: deductions	(22)	(63)
	1 231	498
Tier 2 capital		
Aggregate amount	577	104
Less: deductions	(22)	(6)
	555	98
Other deductions from tier 1 and tier 2	(27)	–
Total capital	1 759	596

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

Capital management and allocation (continued)

Capital requirements

	IBP* £'million	IBAL* A$'million
As at 31 March 2012		
Capital requirements	915	389
Credit risk – prescribed standardised exposure classes	731	328
Corporates	226	256
Secured on real estate property	239	4
Counterparty risk on trading positions	21	7
Short-term claims on institutions and corporates	28	2
Retail	76	9
Institutions	14	14
Other exposure classes	127	36
Securitisation exposures	22	–
Equity risk – standardised approach	26	9
Listed equities	2	2
Unlisted equities	24	7
Market risk – portfolios subject to internal models approach	53	2
Interest rate	16	2
Foreign exchange	13	–
Commodities	–	–
Equities	24	–
Operational risk – standardised approach	83	50
As at 31 March 2011		
Capital requirements	872	442
Credit risk – prescribed standardised exposure classes	707	385
Corporates	219	295
Secured on real estate property	259	6
Counterparty risk on trading positions	17	9
Short-term claims on institutions and corporates	19	3
Retail	53	11
Institutions	20	12
Other exposure classes	120	49
Securitisation exposures	23	–
Equity risk – standardised approach	21	8
Listed equities	2	3
Unlisted equities	19	5
Market risk – portfolios subject to internal models approach	50	2
Interest rate	14	1
Foreign exchange	20	–
Commodities	–	1
Equities	16	–
Operational risk – standardised approach	71	47

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

Capital adequacy

As at 31 March 2012	IBP* £'million	IBAL* A$'million
Primary capital (tier 1)	1 341	492
Less: deductions	(22)	(58)
	1 319	434
Tier 2 capital		
Aggregate amount	649	98
Less: deductions	(22)	(7)
	627	91
Other deductions from tier 1 and tier 2	(26)	–
Total capital	1 920	525
Risk-weighted assets (banking and trading)	11 421	2 983
Credit risk – prescribed standardised exposure classes	9 130	2 516
Corporates	2 819	1 971
Secured on real estate property	2 983	32
Counterparty risk on trading positions	264	43
Short-term claims on institutions and corporates	355	13
Retail	950	68
Institutions	176	109
Other exposure classes	1 583	280
Securitisation exposures	274	–
Equity risk – standardised approach	321	68
Listed equities	25	16
Unlisted equities	296	52
Market risk – portfolios subject to internal models approach	659	16
Interest rate	200	14
Foreign exchange	159	–
Commodities	1	2
Equities	299	–
Operational risk – standardised approach	1 037	383
Capital adequacy ratio	16.8%	17.6%
Tier 1 ratio	11.5%	14.6%

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

Capital management and allocation (continued)

Capital adequacy (continued)

As at 31 March 2011	IBP* £'million	IBAL* A$'million
Primary capital (tier 1)	1 253	561
Less: deductions	(22)	(63)
	1 231	498
Tier 2 capital		
Aggregate amount	577	104
Less: deductions	(22)	(6)
	555	98
Other deductions from tier 1 and tier 2	(27)	–
Total capital	1 759	596
Risk-weighted assets (banking and trading)	10 911	3 387
Credit risk – prescribed standardised exposure classes	8 851	2 957
Corporates	2 743	2 266
Secured on real estate property	3 232	44
Counterparty risk on trading positions	218	66
Short-term claims on institutions and corporates	236	23
Retail	668	88
Institutions	253	95
Other exposure classes	1 501	375
Securitisation exposures	284	–
Equity risk – standardised approach	264	57
Listed equities	30	20
Unlisted equities	234	37
Market risk – portfolios subject to internal models approach	626	14
Interest rate	174	8
Foreign exchange	246	1
Commodities	–	5
Equities	206	–
Operational risk – standardised approach	886	359
Capital adequacy ratio	16.1%	17.6%
Tier 1 ratio	11.3%	14.7%

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

Credit ratings

In terms of our dual listed companies structure, Investec plc and Investec Limited are treated separately from a credit point of view. As a result, the rating agencies have assigned ratings to the significant banking entities within the group, namely Investec Bank plc, Investec Bank Limited and Investec Bank (Australia) Limited. Certain rating agencies have assigned ratings to the holding companies, namely, Investec plc and Investec Limited. Our ratings as at 31 March 2012 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	Long term ratings			
	Foreign Currency		BBB-	BBB-
	National			
	Short term rating			
	Foreign Currency		F3	F3
	National			
	Viability rating		bbb-	
	Support rating		5	3
Moody's	Long term deposit ratings			
	Foreign Currency	Ba1	Baa3	Ba1
	National			
	Short term deposit rating			
	Foreign Currency	Non-prime	Prime-3	Non-prime
	National			
	Bank financial strength rating		D+	D
Global Credit Ratings	Local currency			
	Short-term rating		A2	
	Long-term rating		BBB+	

Internal audit

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

4

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

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 heads of internal audit are responsible for coordinating internal audit efforts to ensure coverage is global and departmental skills are leveraged to maximise efficiency. For administrative purposes the heads of internal audit also report to the global head of corporate governance and compliance. The functions comply with the international standards for the professional practice of internal auditing.

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. An update on the status of previously raised issues is provided by Internal Audit to each audit committee, if there are concerns in relation to overdue issues these will be escalated to the executive risk review forum to expedite resolution.

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

Compliance

In keeping with our core values, Investec endeavours to comply with the highest professional standards of integrity and behaviour, always keeping the interests of our customers and shareholders at the forefront of the corporate agenda. We also seek to bring high standards of compliance good practice to all our jurisdictions in order to build trust and promote the quality of service to our colleagues and clients.

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. At Investec we manage compliance risk through internal policies and processes, which include legal, regulatory and operational requirements relevant to the business. Those responsible for compliance work closely with the business and operational units to ensure consistent management of compliance risk. They also provide regular training and advice on emerging policy issues to ensure that all employees are familiar with their regulatory obligations.

As well as monitoring the business units to ensure adherence to policies and procedures, compliance officers are charged with developing and maintaining constructive working relationships with regulators and supervisors in all jurisdictions.

In addition to monitoring compliance with the provisions prescribed by the respective regulatory authorities, key compliance functions include ensuring that the business is not being used for money laundering, terrorist financing or market abuse, that customers are fairly treated and afforded the necessary consumer protections and that conflicts of interests are adequately identified and managed. Current regulatory themes and developments in these and other areas are covered in the respective jurisdictions' year in review below.

The volume of regulatory pressure on the sector to implement reforms has continued to be resource intensive, with little indication that the rate of regulatory intervention is likely to slow down in the near future. Despite this pressure, Investec has continued to successfully adapt to the changing landscape by dedicating significant resources to monitoring, analysing and implementing regulatory developments as they arise.

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.

UK and Europe – year in review

We have seen a continued effort by the UK and European supervisory authorities to enhance stability and resilience in the banking sector by focusing on structural reforms and macro-prudential regulation; specifically in relation to capital, resolution, liquidity and market infrastructure.

Independent Commission on Banking

One of the key UK developments, in the form of the proposals by the Independent Commission on Banking (ICB), follows the emerging trend for a high impact approach to regulation and the tendency for it to drive firms' strategy setting.

The ICB published its final report in September 2011 and the key recommendations are as follows:

- Retail ring-fence: Ring-fence retail banking divisions within separate subsidiaries, making it easier and less costly to wind down those parts of banks that get into financial difficulty
- Loss absorption: Improving banks' ability to absorb losses by requiring large UK retail banks to maintain equity capital of at least 10% of risk-weighted assets and large UK banking groups to maintain primary loss absorbing capacity of 17% – 20%.

The UK Government published its White Paper regarding the implementation of the ICB proposals on 14 June 2012. The White Paper includes a proposed *de minimis* exemption from the ICB's ring-fencing requirements for banks with less than £25 billion of mandated customer deposits.

FSA Remuneration Code

Another key development relates to firms' remuneration practices and seeks to address concerns that the financial crisis was partly caused by a bonus culture, which promoted short-termism and resulted in the wrong outcomes for clients. The FSA have finalised Guidance on the Revised Remuneration Code, which contains the FSA's plans for monitoring the implementation of the Code up to and during the 2011/12 annual remuneration review. The Guidance defines 'Remuneration Code Staff' and outlines FSA expectations of firms.

Reforms of the UK Regulatory Framework

Regulators have also increased their attention on the retail space, focusing largely on fair outcomes for consumers and increased supervisory powers in relation to consumer protection measures. Some of the most significant changes to this effect will be delivered by major reforms to the UK regulatory system. The reforms include integration of responsibility for banking supervision into the Bank of England under a new Prudential Regulation Authority and the creation of a consumer champion in the form of the Financial Conduct Authority; a supervisor focused solely on regulating firms' conduct.

Retail Distribution Review/Mortgage Market Review

The FSA have continued with the Retail Distribution Review (RDR) proposals, which aim to improve the quality of service provided to clients in the advice sector. By imposing minimum qualification standards for advisers and therefore increasing professionalism in the sector, as well as requiring firms to be more transparent regarding charging practices and the parameters within which advice is provided i.e. independent or restricted, the FSA hope to rebuild trust in the IFA and investment management community as well as improve outcomes for retail clients. The Mortgage Market Review is the mortgage market equivalent of the RDR, focusing on outcomes for clients in the mortgage space.

Australia – year in review

Reform within the Australian regulatory framework

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. ASIC has taken over the market supervision of market participants which includes Investec Securities (Australia) Pty Limited. In addition to this, ASIC has issued new Market Integrity Rules for Competition in Exchange Markets. Investec Securities has responded to this by implementing the Best Execution Policy and has become a member of the Chi-X.

From an APRA perspective the key proposals include a credit risk review and the implementation of Basel III requirements (Capital and Liquidity Changes). IBAL has implemented the Basel III Securitisation requirements.

Consumer protection

Consumer protection regulation continues to be a key focus for 2011 with ongoing monitoring and reporting of compliance with the prescribed obligations of licensing, fit and proper requirements etc.

The Australian government's 'Future of Financial Advice Reform' is actively exploring ways to improve access to and the quality of advice as well as the 'ban on conflicted remuneration'.

In terms of the Financial Claims Scheme (FCS) there has been a reduction of the government deposit guarantee arrangement from A$1 million to A$250 000 for all investment accounts. This has resulted in a communication to our clients as well as an amendment to the PDS to reflect the new bands of investments in terms of the application of the FCS.

The National Credit Code Act (NCC) has been implemented for the last 12 months and governs the consumer credit code including 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. With regard to responsible lending, ASIC proposes to ensure that all personal loans are carefully assessed to make sure borrowers can afford them. Specific proposals include: imposing affordability tests for all personal loans 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. Investec Australia has been granted its credit licence and has implemented processes to address the requirements contained within the legislation when issuing credit to clients in their personal capacity.

Anti-money laundering and terror financing

There is a new anti-money laundering requirement to register the designated business group with AUSTRAC. This mandatory enrolment will enable AUSTRAC to more accurately identify its regulated population. AUSTRAC will also capture additional information which is necessary to identify which entities are subject to the annual AUSTRAC supervisory levy and the amount of the levy that will apply to each leviable entity.

Corporate governance

Introduction

Investec plc and Investec Limited, together with their subsidiaries, are managed as a single economic enterprise as a result of the dual listed companies structure. Investec Bank plc is a major subsidiary of Investec plc and due to the DLC structure, compliance with many of the specific governance requirements are at group (DLC) level.

This section provides a summary of our corporate governance philosophy and practices. A more detailed review is provided in the Investec group's 2012 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.

Governance framework

The group has adopted a risk and governance structure which allows for the operation of the various committees and forums at group level. This avoids the necessity of having to duplicate various committees and forums at group subsidiary levels. There are, however, sub-committees that oversee the governance and control processes of Investec Bank plc's operations.

The combined board committees of Investec plc and Investec Limited act as board committees of Investec Bank plc as well. A diagram of the group's governance framework can be found on page 37 and details of the various board committees can be found in the Investec group's 2012 annual report.

Board statement

The board of Investec Bank plc takes comfort from the group's corporate governance process as well as from the fact that the board of Investec Bank plc comprises directors who are also on the board of Investec plc and Investec Limited. In addition, as highlighted in the Investec group's 2012 annual report, certain directors are members of the group's audit committee, nominations and directors' affairs committee as well as the board risk and capital committee.

The group remuneration committee, comprising four independent non-executive directors, three of whom are directors of Investec Bank plc, discharges the main functions of a remuneration committee in respect of Investec Bank plc. In particular, the group remuneration committee considers the specific complexities around remuneration, taking into account the specific regulatory requirements applicable to Investec Bank plc.

The board, management and employees of Investec are committed to complying with the disclosure and transparency rules and listing rules of the United Kingdom Listing Authority (UKLA), regulatory requirements in the countries in which we operate and the UK Corporate Governance Code 2010 (the Code), whereby all stakeholders are assured that we are being managed ethically and in compliance with the latest legislation, regulations and best practices.

Board of directors

The composition of the board of Investec Bank plc is set out on page 114.

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 leadership for the bank within a framework of prudent and effective controls which allows risks to be assessed and managed.

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

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

Board committees

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

Below is an overview of the various committees' composition and responsibilities.

Investec board of directors

DLC nominations and directors' affairs committee | Five NEDs (three independent) | Meets 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.

DLC audit committee | Four independent NEDs | Meets four times per annum

Responsibilities, *inter alia*, include:
- Review and oversight of combined reports, financial statements and the 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.

Board risk and capital committee | Three executives eight NEDs (five independent) | Meets 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.

DLC remuneration committee | Four independent NEDs | Meets 12 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.

Investec plc audit committee | Four independent NEDs | Meets four times per annum

Audit and compliance implementation forums

DLC capital committee

Capital planning, allocation and structuring, performance measurement, investment decisions and capital based incentivisation.

Three executives one independent NED

Meets at least quarterly

Executive risk review forum

Measuring, monitoring and mitigation of enterprise wide risk.

Three executives and senior management

Meets weekly

DLC social and ethics committee | Three independent NEDs | Meets four times per annum

Responsibilities, *inter alia*, include:
- Monitoring the group's social and economic development and good corporate citizenship.

Financial reporting and going concern

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

- Budgeting and forecasts
- Profitability
- Capital
- Liquidity.

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

Our financial statements are prepared on a going concern basis.

The board is of the opinion, based on its knowledge of the bank, key processes in operation and specific enquiries, that there are adequate resources to support Investec Bank plc as a going concern for the foreseeable future. Further information on our liquidity and capital position is provided on pages 83 to 92 and pages 96 to 104.

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

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 a management committee and is responsible for 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).

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.

Guided by our purpose to create sustained long-term wealth, we seek to be a positive influence in all our core businesses and in each of the societies in which we operate.

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 committee and are independently assessed by Internal Audit and Compliance.

External audit

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

The audit committee 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 which states that:

- External audit firms will have internal standards and processes to monitor and maintain their independence and these must be presented to the audit committees on an annual basis. These will be considered based on the explicit exclusions contained in existing rules and guidelines
- Safeguards must be in place to ensure that there is no threat to the objectivity and independence in the conduct of the audit, resulting from the provision of non-audit services by the external auditors.

Regulation and supervision

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

Communication, public disclosure obligations and stakeholder relations

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

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

Values and code of conduct

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

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

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

Sustainable business practices

Just as relevant as our business accomplishments is the manner in which we conduct ourselves in attaining them. Our sustainability goals reflect our culture of continuous advancement and reaffirm our belief that sustainability in its broadest sense is about managing and positioning the group for the long term. Investec's sustainability philosophy is based on the recognition that we are a specialist bank and asset manager driven by our commitment to our culture and values.

Guided by our purpose to create sustained long-term wealth, we seek to be a positive influence in all our core businesses and in each of the societies in which we operate. We do this by empowering communities through entrepreneurship and education and leveraging the value in our diversity. We recognise the challenges that climate change presents to the global economy and we will consider supporting any meaningful activity that either reduces the negative impact on, or prolongs the life of, our planet.

Our philosophy seeks to align the interests of shareholders and stakeholders over time, and provides the individual business units and regions with a basis from which to determine their own approach. The group's philosophy is not intended to be mutually exclusive, nor exhaustive, but allows us to concentrate, for now, on key focus areas. Deliberately not driven on a topdown basis, the executive maintains responsibility for oversight, direction, coordination and integration of our sustainability efforts while the individual business units provide the principal drivers behind our activities, in a manner that best makes sense to each.

Directorate Investec Bank plc

Executive directors (details as at the date of this report)

David van der Walt (47)
Chief executive officer
BCom (Hons), CA(SA)

Global head of Corporate and Institutional Banking activities for the Investec group.

Kevin McKenna (45)
BCom, BAcc

Chief operating officer of the bank, and director of Kensington Group plc, Kensington Mortgage Company Limited and Kensington Personal Loans Limited.

Ian Wohlman (57)
ACIB

Head of risk management for the bank.

Allen Zimbler (62)
BA (Hons), MBA, PhD

Chief integration officer for the Investec group, and director of Kensington Group plc.

Non-executive directors (details as at the date of this report)

Sir David Prosser (68)
Non-executive chairman
BSc (Hons), FIA

Non-executive director and joint chairman of Investec plc and Investec Limited.

George Alford (63)
BSc (Econ), FCIS, FIPD, MSI

Senior independent non-executive director of Investec plc and Investec Limited.

Peregrine Crosthwaite (63)
MA (Hons) in modern languages

Non-executive director of Investec plc and Investec Limited.

Bernard Kantor (62)
CTA

Managing director of Investec plc and Investec Limited, director of Investec Bank Limited.

Ian Kantor (65)
BSc (Eng), MBA

Non-executive director of Investec plc and Investec Limited.

Stephen Koseff (60)
BCom, CA(SA), H Dip BDP, MBA

Chief executive officer of Investec plc and Investec Limited, director of Investec Bank Limited.

Fani Titi (50)
BSc (Hons), MA, MBA

Non-executive director and joint chairman of Investec plc and Investec Limited, chairman of Investec Bank Limited.

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Remuneration report

We have a strong entrepreneurial, merit and values-based culture, characterised by passion, energy and stamina.

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

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

Remuneration philosophy, principles and policies

Remuneration philosophy

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

We reward executive directors and employees for their contribution through:

- Payment of an industry competitive annual package (base salary and benefits);
- Variable performance reward (linked to our EVA model as discussed on pages 119 to 122); and
- Ownership in the form of share incentive scheme participation.

We consider the aggregate of the above as the overall remuneration package designed to attract, retain, incentivise and drive the behaviour of our employees over the short, medium and longer term in a risk conscious manner. Overall rewards are considered as important as our core values of work content (greater responsibility, variety of work and high level of challenge) and work affiliation (entrepreneurial feel to the company and unique culture) in the attraction, retention and motivation of employees.

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

The type of people the organisation attracts, and the culture and environment within which they work, remain crucial in determining our success and long-term progress. Our reward programmes are clear and transparent, designed and administered to align directors' and employees' interests with those of all stakeholders and ensure the group's short-, medium- and long-term success.

In summary, we recognise that banks have to divide the return from their enterprises between the suppliers of capital and labour and the societies in which they do business, the latter through taxation and corporate social responsibility activities. Our global remuneration philosophy seeks to maintain an appropriate balance between the interests of these stakeholders, and is closely aligned to our core values and philosophies which include risk consciousness, meritocracy, material employee ownership and an unselfish contribution to colleagues, clients and society.

Remuneration principles

Our remuneration policy is consistent with the following overarching principles:

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

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

- Total rewards comprise a fixed and variable component
- The fixed component of our rewards includes a base salary, pension and benefits and is set at median market levels to contain fixed cost elements
- Variable rewards (a portion of which is deferred for senior employees, FSA Code staff and executive directors) are largely EVA-based (and underpinned by our risk appetite and capital utilisation as discussed on pages 96 to 100)
- Long-term share incentive participation ensures alignment with stakeholders
- Total compensation (base salary, pension, benefits and incentives) is targeted in normal market conditions to the relevant competitive market (see below) at upper quartile levels for superior performance
- Given our stance on the fixed cost component of remuneration (see above), our commitment to inspiring an entrepreneurial culture, and our risk adjusted return on capital approach to EVA, we do not apply an upper limit on variable rewards
- The fixed cost component of remuneration is, however, designed to be sufficient so that employees do not become dependent on their variable compensation as we are not contractually (and do not not consider ourselves morally) bound to award variable performance rewards
- In addition, we operate a fully flexible incentive policy and are not contractually bound to award variable rewards. Investec has the ability to pay no performance bonuses should the performance of the group or individual employees require this.

Remuneration policy

In addition to enshrining the principles above, our remuneration policy includes the following elements:

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

Remuneration and effective risk management

Risk consciousness and management is embedded in our organisational culture from the initiation of transactional activity through to the monitoring of adherence to mandates and limits and throughout everything we do.

The board risk and capital committee sets the overall risk appetite for the Investec group and determines the categories of risk, the specific types of risks and the extent of such risks which the group should undertake, as well as overseeing the mitigation of risks and overall capital management and allocation process.

The capital committee is a sub-committee of the board risk and capital committee and provides detailed input into the group's identification, quantification and measurement of its capital requirements taking into account the capital requirements of the banking regulators. It determines the amount of internal capital that the group should hold and its minimum liquidity requirements taking into account all the associated risks plus a buffer for any future or unidentified risks. This measure of internal capital forms part of the basis for determining the variable remuneration pools of the various operating business units.

The executive risk review forum is responsible for approving limits and mandates, ensuring these are adhered to and that agreed recommendations to mitigate risk are implemented.

The various central, independent group credit and deal approval forums also provide a level of risk management by ensuring that risk appetite and various limits are being adhered to and that an appropriate interest rate and by implication, risk premium is built into every approved transaction.

The central credit, deal and risk forums are independent from the operating business units and, by their approval, in effect ensure that every transaction undertaken by the group results in a contribution to profit that has already been subject to some risk adjustment. These independent committees approve all limits, exposures, credit and investment approvals, ensuring that risk is well managed on a central basis within the group.

Furthermore, both the risk and compliance functions are also embedded in the operating business units and are subject to oversight by the independent central risk and compliance functions.

An added control against conflicts of interest is the embedded collaborative committee-based approval culture of the Investec group, where most decisions are processed through multiple committees which mitigates the risk that conflicts of interest may influence the decision making process.

Determination of remuneration levels

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

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

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

- The most relevant competitive reference points for reward levels are based on the scope of responsibility and individual contributions made
- Appropriate benchmark, industry and comparable organisations' remuneration practices are reviewed regularly
- For executive directors, the FTSE 350 General Finance firms have provided the most appropriate benchmark to date
- For employees, firms from the FTSE 350 General Finance sector have offered the most appropriate benchmarks
- The committee also reviews on an individual basis data on other international banks with which we compete, including certain FTSE 100 companies
- The committee recognises that we operate an international business and compete with both local and international competitors in each of our markets
- In order to avoid disproportionate packages across areas of the group and between executives, adjustments may be made at any extremes to ensure broad internal consistency. Adjustments may also be made to the competitive positioning of pay components for individuals, in cases where a higher level of investment is needed in order to build or grow or sustain either a business unit or our capability in a geography.

Components of remuneration

The reward package for executive directors and employees comprises:

- Fixed base salary and benefits
- Annual variable performance bonuses
- Long-term share incentive plans.

The elements of the reward package, as listed above, are discussed below and the components for each director are detailed in tables accompanying this report.

Fixed base salary and other benefits

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

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

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

Benefits are targeted at competitive levels and are delivered through flexible and tailored packages. Benefits include pension schemes; life, disability and personal accident insurance; medical cover; and other benefits, as dictated by competitive local market practices. Only salaries are pensionable, the annual bonuses paid are not. Our disclosure of executive directors' salaries on page 125 has been done on a gross basis (i.e. inclusive of pension fund contributions from the company).

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

Annual variable performance bonus

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

Investec Wealth & Investment is a separately regulated entity and is classified differently to the Specialist Bank in terms of the FSA Remuneration Code. As a result the structure of performance bonuses for this division differs slightly from the rest of the bank (refer to pages 121 to 122).

Structure of variable performance bonuses for employees in the Specialist Bank

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

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

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

The bonus pools for non-operating business units (central services and head office functions), are generated by a levy payable by each operating business on its operating profit. This bonus pool may, in some years, be supplemented by a discretionary allocation as determined by the chief executive officer and managing director, and agreed by the remuneration committee and the Board.

Our EVA model has been consistently applied for a period in excess of 10 years and encompasses the following elements:

- Capital allocated is a function of both regulatory and internal capital requirements, the risk assumed within the business and our overall business strategy
- The group has always held capital in excess of minimum regulatory requirements, and this principle is perpetuated in our internal capital allocation process. This process ensures that risk and capital discipline is embedded at the level of deal initiation and incorporates independent approval (outside of the business unit) of transactions by the various risk and credit committees. A detailed explanation of our capital management and allocation process is provided on pages 96 to 100
- Internal capital comprises the regulatory capital requirement taking into account a number of specified risks plus a capital buffer which caters, *inter alia*, for any unspecified or future risks not specifically identified in the capital planning process. The Investec group then ensures that it actually holds capital in excess of this level of internal capital
- Internal capital is allocated to each business unit via a comprehensive analysis of the risks inherent within that business and an assessment of the costs of those risks
- Hurdle rates or targeted returns are determined for each business unit based on the weighted average cost of capital (plus a buffer for trading businesses to take into account additional risks not identified in the capital allocation process) applied to internal capital
- Targeted returns differ by business unit reflecting the competitive economics and shareholder expectation for the specific area of the business, and are set with reference to the degree of risk and the competitive benchmarks for each product line
- In essence varying levels of return are required for each business unit reflecting the state of market maturity, country of operation, risk, capital invested (capital intensive businesses) or expected expense base (fee-based businesses)
- Growth in profitability over time will result in an increasing incentive pool, as long as it is not achieved at the expense of capital efficiency
- Target returns must be reflective of the inherent risk assumed in the business. Thus, an increase in absolute profitability does not automatically result in an increase in the annual bonus pool. This approach allows us to embed risk and capital discipline in our business processes. These targets are subject to annual review
- The group's credit and risk forums provide transaction approval independent of the business unit on a deal by deal basis adding a level of risk consciousness to the predetermined (and risk-adjusted) capital allocation and required hurdle rates and thus ensure that each transaction generates a return that is commensurate with its associated risk profile.

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

In circumstances where an operating business unit does not have an EVA pool (e.g. when it incurs a loss or when it is a start-up), the chief executive officer and managing director would consider a discretionary allocation to allow for a modest bonus for those staff who were expected to contribute to the longer-term interests of that business unit or the group, despite the lack of EVA profits in the short term, e.g. control functions, support staff and key business staff.

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

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

- A fixed predetermined percentage of any return in excess of the EVA hurdle accrues to the business units' EVA pool
- A portion of the total EVA pool is allocated towards the bonus pool for central service and head office employees
- These bonus pools are reviewed regularly by the appropriate management and non-executive committees to ensure that awards are only paid when it is appropriate to do so, considering firm-wide performance against non-financial risk (both current and future) and compliance-based objectives and in order to ensure that the payment of such discretionary bonuses does not inhibit the group's ability to maintain/raise its capital levels. All users of capital operate within a strict philosophical framework that requires a balancing of risk and reward and that is designed to encourage behaviour in the interests of all stakeholders as opposed to just employees
- The EVA pools are calculated centrally by the group's finance function and subject to audit as part of the year-end audit process
- Once the annual audit of the EVA pools is complete, line managers in each business unit will make discretionary bonus recommendations for each team member taking into consideration qualitative and quantitative criteria (as mentioned above)
- Bonus recommendations are then subject to an extensive geographic review involving Human Resources, local management and local remuneration committees
- Thereafter, these recommendations are subject to a global review by executive management, before the DLC remuneration committee review and approval process.

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

The risk adjustment framework

All variable remuneration payable to our UK Specialist Banking staff is subject to the risk adjustment framework where performance is assessed at a group, business unit and individual level. This framework seeks to balance both financial and non-financial measures of performance and risk adjustment to ensure that the appropriate factors are considered prior to making an award, and that the appropriate mix of cash and share-based awards are made. In this way, we ensure that all variable remuneration is fully risk-adjusted.

The risk adjustment drivers are:

Group level

- Financial measures of performance
  - Group-wide risk adjusted EVA model
  - Overall affordability
- Non-financial measures of performance
  - Market context
  - Specific input from the group risk and compliance functions.

Individual level

- Financial measures of performance
  - Achievement of individual targets and objectives
  - Scope of responsibility and individual contributions

- Non-financial measures of performance
  - Alignment and adherence to our culture and values
  - The level of cooperation and collaboration fostered
  - Development of self and others
  - Attitude displayed towards risk consciousness and effective risk management
  - Adherence to internal controls procedures
  - Compliance with the bank's regulatory requirements and relevant policies and procedures, including treating customers fairly
  - The ability to grow and develop markets and client relationships
  - Multi-year contribution to performance and brand building
  - Long-term sustained performance
  - Specific input from the group risk and compliance functions
  - Attitude and contribution to sustainability principles and initiatives.

Deferral of performance bonus awards – non-UK FSA Code staff within the Specialist Bank

All performance bonus awards exceeding a predetermined hurdle level are subject to 60% deferral in respect of that portion that exceeds the hurdle level. The entire deferred amount is awarded in the form of forfeitable share awards vesting in three equal tranches at the end of 12 months, 24 months and 36 months. Where shares are being awarded to employees as part of the deferral of performance bonus awards, these are referred to as EVA shares. These awards are made in terms of our existing long-term incentive plans (refer below). The entire amount of the performance bonus that is not deferred is payable up front in cash.

Deferral of performance awards –UK FSA Code staff within the Specialist Bank

- Individual awards to FSA Code staff will be determined based on EVA pools in the same manner as is applicable to all staff (as set out above), and subject to the risk adjustment framework and group remuneration governance processes (also set out above)
- Performance awards to directors of the UK Specialist Bank (excluding executive directors who are employees of a separately regulated firm) and all performance awards where total variable remuneration exceeds £500 000 are subject to 60% deferral
- All other performance awards to FSA Code staff are subject to 40% deferral
- The 40% not deferred in the former instance or the 60% not deferred in the latter instance will be awarded as to 50% in cash and 50% in EVA forfeitable shares ('up-front EVA forfeitable shares')
- The up-front EVA forfeitable shares will vest immediately but will only be released after a period of six months, which we consider to be an appropriate retention period
- Discretionary bonuses for FSA Code staff who are not exempted by the *de minimis* rates are subject to 40% deferral (60% if total variable remuneration exceeds £500 000) after taking into account the value of LTIPs granted to each staff member in the applicable financial year and which are included in deferred variable remuneration. The deferred portion of discretionary awards to FSA Code staff will, at the election of the staff member, be made either entirely in the form of EVA forfeitable shares, or 50% in EVA forfeitable shares and 50% in cash
- All deferrals in the form of EVA forfeitable shares (being either 50% or 100% of such deferral) vest in equal amounts at the end of 12 months, 24 months and 36 months, and are then subject to an appropriate period of retention, being six months.

Other information on deferred awards and clawback provisions within the Specialist Bank (FSA Code staff)

Employees who leave the employment of Investec prior to vesting of these deferred awards will lose their EVA forfeitable shares other than as a result of retirement, subject to the group's normal good leaver provisions and approval process in exceptional cases.

The deferred share awards are subject to clawback of unpaid EVA. The assessment of whether any clawback should be made to an individual's unvested award will be undertaken within the following framework:

- Where there is reasonable evidence of employee misbehaviour
- Where the firm or operating business unit suffers a material downturn in its financial performance
- Where the firm or business unit suffers a material failure of risk management.

In these cases, management and the remuneration committee will take into account the following factors in determining the extent (if any) to which the quantum of deferred awards should be subject to clawback:

- The extent to which the individual had control over the outcome
- Failure of internal control systems
- The impact of the risk profile of the relevant member of the group or business unit

- Any violation of the group's culture and values
- The long-term impact of the outcome on the group or relevant business unit
- External factors including market conditions
- Any other relevant factors.

Specifically for EVA share awards, where profits used to determine the original EVA bonus are materially reduced after the bonus determination, the awards will be recalculated for such reduction and consideration given to clawback (if any) to the extent that the prior period's EVA pool is reduced and the extent to which it affected each employee.

EVA share awards for executive directors are not permitted under the rules of the current long-term incentive plan and thus any such award is made in the form of phantom share awards over Investec shares.

Structure of variable performance bonuses for employees in Investec Wealth & Investment

Investec Wealth & Investment (IW&I) recognises Investec's obligation to ensure that all businesses within the group satisfy their obligations under the FSA Remuneration Code. IW&I recognises that the policy, procedures and practices it has adopted should not conflict with the group's obligations under the FSA Remuneration Code. The IW&I remuneration committee is responsible for considering, agreeing and overseeing all elements of remuneration and the overall remuneration philosophy and policy of IW&I within the context of the Investec group's agreed remuneration philosophy and policy.

IW&I operates the following variable performance bonus schemes which may result in annual payments to employees:

- Discretionary Incentive Scheme (relating to staff in client facing roles and administration staff who support them directly)
- Discretionary Bonus Scheme (relating to staff in non-client facing support functions)
- Additional New Business Incentive Scheme (relating to staff primarily in client facing roles who are direct generators of income).

Awards under each of the three schemes above are payable entirely in cash and do not attract employer pension contributions. In the case of the Discretionary Incentive Scheme and the Discretionary Bonus Scheme, the award may be paid directly to the individual (subject to the deduction of PAYE and NIC) or, at IW&I's discretion, as an additional pension contribution.

All employees are eligible to be considered for an annual discretionary award under one of the above schemes. Awards relate to financial years ending 31 March each year. An interim payment on account of the annual award is considered at the half-year stage.

Value adjustments that are considered appropriate as a result of an individual's level of non-financial performance being below that expected by the business are made entirely to the discretionary incentive scheme or discretionary bonus scheme award of the employee concerned.

Where an IW&I executive director undertakes a role that is primarily client facing in a specific business unit, that director may also be eligible to participate in the incentive schemes of the relevant business unit. Such schemes comprise two elements:

- The first element is a bonus pool which is calculated based on a formula that is directly related to the profitability of the business unit. The entire bonus pool, which is not subject to an upper limit, is distributed to the employees of the business unit on a discretionary basis. A proportion of the annual discretionary bonus payable to such executive directors may be awarded as a pension contribution, at the discretion of the committee
- The second element rewards participating employees on an individual basis for new business that is gained and then retained for a period of three years following the end of the year in which the new business is gained. The amount payable is based on a formula which is directly related to the income generated as a result of the new business and is not subject to an upper limit. All awards under this scheme are cash awards. This latter scheme represents a long-term incentive scheme in accordance with the regulations and amounts earned and paid under this scheme are separately disclosed in the financial statements of IW&I.

Share options and long-term incentive plans for the Investec group

We have a number of share option and long-term share incentive plans that are designed to link the interests of directors and employees with those of shareholders and long-term organisational interests, through performance and risk-based equity grants. These share option and incentive plans are also used in appropriate circumstances as a retention mechanism for key talent.

Awards are made in the form of nil cost options other than for countries where the taxation of such awards is penal. In these cases awards are made in the form of forfeitable shares, conditional awards or market strike options.

We follow a philosophy where all employees are eligible for LTIPs. Awards are considered by the remuneration committee and made only in the 42-day period following the release of our interim or final financial results in accordance with the ABI guidelines. These awards comprise three elements, namely:

- ‘New starter’ awards are made based on a *de facto* non-discretionary basis using an allocation table linked to salary levels
- ‘General allocation’ awards are also *de facto* non-discretionary awards of the same quantum as new starter awards and are made to employees who have not had any other share award in a three year period
- ‘Top up’ awards are made at the discretion of line management primarily as a retention tool.

All proposed LTIP awards are recommended by business unit management, approved by the staff share executive committee and then the remuneration committee before being awarded. Awards of Investec plc LTIPs are made to all employees of Investec plc and awards of Investec Limited LTIPs for employees of Investec Limited.

The value of the overall pool of LTIP awards will be reviewed by the remuneration committee in the context of business-wide factors, including:

- Group-wide risk-adjusted EVA
- Non-financial performance and risk factors, based on input from group Risk
- Market context
- Overall affordability.

The remuneration committee may adjust the total pool of LTIP awards on this basis prior to award, leading to consequent alterations in individual award levels. In this way, ex-ante risk-adjusted performance determines the overall LTIP pool outcome.

LTIP awards for non-FSA Code staff are subject to 75% vesting at the end of four years and the final 25% at the end of the fifth year, which we believe is appropriate for our business requirements. LTIP awards to FSA Code staff are subject to 75% vesting at the end of three and a half years and the final 25% at the end of four and a half years, and are then subject to a six-month retention period. The awards are forfeited on termination, but ‘good leaver’ discretion is applied in exceptional circumstances.

Retention is addressed through the long-term nature of awards granted which provides an element of ‘lock-in’ for employees throughout the vesting period and allows for multi-year contribution to performance and brand building.

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

Other remuneration structures

Guaranteed variable remuneration

Guaranteed variable remuneration comprises all forms of remuneration whose value can be determined prior to award. This includes, but is not limited to sign-on, buy-out and guarantee awards. Guaranteed variable awards will not be awarded, paid or provided to any individual within the Investec plc group unless they are:

- Exceptional
- In the context of hiring new staff
- Limited to the first year of service.

The remuneration committee shall at least annually review guaranteed variable remuneration payments and the number of guarantees awarded to ensure that they are only granted in exceptional circumstances.

Retention awards

Investec will only pay retention awards to serving staff in exceptional circumstances. In all such cases, Human Resources shall review proposed payments to ensure that they are in line with this policy and any other relevant regulation. Additionally for FSA Code staff, the remuneration committee shall review all proposed awards. Circumstances where Investec plc will consider paying a retention award are in the case of a major restructuring of the company or any subsidiary or one of its business units (for instance in the start-up of a new business line, or the closure of a business line), where the retention individuals is essential to the completion of the task. A valid business case for the retention of the individual must be presented in order for a retention award to be approved and the FSA should be notified prior to the retention award being made to FSA Code staff, and should consider seeking guidance on the appropriateness of retention awards for certain individuals.

Severance awards

Severance payments by Investec plc or one of its subsidiary companies for the early termination of a contract are at executive management's absolute discretion and must reflect performance achieved over time and be designed in a way that does not reward failure. Severance payments for FSA Code staff individuals shall be subject to prior approval by the DLC remuneration committee.

Discretionary extended pension benefits policy

All proposed extended pension payments made to employees upon reaching retirement should be reviewed by the remuneration committee for alignment with appropriate laws, policy and regulation.

Policy on non-executive directors' remuneration

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

Governance section

Compliance and governance statement

The remuneration report complies with the provisions of the UK Corporate Governance Code 2010, section 420 of the UK Companies Act 2006, the UK Financial Services Authority listing rules and the FSA Remuneration Code.

Scope of our remuneration policy

The Investec group aims to apply remuneration policies to executive directors and employees that are largely consistent group-wide, but recognises that certain parts of the group are governed by local regulations that may contain more onerous requirements in certain respects. In those cases, the higher requirements are applied to that part of the group. This will be applied to Investec plc and its subsidiary companies that are subject to the FSA Remuneration Code (as a tier 1 organisation as defined therein), and in particular in relation to FSA Code staff. Additionally, where any aspect of our remuneration policy contravenes local laws or regulations, the local laws or regulations shall prevail.

We believe that our remuneration policy is consistent with and complies with the principles and rules of the FSA Remuneration Code in respect of Investec plc and its subsidiary companies. We also believe that this policy is consistent with and complies with the substance of the Financial Stability Board's Principles for Sound Compensation Practices.

The following Investec Bank plc group entities are separately regulated by the FSA and as such maintain their own remuneration policy separate from the Investec group policy and in line with such entity's own risk profile and business activities:

- Investec Wealth & Investment
- Hargreave Hale.

Under the FSA Remuneration Code, Investec Bank plc is the only group entity which is classified as being tier 1. It should be noted that our wealth management business has been classified as tier 4 entities under the proportionality rules of the FSA Remuneration Code.

Audited information

Directors' interest

According to the register of directors' interests, no director holding office at 31 March 2012 had any debentures or beneficial interest in the shares of Investec Bank plc during the year.

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

Directors' shareholdings in Investec plc and Investec Limited shares as at 31 March 2012

	Beneficial and non-beneficial interest Investec plc[2]		% of shares in issue[1]	Beneficial and non-beneficial interest Investec Limited[3]		% of shares in issue[1]
Name	1 April 2011	31 March 2012	Investec plc 31 March 2012	1 April 2011	31 March 2012	Investec Limited 31 March 2012
Executive directors						
DM van der Walt	–	–	–	690 140	690 140	0.3%
IR Wohlman	17 479	41 597	–	100 000	100 000	–
Total number	17 479	41 597	–	790 140	790 140	0.3%
Non-executive directors						
Sir D Prosser	10 000	10 000	–	–	–	–
S Koseff	4 839 133	4 839 133	0.8%	1 809 330	1 809 330	0.7%
B Kantor	48 525	63 980	–	3 801 000	3 801 000	1.4%
GFO Alford	10 000	10 000	–	–	–	–
PKO Crosthwaite	132 908	132 908	–	–	–	–
IR Kantor	3 509 545	3 509 545	0.6%	325	325	–
Total number	8 550 111	8 565 566	1.4%	5 610 655	5 610 655	2.1%
Total number	8 567 590	8 607 163	1.4%	6 400 795	6 400 795	2.4%

1. *The issued share capital of Investec plc and Investec Limited at 31 March 2012 was 598.3 million and 276.0 million shares, respectively.*
2. *The market price of an Investec plc share as at 31 March 2012 was £3.82 (2011: £4.78), ranging from a low of £3.18 to a high of £5.22 during the financial year.*
3. *The market price of an Investec Limited share as at 31 March 2012 was R47.16 (2011: R52.80), ranging from a low of R42.00 to a high of R57.36 during the financial year.*

Directors' interest in preference shares as at 31 March 2012

	Investec plc		Investec Limited		Investec Bank Limited	
Name	1 April 2011	31 March 2012	1 April 2011	31 March 2012	1 April 2011	31 March 2012
Non-executive director						
S Koseff	101 198	101 198	3 000	3 000	4 000	4 000

- *The market price of an Investec plc preference share as at 31 March 2012 was R45.00 (2011: R51.31)*
- *The market price of an Investec Limited preference share as at 31 March 2012 was R93.41 (2011: R90.70)*
- *The market price of an Investec Bank Limited preference share as at 31 March 2012 was R98.25 (2011: R98.00).*

Directors' interest in options as at 31 March 2012

Investec plc shares

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2011	Exercised during the year	Options granted/ lapsed during the year	Balance at 31 March 2012
Executive directors						
DM van der Walt	20 December 2002	£1.59	9 455	(9 455)	–	–
IR Wohlman	20 December 2002	£1.59	9 455	(9 455)	–	–
Non-executive director						
B Kantor	20 December 2002	£1.59	9 455	(9 455)	–	–

B Kantor exercised his options and bought 9 455 Investec plc shares on 8 March 2012, when the share price was £4.02 per share. The performance conditions in respect of these options were met.

DM van der Walt exercised his options and sold 9 455 Investec plc shares on 8 March 2012 at a price of £4.03 per share. The performance conditions in respect of these shares were met.

IR Wohlman exercised his options and sold 9 455 Investec plc shares on 3 February 2012 at a price of £3.94 per share. The performance conditions in respect of these shares were met.

Investec Limited shares

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

No new option grants were made to executive directors during the financial year, under this plan.

Directors' interest in long-term incentive plans as at 31 March 2012

Investec plc shares

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2011	Exer-cised during the year	Options granted/ lapsed during the year	Balance at 31 March 2012	Market price at date of exercise	Gross gains made on date of exercise	Period exercisable
Executive directors									
DM van der Walt	25 June 2007	Nil	200 000	–	–	200 000	–	–	75% vested on 25 June 2011 and the remaining 25% is excercisable from 25 June 2012
	25 June 2009	Nil	300 000	–	–	300 000	–	–	75% is exercisable on 25 June 2013 and 25% on 25 June 2014
	1 July 2010	Nil	750 000	–	–	750 000	–	–	75% is exercisable on 1 July 2014 and 25% on 1 July 2015
IR Wohlman	25 June 2007	Nil	50 000	(37 500)	–	12 500	4.08	152 955	The remaining 25% of the award is exercisable on 25 June 2012
	25 June 2009	Nil	75 000	–	–	75 000	–	–	75% is exercisable on 25 June 2013 and 25% on 25 June 2014
	1 Jul 2010	Nil	100 000	–	–	100 000	–	–	75% is exercisable on 1 July 2014 and 25% on 1 July 2015
	31 May 2011	Nil	–	–	100 000	100 000	–	–	75% is exercisable on 31 May 2015 and 25% on 31 May 2016

Directors’ interest in the Share Matching Plan 2005 as at 31 March 2012

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2011	Exercised during the year	Options granted/ lapsed during the year	Balance at 31 March 2012	Market price at date of exercise	Gross gains made on date of exercise	Period exercisable
Non-executive directors									
S Koseff	25 June 2009	Nil	300 000	–	–	300 000^	–	–	The entire award will be forfeited on 25 June 2012
	1 July 2010	Nil	750 000	–	–	750 000	–	–	75% is exercisable on 1 July 2014 and 25% on 1 July 2015
B Kantor	25 June 2009	Nil	300 000	–	–	300 000^	–	–	The entire award will be forfeited on 25 June 2012
	1 July 2010	Nil	750 000	–	–	750 000	–	–	75% is exercisable on 1 July 2014 and 25% on 1 July 2015

^ *The performance conditions in respect of the awards made on 25 June 2009 have not been met and accordingly the awards will be forfeited on 25 June 2012.*

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

Additional remuneration disclosures Unaudited

FSA Remuneration Code disclosures

In terms of the FSA’s Chapter 11 Disclosure Requirements (BIPRU 11.5.18) the bank in the UK is required to make certain quantitative and qualitative remuneration disclosures on an annual basis with respect to FSA Code staff. Code staff are defined as those employees (including directors) whose professional activities could have a material impact on the bank’s risk profile. A total of 45 individuals were FSA Code staff in 2012 and all were employees of the Specialist Bank.

The bank’s qualitative remuneration disclosures are provided on pages 116 to 124. The information contained in the tables below sets out the bank’s quantitative disclosures in respect of FSA Code Staff for the year ended 31 March 2012.

5

Aggregate remuneration by remuneration type

£'million	Senior management	Other code staff	Total
Fixed remuneration	5.6	5.2	10.8
Variable remuneration*			
– Cash	5.2	5.9	11.1
– Deferred shares	6.4	8.0	14.4
Other			
– Options – long-term incentive awards made in current year**	0.2	0.3	0.5
– Options – long-term incentive awards made in prior years**	3.2	1.6	4.8
Total aggregate remuneration and deferred incentives	20.6	21.0	41.6

* *Total number of employees receiving variable remuneration was 34.*

** *Information based on the IFRS 2 accounting charge that has been expensed by the company in its income statement during the financial year.*

Additional disclosure on deferred remuneration

£'million	Senior management	Other code staff	Total
Deferred unvested remuneration outstanding at the beginning of the year	18.4	6.4	24.8
Deferred remuneration awarded in year	6.4	8.0	14.4
Deferred remuneration reduced in year through performance adjustments	–	–	–
Deferred remuneration vested in year	(4.9)	(1.7)	(6.6)
Deferred unvested remuneration outstanding at the end of the year	19.9	12.7	32.6

£'million	Senior management	Other code staff	Total
Deferred unvested remuneration outstanding at the end of the year			
– Equity	16.9	10.2	27.1
– Cash	2.2	2.4	4.6
– Other	0.8	0.1	0.9
	19.9	12.7	32.6

£'million	Senior management	Other code staff	Total
Deferred remuneration vested in year			
– For awards made in 2011 financial year	–	–	–
– For awards made in 2010 financial year	(4.9)	(1.7)	(6.6)
– For awards made in 2009 financial year	–	–	–
	(4.9)	(1.7)	(6.6)

Other remuneration disclosures

	Senior management	Other code staff	Total
Sign-on payments			
Made during the year (£'million)	–	–	–
Number of beneficiaries	–	–	–
Severance payments			
Made during the year (£'million)	–	–	–
Number of beneficiaries	–	–	–
Guaranteed bonuses			
Made during the year (£'million)	–	–	–
Number of beneficiaries	–	–	–

* *Included in variable remuneration as reflected above.*

Annual financial statements

The directors present their report and financial statements for the year ended 31 March 2012.

Business and principal activities

The principal activities of Investec Bank plc (the bank) and its subsidiaries are Specialist Banking and Wealth & Investment activities. The Specialist Banking activities are also undertaken by the bank's branch in Dublin.

Review of the business and future developments

A review of the bank's business for the year and future proposed activities can be found in the financial review on pages 9 to 32.

Accounting policies and disclosures

Accounting policies are set having regard to commercial practice and comply with applicable United Kingdom law. To align with the accounting policies applied in the consolidated financial statements of the bank's listed parent, Investec plc, the consolidated financial statements of the bank are prepared under International Financial Reporting Standards as adopted by the EU. These policies are set out on pages 140 to 150.

The accounts of the bank itself continue to be drawn up under UK Generally Accepted Accounting Practice. The accounting policies for the bank's own accounts are set out on pages 211 to 219.

Authorised and issued share capital

Details of the share capital as at 31 March 2012 are set out in note 41 of the bank's consolidated financial statements.

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

Date of issue	Number of ordinary shares	Price per share
30 June 2011	20 000 000	£1.54
28 September 2011	6 500 000	£1.54
29 March 2012	18 200 000	£1.54

Results and dividends

The results for the year are shown on page 135. Movements in reserves are shown in the reconciliation of equity on pages 138 and 139 of the financial statements.

An interim dividend of £16 000 000 was paid on 15 November 2011 and a further interim dividend of £7 500 000 was paid on 31 May 2012.

Directors and their interests

The directors of the bank for the year ended 31 March 2012 are shown on page 114. There have been the following changes in the composition of the board:

Sir David Prosser and Fani Titi were appointed as non-executive directors on 7 July 2011 and 3 August 2011, respectively. Hugh Herman resigned as a director and the bank's non-executive chairman and Sir David Prosser was appointed as the non-executive chairman on 17 November 2011. Steven Heilbron resigned as a director and joint chief executive officer on 8 December 2011.

Kevin McKenna and Dr Allen Zimbler were appointed to the board as executive directors on 10 May 2012.

The interests of the directors are set out in the remuneration report on pages 116 to 128.

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

Creditor payment policy

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

Employees

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

Further information is provided in the Investec group's 2012 annual report.

Environment

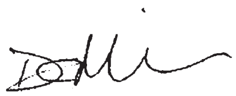
The bank is committed to pursuing sound environmental policies in all aspects of its business, and seeks to encourage and promote good environmental practice among its employees and within the communities in which it operates.

Further information is provided in the Investec group's 2012 annual report.

Auditors

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

By order of the board



David Miller
Company secretary

28 June 2012

Directors' responsibility statement

The following statement, which should be read in conjunction with the auditor's report set out on pages 133 and 134, is made with a view to distinguishing for stakeholders the respective responsibilities of the directors and of the auditors in relation to the consolidated financial statements.

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

To enable the directors to meet these responsibilities:

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

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

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

The financial statements of the bank have been prepared in accordance with the Companies Act 2006 and comply with IFRS as adopted by the European Union and Article 4 of the IAS regulation.

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

It is the responsibility of the independent auditors to report on the consolidated financial statements. Their report to the members of the bank is set out on pages 133 and 134 of this report. As far as the directors are aware, there is no relevant audit information of which the companies' auditors are unaware. All steps which ought to have been taken as directors have been completed in order to be aware of the relevant audit information and to establish that the companies' auditors are aware of that information.

Approval of financial statements

The directors' report and the financial statements of the bank, which appear on pages 130 and 131 and pages 135 to 206, were approved by the board of directors on 28 June 2012.

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

Signed on behalf of the board

David van der Walt
Chief executive officer

28 June 2012

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

We have audited the group financial statements of Investec Bank plc for the year ended 31 March 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity, the accounting policies set out on pages 140 to 151, and the related notes 1 to 51. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement set out on page 132, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 March 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinions on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

Matters on which we are required to report by exception

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

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

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

Other matter

We have reported separately on the parent company financial statements of Investec Bank plc for the year ended 31 March 2012.

Ernst & Young LLP

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

London
28 June 2012

Notes
1. *The maintenance and integrity of the Investec Bank plc web site 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 web site.*
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 ended 31 March £'000	Notes	2012	2011*
Interest income		797 343	731 895
Interest expense		(539 140)	(486 173)
Net interest income		258 203	245 722
Fee and commission income	2	349 132	198 362
Fee and commission expense	2	(35 806)	(17 286)
Investment income	3	110 719	141 833
Trading income arising from			
– customer flow		54 043	46 198
– balance sheet management and other trading activities	4	14 860	65 069
Other operating income	5	60 510	45 590
Total operating income before impairment losses on loans and advances		811 661	725 488
Impairment losses on loans and advances	26	(156 976)	(170 554)
Operating income		654 685	554 934
Operating costs	6	(572 673)	(478 087)
Depreciation of operating leased assets	31	(28 544)	(16 447)
Operating profit before amortisation of acquired intangibles		53 468	60 400
Amortisation of acquired intangibles	34	(8 168)	–
Costs arising from integration of acquired businesses		(7 110)	–
Operating profit		38 190	60 400
Net loss on sale of subsidiaries		–	(8 579)
Non-operational costs arising from acquisition of subsidiary		(835)	–
Profit before taxation		37 355	51 821
Taxation on operating profit before amortisation of acquired intangibles	8	(17 787)	(17 841)
Taxation on acquired intangibles and costs of integration/acquisition of subsidiary	8	1 361	–
Profit after taxation		20 929	33 980
Operating (profit)/losses attributable to non-controlling interests		(2 184)	9 751
Non-operating losses attributable to non-controlling interests		–	3 099
Earnings attributable to shareholder		18 745	46 830

* *Restated for reclassifications detailed in note 51.*

Consolidated statement of comprehensive income

For the year ended 31 March £'000	2012	2011
Profit after taxation	20 929	33 980
Other comprehensive income:		
Fair value movements on cash flow hedges	(4 522)	2 205
Gains on realisation of available-for-sale assets recycled through the income statement	(40 760)	(4 728)
Fair value movements on available-for-sale assets	25 829	22 938
Foreign currency adjustments on translating foreign operations	4 101	21 016
Total comprehensive income	5 577	75 411
Total comprehensive income/(loss) attributable to non-controlling interests	2 072	(12 480)
Total comprehensive income attributable to ordinary shareholders	3 505	87 891
Total comprehensive income	5 577	75 411

Consolidated balance sheet

At 31 March £'000	Notes	2012	2011*	2010*
Assets				
Cash and balances at central banks	17	1 835 836	1 142 547	2 008 743
Loans and advances to banks	18	863 540	750 463	1 307 254
Reverse repurchase agreements and cash collateral on securities borrowed	19	1 159 138	1 472 948	490 494
Sovereign debt securities	20	1 647 271	847 880	845 432
Bank debt securities	21	824 552	1 335 462	908 206
Other debt securities	22	185 343	165 519	98 459
Derivative financial instruments	23	866 408	641 212	757 136
Securities arising from trading activities	24	372 570	479 350	143 747
Investment portfolio	25	317 313	199 818	232 574
Loans and advances to customers	26	7 176 992	7 145 830	6 706 753
Own originated loans and advances to customers securitised	27	535 008	483 315	517 799
Other loans and advances	26	2 067 626	1 728 269	1 519 462
Other securitised assets	27	640 255	655 303	604 068
Interests in associated undertakings	28	17 780	13 096	14 345
Deferred taxation assets	29	89 490	62 436	84 730
Other assets	30	1 116 826	727 282	488 424
Property and equipment	31	122 702	235 219	140 321
Investment property	32	11 500	–	–
Goodwill	33	278 574	276 369	86 561
Intangible assets	34	117 525	126 216	26 218
		20 246 249	18 488 534	16 980 726
Liabilities				
Deposits by banks		633 024	765 912	1 445 131
Derivative financial instruments	23	732 510	529 995	539 389
Other trading liabilities	36	271 627	402 326	190 295
Repurchase agreements and cash collateral on securities lent	19	1 020 670	612 663	545 018
Customer accounts (deposits)		11 103 365	10 329 009	9 264 474
Debt securities in issue	37	2 046 651	1 802 932	1 772 674
Liabilities arising on securitisation of own originated loans and advances	27	526 946	472 109	515 360
Liabilities arising on securitisation of other assets	27	508 668	540 794	533 008
Current taxation liabilities		57 783	41 580	65 128
Deferred taxation liabilities	29	32 487	36 216	7 204
Other liabilities	38	943 110	703 611	383 025
		17 876 841	16 237 147	15 260 706
Subordinated liabilities	40	643 162	603 133	538 321
		18 520 003	16 840 280	15 799 027
Equity				
Ordinary share capital	41	1 070 700	1 026 000	748 000
Share premium		129 255	105 117	70 533
Capital reserve		114 128	114 128	–
Other reserves		76 767	97 433	56 914
Retained income		337 541	329 370	303 467
Shareholder's equity excluding non-controlling interests		1 728 391	1 672 048	1 178 914
Non-controlling interests in partially held subsidiaries	42	(2 145)	(23 794)	2 785
Total equity		1 726 246	1 648 254	1 181 699
Total liabilities and equity		20 246 249	18 488 534	16 980 726

* *Restated for reclassifications detailed in note 51.*

Consolidated cash flow statement

For the year ended 31 March £'000	Notes	2012	2011
Operating profit adjusted for non-cash items	44	245 453	264 424
Taxation paid		(24 769)	(23 089)
Increase in operating assets	44	(1 130 777)	(1 892 892)
Increase in operating liabilities	44	1 570 584	846 002
Net cash inflow/(outflow) from operating activities		660 491	(805 555)
Cash flow on acquisition of subsidiaries	35	(3 563)	64 823
Proceeds on disposal of subsidiaries	35	–	40 037
Cash flow on acquisition of property and equipment		(67 076)	(299 648)
Cash flow on disposal of property and equipment		71 038	–
Cash flow from acquisition and disposal of associated undertakings		(4 042)	1 596
Net cash outflow from investing activities		(3 643)	(123 192)
Dividends paid to ordinary shareholder		(16 000)	(23 000)
Proceeds on issue of ordinary shares, net of issue costs		68 838	100 584
Proceeds from subordinated debt raised		75 000	496 586
Reduction in subordinated debt		(14 797)	(438 246)
Net cash inflow from financing activities		113 041	135 924
Effects of exchange rate changes on cash and cash equivalents		53 931	71 520
Net increase/(decrease) in cash and cash equivalents		823 820	(721 303)
Cash and cash equivalents at the beginning of the year		1 793 173	2 514 476
Cash and cash equivalents at the end of the year		2 616 993	1 793 173
Cash and cash equivalents is defined as including:			
Cash and balances at central banks		1 835 836	1 142 547
On demand loans and advances to banks		781 157	650 626
Cash and cash equivalents at the end of the year		2 616 993	1 793 173

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

Consolidated statement of changes in equity

£'000	Ordinary share capital	Share premium account	Capital reserve account
At 31 March 2010	748 000	70 533	–
Movement in reserves 1 April 2010 – 31 March 2011			
Profit for the year	–	–	–
Fair value movements on cash flow hedges	–	–	–
Gains on realisation of available-for-sale assets recycled through the income statement	–	–	–
Fair value movements on available-for-sale assets	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	–
Total comprehensive income/(loss) for the year	–	–	–
Share-based payment adjustments	–	–	–
Dividends paid to ordinary shareholder	–	–	–
Issue of ordinary shares	278 000	34 584	114 128
Non-controlling interest relating to disposal of subsidiary	–	–	–
Transfer from regulatory general risk reserve	–	–	–
At 31 March 2011	1 026 000	105 117	114 128
Movement in reserves 1 April 2011 – 31 March 2012			
Profit for the year	–	–	–
Fair value movements on cash flow hedges	–	–	–
Gains on realisation of available-for-sale assets recycled through the income statement	–	–	–
Fair value movements on available-for-sale assets	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	–
Total comprehensive income/(loss) for the year	–	–	–
Share-based payment adjustments	–	–	–
Dividends paid to ordinary shareholder	–	–	–
Issue of ordinary shares	44 700	24 138	–
Acquisition of non-controlling interests	–	–	–
Non-controlling interest relating to disposal of subsidiary	–	–	–
Transfer from regulatory general risk reserve	–	–	–
At 31 March 2012	1 070 700	129 255	114 128

	Other reserves							
	Available-for-sale reserve	Regulatory general risk reserve	Cash flow hedge reserve	Foreign currency reserves	Retained income	Shareholder's equity excluding non-controlling interests	Non-controlling interests	Total
	2 895	19 238	(6 514)	41 295	303 467	1 178 914	2 785	1 181 699
	–	–	–	–	46 830	46 830	(12 850)	33 980
	–	–	2 205	–	–	2 205	–	2 205
	(4 728)	–	–	–	–	(4 728)	–	(4 728)
	22 938	–	–	–	–	22 938	–	22 938
	434	1 295	(439)	19 618	(262)	20 646	370	21 016
	18 644	1 295	1 766	19 618	46 568	87 891	(12 480)	75 411
	–	–	–	–	1 531	1 531		1 531
	–	–	–	–	(23 000)	(23 000)	–	(23 000)
	–	–	–	–	–	426 712	–	426 712
	–	–	–	–	–	–	(14 099)	(14 099)
	–	(804)	–	–	804	–	–	–
	21 539	19 729	(4 748)	60 913	329 370	1 672 048	(23 794)	1 648 254
	–	–	–	–	18 745	18 745	2 184	20 929
	–	–	(4 522)	–	–	(4 522)	–	(4 522)
	(40 760)	–	–	–	–	(40 760)	–	(40 760)
	25 829	–	–	–	–	25 829	–	25 829
	18	111	(27)	4 144	(33)	4 213	(112)	4 101
	(14 913)	111	(4 549)	4 144	18 712	3 505	2 072	5 577
	–	–	–	–	–	–	–	–
	–	–	–	–	(16 000)	(16 000)	–	(16 000)
	–	–	–	–	–	68 838	–	68 838
	–	–	–	–	–	–	(325)	(325)
	–	–	–	–	–	–	19 902	19 902
	–	(5 459)	–	–	5 459	–	–	–
	6 626	14 381	(9 297)	65 057	337 541	1 728 391	(2 145)	1 726 246

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 2012, 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 investment properties, available-for-sale investments, derivative financial instruments, financial assets and financial liabilities held at fair value through profit or loss or subject to hedge accounting and liabilities for cash-settled share-based payments that have been measured at fair value.

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

- The group retrospectively adopted the amendments to IAS 24 Related Parties which related to the clarification of a definition of a related party (noting that an investor, its subsidiaries and interests in associated undertakings are related parties to each other). These amendments have had no material impact on the financial statements of the group.
- The following amendments and improvements to IFRS have been adopted retrospectively, with no impact to the financial statements of the group:
  - IFRS 7 – Financial Instruments: Disclosures
  - IFRIC 14 – Prepayments of a Minimum Funding Requirement
  - IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments
  - IAS 1 – Presentation of Financial Statements
  - IAS 27 – Consolidated and Separate Financial Statements
  - IFRIC 13 – Customer Loyalty Programmes.

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 34 to 106.

Certain disclosures required under IAS 24 Related Party Disclosures have been included in the section marked as audited in the remuneration report on pages 116 to 128.

Restatements and presentation of information

The group has revised its disclosure of business segments into two core (previously six) business lines, namely, Wealth & Investment and Specialist Banking. To align with information provided to the chief operating decision maker, the Property activities, Private Banking, Capital Markets and Group Services and Other divisions have been grouped under one core business division referred to as Specialist Banking. Associated with these changes, the group has refined the disclosures relating to the income statement and balance sheet as detailed in note 51 on pages 202 to 204. The group believes that these refinements provide greater clarity on the key income and balance sheet drivers of its business.

Basis of consolidation

All subsidiaries and special purpose entities (SPE's) 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.

Investec sponsors the formation of SPE's for a variety of reasons. SPE's are consolidated when the substance of the relationship between the group and the SPE indicates that the SPE is controlled by the group. Investec performs a re-assessment of consolidation whenever there is a change in the substance of the relationship between Investec and an SPE. Investec also holds investments, for example private equity investments, which give rise to significant, but not majority, voting rights. Assessing these voting rights and whether Investec controls these entities requires judgement that affects the date at which subsidiaries are consolidated or deconsolidated.

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

For equity accounted associates, 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. The consolidated balance sheet reflects the associated undertakings net of accumulated impairment losses.

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

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

Segmental reporting

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

The group's segmental reporting is presented in the form of a business analysis. The business analysis is presented in terms of the group's two principal business divisions, namely, Wealth & Investment and Specialist Banking.

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 27 to 32 of the divisional review section of the annual report.

Business combinations and goodwill

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

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

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

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

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

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

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash generating units retained.

Share-based payments to employees

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

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

The liability, in respect of cash-settled share-based payments, is recognised at the current fair value at each balance sheet date based on an estimate of the number of instruments that will eventually vest, with the change in fair value being recognised in the income statement.

Subsequent to vesting the liability is measured at fair value, with gains and losses recognised in the income statement until such time as the liability is settled.

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

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

Foreign currency transactions and foreign operations

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

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

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 cost are translated using the exchange rates ruling at the date of the transaction.

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

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

Revenue recognition

Revenue consists of interest income, fee and commission income, investment income, trading income arising from customer flow, trading income arising from balance sheet management and other trading activities and other operating income.

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

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

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

Fee and commission income includes fees earned from providing advisory services as well as portfolio management and includes rental income from investment properties.

Investment income includes income, other than margin, from securities held for the purpose of generating interest yield, dividends and capital appreciation.

Customer flow trading income includes income from trading activities arising from making and facilitating client activities.

Trading income arising from balance sheet management and other trading activities consists of proprietary trading income and other gains and losses arising from balance sheet management.

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

Dividend income is recognised when the group's right to receive payment is established.

Funding costs allocated against revenue are disclosed in note 4.

Included in other operating income is incidental rental income, gains on realisation of properties (other than investment properties which is included in investment income), operating lease income, income from interests in associated undertakings, income from assurance activities and revenue from consolidated private equity investments. Operating costs associated with these investments are included in operating costs in the income statement.

Financial instruments

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

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

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

Financial instruments held at fair value through profit or loss include all instruments classified as held-for-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 and loss are designated as such on initial recognition of the instrument and remain in this classification until derecognition. In certain instances debt instruments which contain equity features are designated as held at fair value through profit 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
- 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.

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 or loss

- Those that the group designates as available-for-sale
- Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which is 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 interests in associated undertakings, 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 directly in other comprehensive income in the available-for-sale reserve. When the asset is disposed of, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement. Interest earned whilst holding available-for-sale financial assets is reported as interest income using the effective interest rate. Dividends earned whilst holding available-for-sale financial assets are recognised in the income statement when the right of payment has been established.

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

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

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

Financial liabilities

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

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

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

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

Valuation of financial instruments

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

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

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

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

Subsequent to initial recognition, the fair value of financial instruments quoted in an active market is based on published price quotations.

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

'Day 1' profit or loss

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

Impairments of financial assets held at amortised cost

Financial assets carried at amortised cost are impaired if there is objective evidence that the group 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 that takes into account macroeconomic factors, mainly driven by data-related to the prevailing credit markets and which indicate incurred but not specifically identified losses across the loan portfolios (that is, exposures in all business segments). Assets specifically identified as impaired are excluded from the collective assessment.

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

An allowance for impairment is only reversed when there is objective evidence that the credit quality has improved to the extent that there is reasonable assurance of timely collection of principal and interest in terms of the original contractual agreement.

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

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

Derecognition of financial assets and liabilities

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

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

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

Reclassification of financial instruments

The group may reclassify, in certain circumstances, non-derivative financial assets out of the held-for-trading category and into the available-for-sale, loans and receivables, or held-to-maturity categories. It may also reclassify, in certain circumstances, financial instruments out of the available-for-sale category and into the loans and receivables category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

Derivative instruments

All derivative instruments of the group 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 currently enforceable 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 directly in other comprehensive income in the cash flow hedge reserve 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 trading income from balance sheet management and other trading activities.

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

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

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

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

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

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

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 lender's return, they remain on balance sheet. Proceeds received are recorded as a liability on balance sheet under 'repurchase agreements and cash collateral on securities lent'. Securities that are purchased under a commitment to resell the securities at a future date are not recognised on the balance sheet. The consideration paid is recognised as an asset under 'reverse repurchase agreements and cash collateral on securities borrowed'.

The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method.

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

Financial guarantees

Financial guarantee contracts issued by the group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due, in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at fair value, adjusted for the transaction costs that are directly attributable to the issuance of the guarantee.

Subsequent to initial recognition the liability under each guarantee is measured at the higher of the amount recognised less cumulative amortisation and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Subsequent to initial measurement all changes in the balance sheet carrying value are recognised in the income statement.

Instalment credit, leases and rental agreements

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.

Investment property

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

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

Dealing properties

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

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.

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 the amount expected to be payable 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 interests in associated undertakings, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets or liabilities are measured using the tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

Employee benefits

The group operates various defined contribution schemes and one closed defined benefit scheme.

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

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

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. Expenses related to provisions are recognised in the income statement. 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 10 Consolidated Financial Statements

The standard replaces consolidation principles contained in IAS 27 Consolidation and Separate Financial Statements and SIC-12 Special Purpose Entities. The standard defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The standard is retrospectively effective for the group for the year commencing 1 April 2013, and EU endorsement is expected before the effective date. The impact of this standard is currently under evaluation.

IFRS 11 Joint Arrangements

The standard replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities-Non-Monetary Contributions by Venturers. The key change is to require all joint ventures to be equity-accounted and thus removing the option to proportionate consolidation. The standard is retrospectively effective for the group for the year commencing 1 April 2013, and EU endorsement is expected before the effective date. The group does not expect any changes to the accounting policies of the group arising from this standard.

IFRS 12 Disclosure of Interests in Other Entities

The standard requires disclosure of the significant judgements and assumptions made in determining the nature of interests in subsidiaries, joint ventures and interest in associated undertakings and the interest that non-controlling interests have in the group's activities and cash flows. The standard further provides disclosure requirements relating to consolidated and unconsolidated structured entities that the group is associated with. The standard is retrospectively effective for the group for the year commencing 1 April 2013, and EU endorsement is expected before the effective date. The impact of this standard is currently under evaluation.

IFRS 13 Fair Value Measurement

The standard defines fair value (being a market-based measurement), sets out in a single IFRS a framework for measuring fair value and requires extensive disclosure about fair value measurements, inclusive of non-financial instruments that is subject to fair value measurement. The standard is prospectively effective for the group for the year commencing 1 April 2013, and EU endorsement is expected before the effective date. The impact of this standard is currently under evaluation.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments will replace certain key elements of IAS 39 when issued. The three key elements being drafted are:

- Classification and measurement of financial assets and financial liabilities – the standard requires that all financial assets be classified as either held at fair value and loss or amortised cost. The amortised cost classification is only permitted where the asset is held within a business model where the underlying cash flows are held in order to collect contractual cash flows and the cash flows solely arise from payment of principal and interest. The standard further provides that gains and losses on assets held at fair value are measured through the income statement unless the entity has elected to present gains and losses on non-trading equity investments (individually elected) directly through comprehensive income. On 15 November 2011, the Board of the IASB decided to tentatively consider limited modifications to IFRS 9 relating to classification and measurement
- Impairment methodology – the key change is related to a shift from an incurred loss to an expected loss impairment methodology. This element is subject to continued deliberation with expected amendments to IFRS 9 in 2012
- Hedge accounting – this is subject to deliberation and an exposure draft is expected in 2012.

The standard is effective for the group for the year commencing 1 April 2015, and does not require the restatement to comparative-period financial statements upon initial application. The EU have highlighted that they will not endorse IFRS 9 until a complete standard is issued.

IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities (amendments to IFRS 7)

This amendment requires additional disclosures which the group will be in a position to provide. The amendment are effective for the year commenting 1 April 2013.

There are other proposed amendments which do not have a material impact to the financial statements and thus have not been highlighted or discussed above.

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. An analysis of unlisted investments is contained in the risk management section on pages 69 to 71
- 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 53 to 68 in the risk management section for further analysis on impairments
- The group's income tax charge and balance sheet provision are judgemental in nature. This arises from certain transactions for which the ultimate tax treatment can only be determined by final resolution with the relevant local tax authorities. The group recognises liabilities for taxation based on estimates of levels of taxation expected to be payable, taking into consideration expert external advice where appropriate. The final resolution may result in different amounts of cash flows to those initially provided and any necessary adjustments are taken into consideration in the period in which they are identified.
- Determination of interest income and interest expense using the effective interest method involves judgement in determining the timing and extent of future cash flows.

For the year ended 31 March £'000	Wealth & Investment	Specialist Banking	Total group
1. Consolidated segmental analysis			
2012			
Segmental business analysis – income statement			
Net interest income	8 499	249 704	258 203
Fee and commission income	122 249	226 883	349 132
Fee and commission expense	(6 034)	(29 772)	(35 806)
Investment (loss)/income	(392)	111 111	110 719
Trading income arising from			
– customer flow	(386)	54 429	54 043
– balance sheet management and other trading activities	(7)	14 867	14 860
Other operating income	406	60 104	60 510
Total operating income before impairment losses on loans and advances	124 335	687 326	811 661
Impairment losses on loans and advances	–	(156 976)	(156 976)
Operating income	124 335	530 350	654 685
Operating costs	(101 338)	(471 335)	(572 673)
Depreciation of operating leased assets	–	(28 544)	(28 544)
Operating profit before amortisation of acquired intangibles	22 997	30 471	53 468
Operating loss attributable to non-controlling interests	–	(2 184)	(2 184)
Operating profit before amortisation of acquired intangibles and after non-controlling interests	22 997	28 287	51 284
Core business	22 997	116 418	139 415
Property loan portfolio being run off*	–	(88 131)	(88 131)
Cost to income ratio	81.5%	71.5%	73.1%
Number of permanent employees	688	1 857	2 545
Total assets (£'million)	498	19 748	20 246

* *Residual property loan portfolios in Ireland and Australia which have been ring-fenced for collection and recovery and are being run off.*

For the year ended 31 March £'000	Wealth & Investment	Specialist Banking	Total group
1. Consolidated segmental analysis (continued)			
2011			
Segmental business analysis – income statement			
Net interest income	1 379	244 343	245 722
Fee and commission income	11 972	186 390	198 362
Fee and commission expense	(967)	(16 319)	(17 286)
Investment income	701	141 132	141 833
Trading income arising from			
– customer flow	(1 932)	48 130	46 198
– balance sheet management and other trading activities	(529)	65 598	65 069
Other operating income	519	45 071	45 590
Total operating income before impairment losses on loans and advances	11 143	714 345	725 488
Impairment losses on loans and advances	–	(170 554)	(170 554)
Operating income	11 143	543 791	554 934
Operating costs	(13 873)	(464 214)	(478 087)
Depreciation of operating leased assets	–	(16 447)	(16 447)
Operating (loss)/profit before amortisation of acquired intangibles	(2 730)	63 130	60 400
Operating profit attributable to non-controlling interests	–	9 751	9 751
Operating (loss)/profit before amortisation of acquired intangibles and after non-controlling interests	(2 730)	72 881	70 151
Core business	(2 730)	147 858	145 128
Property loan portfolio being run off*	–	(74 977)	(74 977)
Cost to income ratio	124.5%	66.5%	67.4%
Number of permanent employees	663	1 920	2 583
Total assets (£'million)	520	17 969	18 489

* *Residual property loan portfolios in Ireland and Australia which have been ring-fenced for collection and recovery and are being run off.*

For the year ended 31 March £'000	UK and Europe	Australia	Total group
1. Consolidated segmental analysis (continued)			
2012			
Segmental geographic analysis – income statement			
Net interest income	191 861	66 342	258 203
Fee and commission income	310 676	38 456	349 132
Fee and commission expense	(32 431)	(3 375)	(35 806)
Investment income/(loss)	119 193	(8 474)	110 719
Trading income arising from			
– customer flow	42 931	11 112	54 043
– balance sheet management and other trading activities	15 986	(1 126)	14 860
Other operating income/(loss)	61 689	(1 179)	60 510
Total operating income before impairment losses on loans and advances	709 905	101 756	811 661
Impairment losses on loans and advances	(89 104)	(67 872)	(156 976)
Operating income	620 801	33 884	654 685
Operating costs	(472 908)	(99 765)	(572 673)
Depreciation of operating leased assets	(28 544)	–	(28 544)
Operating profit/(loss) before amortisation of acquired intangibles	119 349	(65 881)	53 468
Operating loss attributable to non-controlling interests	(2 184)	–	(2 184)
Operating profit/(loss) before amortisation of acquired intangibles and after non-controlling interests	117 165	(65 881)	51 284
Core business	122 015	17 400	139 415
Property loan portfolio being run off*	(4 850)	(83 281)	(88 131)
Cost to income ratio	69.4%	98.0%	73.1%
Number of permanent employees	2 159	424	2 583
Total assets (£'million)	16 862	3 384	20 246

* *Residual property loan portfolios in Ireland and Australia which have been ring-fenced for collection and recovery and are being run off.*

For the year ended 31 March £'000	UK and Europe	Australia	Total group
1. Consolidated segmental analysis (continued)			
2011			
Segmental geographic analysis – income statement			
Net interest income	173 311	72 411	245 722
Fee and commission income	158 324	40 038	198 362
Fee and commission expense	(13 397)	(3 889)	(17 286)
Investment income	136 987	4 846	141 833
Trading income arising from			
– customer flow	40 798	5 400	46 198
– balance sheet management and other trading activities	65 336	(267)	65 069
Other operating income/(loss)	47 919	(2 329)	45 590
Total operating income before impairment losses on loans and advances	609 278	116 210	725 488
Impairment losses on loans and advances	(140 347)	(30 207)	(170 554)
Operating income	468 931	86 003	554 934
Operating costs	(392 517)	(85 570)	(478 087)
Depreciation of operating leased assets	(16 447)	–	(16 447)
Operating profit before amortisation of acquired intangibles	59 967	433	60 400
Operating profit attributable to non-controlling interests	9 478	273	9 751
Operating profit before amortisation of acquired intangibles and after non-controlling interests	69 445	706	70 151
Core business	114 756	30 372	145 128
Property loan portfolio being run off*	(45 311)	(29 666)	(74 977)
Cost to income ratio	66.2%	73.6%	67.4%
Number of permanent employees	2 125	420	2 545
Total assets (£'million)	15 049	3 440	18 489

* *Residual property loan portfolios in Ireland and Australia which have been ring-fenced for collection and recovery and are being run off.*

For the year ended 31 March £'000	UK and Europe	Australia	Total group
1. Consolidated segmental analysis (continued)			
Segmental geographic and business analysis of operating profit before acquired intangibles, non-operating items and taxation and after non-controlling interests			
2012			
Wealth & Investment	22 997	–	22 997
Specialist Banking	94 168	(65 881)	28 287
Property activities	769	3 351	4 120
Private Banking activities	2 895	(73 679)	(70 784)
Core Private Bank	7 745	9 602	17 347
Property loan portfolio being run off*	(4 850)	(83 281)	(88 131)
Corporate Advisory and Investment Banking activities	9 711	(3 157)	6 554
Corporate and Institutional Banking activities	120 385	12 956	133 341
Group Services and Other activities	(39 592)	(5 352)	(44 944)
Total group	117 165	(65 881)	51 284
Core business	122 015	17 400	139 415
Property loan portfolio being run off*	(4 850)	(83 281)	(88 131)
Non-controlling interest – equity			2 184
Operating profit			53 468
2011			
Wealth & Investment	(2 730)	–	(2 730)
Specialist Banking	72 175	706	72 881
Property activities	376	7 155	7 531
Private Banking activities	(83 115)	(10 390)	(93 505)
Core Private Bank	(37 804)	19 276	(18 528)
Property loan portfolio being run off*	(45 311)	(29 666)	(74 977)
Corporate Advisory and Investment Banking activities	8 415	(6 716)	1 699
Corporate and Institutional Banking activities	130 311	9 860	140 171
Group Services and Other activities	16 188	797	16 985
Total group	69 445	706	70 151
Core business	114 756	30 372	145 128
Property loan portfolio being run off*	(45 311)	(29 666)	(74 977)
Non-controlling interest – equity			(9 751)
Operating profit			60 400

* *Residual property loan portfolios in Ireland and Australia which have been ring-fenced for collection and recovery and are being run off.*

For the year ended 31 March £'000	2012 UK and Europe	 Australia	 Total group	2011 UK and Europe	 Australia	 Total group
2. Fees and commissions						
Fund management fees/fees for assets under management	98 688	5 674	104 362	8 504	7 580	16 084
Private client transactional fees	54 653	9 251	63 904	26 649	12 761	39 410
Corporate and institutional transactional and advisory services	157 335	23 531	180 866	123 171	19 697	142 868
Fee and commission income	310 676	38 456	349 132	158 324	40 038	198 362
Fee and commission expense	(32 431)	(3 375)	(35 806)	(13 397)	(3 889)	(17 286)
Net fees and commissions	278 245	35 081	313 326	144 927	36 149	181 076

For the year ended 31 March 2012 £'000	UK and Europe	Australia	Total group
3. Investment income			
Realised	110 164	(8 929)	101 235
Unrealised	7 182	(66)	7 116
Dividend income	1 847	521	2 368
Investment income	119 193	(8 474)	110 719

For the year ended 31 March 2012 £'000	Investment portfolio* (listed and unlisted equities)	Debt securities (sovereign, bank and other)	Other asset categories	Total
Realised	26 141	70 940	13 083	110 164
Unrealised	13 819	(6 586)	(51)	7 182
Dividend income	1 846	1	–	1 847
Investment income: UK and Europe	41 806	64 355	13 032	119 193
Realised	1 539	(784)	(9 684)	(8 929)
Unrealised	(66)	–	–	(66)
Dividend income	71	450	–	521
Investment income: Australia	1 544	(334)	(9 684)	(8 474)

* *Including embedded derivatives (warrants and profit shares).*

For the year ended 31 March 2011 £'000	UK and Europe	Australia	Total group
Realised	122 872	4 061	126 933
Unrealised	13 175	767	13 942
Dividend income	940	18	958
Investment income	136 987	4 846	141 833

For the year ended 31 March 2011 £'000	Investment portfolio* (listed and unlisted equities)	Debt securities (sovereign, bank and other)	Other asset categories	Total
3. Investment income (continued)				
Realised	29 521	88 157	5 194	122 872
Unrealised	13 425	(250)	–	13 175
Dividend income	940	–	–	940
Investment income: UK and Europe	43 886	87 907	5 194	136 987
Realised	130	1 578	2 353	4 061
Unrealised	767	–	–	767
Dividend income	18	–	–	18
Investment income: Australia	915	1 578	2 353	4 846

* *Including embedded derivatives (warrants and profit shares).*

4. Trading income arising from balance sheet management and other trading activities

In the current year no funding costs have been allocated against revenue (2011: net of funding cost of £5.2 million).

For the year ended 31 March £'000	2012	2011
5. Other operating income		
Rental income from properties	259	491
Operating income of non-core businesses*	120	7 528
Income from operating leases	59 201	36 421
Operating income from associates	930	1 150
	60 510	45 590

* *In the prior year this included the net operating income of certain private equity investments that were consolidated until their disposal during that year. The 2011 net operating income includes gross income of £96.0 million net of all direct costs of sales. Their other direct costs were included in operating costs.*

For the year ended 31 March £'000	2012	2011
6. Operating costs		
Staff costs	391 281	323 746
– Salaries and wages (including directors' remuneration)	311 953	258 664
– Share-based payment expense	28 602	24 233
– Social security costs	34 679	29 303
– Pensions and provident fund contributions	16 047	11 546
Premises (excluding depreciation)	28 841	19 568
Equipment (excluding depreciation)	22 391	18 725
Business expenses*	87 428	77 363
Marketing expenses	27 687	22 966
Depreciation, amortisation and impairment of property, equipment and intangibles	15 045	15 719
	572 673	478 087
Depreciation on operating leased assets	28 544	16 447
	601 217	494 534
The following amounts were paid to the auditors:		
Ernst & Young fees		
Fees payable to the company's auditors for the audit of the company's accounts	1 872	1 344
Fees payable to the company's auditors and its associates for other services:		
Audit of the company's subsidiaries pursuant to legislation	1 998	1 644
Other services pursuant to legislation	1 103	42
Tax services	651	579
Services relating to corporate finance transactions	157	–
All other services	511	681
	6 292	4 290
Other auditors		
Audit of the company's subsidiaries pursuant to legislation	155	44
Other services pursuant to legislation	83	–
Tax services	66	–
All other services	–	188
	304	232
Total	6 596	4 522

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

Details of the directors' emoluments can be found in note 3 of the unconsolidated accounts of the bank and details of the directors' interests are disclosed in the remuneration report on pages 116 to 128.

7. Share-based payments

The group operates share option and share purchase schemes for employees the majority of which are on an equity-settled basis.

The purpose of the staff share schemes is to promote an *esprit de corps* within the organisation, create an awareness of Investec's performance and provide an incentive to maximise individual and group performance by allowing all staff to share in the risks and rewards of the group. Further information on the group share options and long-term incentive plans are provided on our website.

For the year ended 31 March £'000	Wealth & Investment	Specialist Banking	Total group
Share-based payment expense charged to the income statement (included in operating costs):			
2012			
Equity-settled	3 152	25 450	28 602
Cash-settled	–	–	–
Total income statement charge	3 152	25 450	28 602
2011			
Equity-settled	160	24 073	24 233
Cash-settled	–	–	–
Total income statement charge	160	24 073	24 233

The expense relates to options issued to employees of the bank which are settled by equity issued by the bank's ultimate parent, Investec plc, for which the bank pays cash to its immediate parent, Investec 1 Limited. Included in the above income statement charge is an accelerated share-based payment charge as a result of modifications to certain options granted. This expense for the year was £320 037 (2011: £104 670).

For the year ended 31 March £'000	2012	2011
Weighted average fair value of options granted in the year	22 938	51 377

	2012		2011	
Details of options outstanding during the year	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of the year	35 829 639	0.08	27 363 809	0.14
Granted during the year	7 517 510	0.13	15 346 668	0.04
Exercised during the year*	(4 435 597)	0.17	(5 199 527)	0.12
Expired during the year	(1 310 880)	0.31	(1 681 311)	0.61
Outstanding at the end of the year	37 600 672	0.07	35 829 639	0.08
Exercisable at the end of the year	704 523	0.03	148 455	0.69

* *Weighted average share price during the year was £4.04 (2011: £4.94).*

For the year ended 31 March £'000	2012	2011
7. Share-based payments (continued)		
The exercise price range and weighted average remaining contractual life for the options are as follows:		
Options with strike prices		
Exercise price range	£1.50 – £6.52	£1.55 – £6.52
Weighted average remaining contractual life	3.47 years	1.59 years
Weighted average fair value of options granted at measurement date	£3.03	£2.93
Long-term incentive grants with no strike price		
Exercise price range	£nil	£nil
Weighted average remaining contractual life	3.00 years	3.37 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	£3.34 – £5.00	£4.29 – £4.98
– Exercise price	£nil, £3.34 – £5.00	£nil, £4.29 – £4.98
– Expected volatility	30%	30% – 38%
– Option life	5 – 5.25 years	5 – 5.25 years
– Expected dividend yields	5.19% – 7.84%	5.07% – 5.23%
– Average risk-free rate	1.48% – 2.15%	2.05% – 2.15%

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 2012 remuneration report and our website for details on terms and conditions of share options.

For the year ended 31 March £'000	2012	2011
8. Taxation		
Income statement tax charge:		
Current taxation		
UK		
Current tax on income for the year	34 478	(9 476)
Adjustments in respect of prior years	2 849	1 243
Corporation tax before double tax relief	37 327	(8 233)
– Double taxation relief	–	(57)
	37 327	(8 290)
Europe	3 647	6
Australia	432	–
Other	125	(3)
	4 204	3
Total current taxation	41 531	(8 287)
Deferred taxation		
UK	(5 116)	25 943
Europe	7	7
Australia	(19 996)	489
Other	–	(311)
Total deferred taxation	(25 105)	26 128
Total taxation charge for the year	16 426	17 841
Taxation on operating profit before amortisation of acquired intangibles	17 787	17 841
Taxation on acquired intangibles and costs of integration/acquisition of subsidiaries	(1 361)	–
	16 426	17 841

For the year ended 31 March £'000	2012	2011
8. Taxation (continued)		
Total taxation charge for the year comprises:		
Tax charge on operating profit	22 120	17 841
Tax (credit) on intangibles and disposal of group operations	(5 694)	–
	16 426	17 841
Deferred taxation comprises:		
Origination and reversal of temporary differences	(28 526)	22 013
Changes in tax rates	3 041	2 598
Adjustment in respect of prior years	380	1 517
	(25 105)	26 128
Items which affect the tax rate going forward are:		
Estimated tax losses arising from trading activities available for relief against future taxable income		
UK	Nil	Nil
Europe	Nil	Nil
The rates of corporation tax for the relevant years are:	%	%
UK	26	28
Europe (average)	10	10
Australia	30	30
Profit on ordinary activities before taxation	37 355	51 821
Taxation on profit on ordinary activities	16 426	17 841
Effective tax rate	44.0%	34.0%
The tax charge on activities for the year is different to the standard rate as detailed below:		
Tax on profit on ordinary activities before taxation at UK rate of 26% (2011: 28%)	9 712	14 510
Tax adjustments relating to foreign earnings	(18 788)	(13 924)
Taxation relating to prior years	3 228	2 760
Goodwill and non-operating items	(5 694)	–
Share options accounting expense	12 992	10 038
Share options exercised during the year	(3 833)	(6 566)
Unexpired share options future tax deduction	(5 917)	(5 313)
Non-taxable income	(504)	(1 793)
Utilisation of brought forward capital losses	–	(1 469)
Net other permanent differences	28 719	1 618
Unrealised capital losses	(6 530)	15 382
Change in rate	3 041	2 598
Total taxation charge as per income statement	16 426	17 841

For the year ended 31 March £'000	2012	2011
8. Taxation (continued)		
Other comprehensive income taxation effects		
Cash flow hedge movements taken directly to other comprehensive income:	(4 522)	2 205
Pre-tax	(6 472)	3 151
Income taxation effect	1 950	(946)
Gains on realisation of available-for-sale assets recycled through the income statement:	(40 760)	(4 728)
Pre-tax	(56 249)	(5 328)
Income taxation effect	15 489	600
Fair value movements on available-for-sale assets:	25 829	22 938
Pre-tax	35 716	31 382
Income taxation effect	(9 887)	(8 444)
Foreign currency adjustments on translating foreign operations:	4 101	21 016
Pre-tax	4 101	21 016
Income taxation effect	–	–

Corporate taxation rates in the UK will be 24% for the 2013 financial year.

On 21 March 2012 as part of the 2012 Budget, the UK Government has announced its intention to legislate to reduce the main rate of corporation tax to 24% with effect from 1 April 2012 and further by 1% per annum falling to 22% with effect from 1 April 2014. The reduction to 24% was subsequently enacted prior to 31 March 2012 under the provisions of the Provisional Collection of Taxes Act 1968 and the effect of this reduction is therefore reflected in the calculation of the group's UK deferred tax asset and liability.

For the year ended 31 March £'000	2012	2011
9. Dividends		
Ordinary dividend		
Final dividend for prior year	–	15 000
Interim dividend for current year	16 000	8 000
Total dividend attributable to ordinary shareholder recognised in current financial year	16 000	23 000

For the year ended 31 March £'000	2012	2011*
10. Miscellaneous income statement items		
Operating lease expenses recognised in administrative expenses		
Minimum lease payments	4 425	16 932
Contingent rents	399	–
	4 824	16 932
Operating lease income recognised in income		
Minimum lease payments	59 122	36 421
Sublease payments	–	–
	59 122	36 421

* *Restated for prior year incorrect gross up.*

The majority of the operating lease expenses in the group relate to leases on property. Rental income from leases is included in 'Other operating income', mainly comprising leases of motor vehicles.

For the year ended 31 March £'000	At fair value through profit or loss Trading	 Designated at inception
11. Analysis of income and impairments by category of financial instrument		
2012		
Net interest income	3 919	10 256
Fee and commission income	48 450	9 532
Fee and commission expense	(1 561)	(453)
Investment income	–	(8 622)
Trading income arising from		
– customer flow	55 929	(2 613)
– balance sheet management and other trading activities	16 849	243
Other operating income	–	–
Total operating income before impairment losses and loans and advances	123 586	8 343
Impairment losses on loans and advances	–	–
Operating income	123 586	8 343
2011		
Net interest income	(1 407)	(45 347)
Fee and commission income	26 768	15 661
Fee and commission expense	(1 569)	(1 369)
Investment income	–	52 564
Trading income arising from		
– customer flow	48 265	(2 067)
– balance sheet management and other trading activities	28 818	(5 919)
Other operating income	–	–
Other income including net interest income	100 875	13 523
Impairment losses on loans and advances	–	–
Operating income	100 875	13 523

Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non-financial instruments	Other fee income	Total
14 145	683 590	76 762	(539 837)	–	9 368	258 203
–	40 092	332	24 966	9 304	216 456	349 132
–	(5 731)	(432)	(1 924)	–	(25 705)	(35 806)
(1 015)	6 456	46 128	(1 597)	60 893	8 476	110 719
–	–	–	–	–	727	54 043
–	(3 701)	98	3 505	–	(2 134)	14 860
–	–	–	–	60 510	–	60 510
13 130	720 706	122 888	(514 887)	130 707	207 188	811 661
(10 495)	(148 144)	1 663	–	–	–	(156 976)
2 635	572 562	124 551	(514 887)	130 707	207 188	654 685
13 378	630 085	76 712	(427 699)	–	–	245 722
–	39 124	(38)	177	–	116 670	198 362
–	(2 407)	–	(1 820)	(1 299)	(8 822)	(17 286)
–	69 438	8 171	1 663	1 996	8 001	141 833
–	–	–	–	–	–	46 198
–	10 020	(2 960)	39 458	3 653	(8 001)	65 069
–	–	–	–	37 571	8 019	45 590
13 378	746 260	81 885	(388 221)	41 921	115 867	725 488
(1 097)	(169 457)	–	–	–	–	(170 554)
12 281	576 803	81 885	(388 221)	41 921	115 867	554 934

At 31 March 2012 £'000	At fair value through profit or loss	
	Trading	Designated at inception
12. Analysis of financial assets and liabilities by measurement basis		
Assets		
Cash and balances at central banks	–	–
Loans and advances to banks	7	250
Reverse repurchase agreements and cash collateral on securities borrowed	304 022	–
Sovereign debt securities	–	–
Bank debt securities	–	–
Other debt securities	20 578	31 846
Derivative financial instruments*	866 408	–
Securities arising from trading activities	372 570	–
Investment portfolio	–	244 374
Loans and advances to customers	–	17 760
Own originated loans and advances to customers securitised	–	–
Other loans and advances	–	175 523
Other securitised assets	–	65 569
Interests in associated undertakings	–	–
Deferred taxation assets	–	–
Other assets	470 852	–
Property and equipment	–	–
Investment property	–	–
Goodwill	–	–
Intangible assets	–	–
	2 034 437	535 322
Liabilities		
Deposits by banks	–	–
Derivative financial instruments*	732 510	–
Other trading liabilities	271 627	–
Repurchase agreements and cash collateral on securities lent	271 721	–
Customer accounts (deposits)	–	–
Debt securities in issue	–	–
Liabilities arising on securitisation of own originated loans and advances	–	–
Liabilities arising on securitisation of other assets	–	–
Current taxation liabilities	–	–
Deferred taxation liabilities	–	–
Other liabilities	535 421	–
	1 811 279	–
Subordinated liabilities	–	–
	1 811 279	–

* *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 48 on pages 198 and 199.*

	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
	–	–	–	1 835 836	–	1 835 836	–	1 835 836
	–	257	–	863 283	–	863 283	–	863 540
	–	304 022	–	855 116	–	855 116	–	1 159 138
	1 392 273	1 392 273	254 998	–	–	254 998	–	1 647 271
	673 064	673 064	–	151 488	–	151 488	–	824 552
	125 966	178 390	6 953	–	–	6 953	–	185 343
	–	866 408	–	–	–	–	–	866 408
	–	372 570	–	–	–	–	–	372 570
	72 939	317 313	–	–	–	–	–	317 313
	–	17 760	219 528	6 939 704	–	7 159 232	–	7 176 992
	–	–	–	535 008	–	535 008	–	535 008
	–	175 523	–	1 892 103	–	1 892 103	–	2 067 626
	–	65 569	–	574 686	–	574 686	–	640 255
	–	–	–	–	–	–	17 780	17 780
	–	–	–	–	–	–	89 490	89 490
	16 259	487 111	–	463 371	–	463 371	166 344	1 116 826
	–	–	–	–	–	–	122 702	122 702
	–	–	–	–	–	–	11 500	11 500
	–	–	–	–	–	–	278 574	278 574
	–	–	–	–	–	–	117 525	117 525
	2 280 501	4 850 260	481 479	14 110 595	–	14 592 074	803 915	20 246 249
	–	–	–	–	633 024	633 024	–	633 024
	–	732 510	–	–	–	–	–	732 510
	–	271 627	–	–	–	–	–	271 627
	–	271 721	–	–	748 949	748 949	–	1 020 670
	–	–	–	–	11 103 365	11 103 365	–	11 103 365
	–	–	–	–	2 046 651	2 046 651	–	2 046 651
	–	–	–	–	526 946	526 946	–	526 946
	–	–	–	–	508 668	508 668	–	508 668
	–	–	–	–	–	–	57 783	57 783
	–	–	–	–	–	–	32 487	32 487
	–	535 421	–	–	186 750	186 750	220 939	943 110
	–	1 811 279	–	–	15 754 353	15 754 353	311 209	17 876 841
	–	–	–	–	643 162	643 162	–	643 162
	–	1 811 279	–	–	16 397 515	16 397 515	311 209	18 520 003

At 31 March 2011 £'000	At fair value through profit or loss Trading	 Designated at inception
12. Analysis of financial assets and liabilities by measurement basis (continued)		
Assets		
Cash and balances at central banks	–	–
Loans and advances to banks	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	455 380	–
Sovereign debt securities	–	–
Bank debt securities	–	1 572
Other debt securities	15 585	32 010
Derivative financial instruments*	641 212	–
Securities arising from trading activities	479 350	–
Investment portfolio	–	114 206
Loans and advances to customers	–	–
Own originated loans and advances to customers securitised	–	–
Other loans and advances	–	188 371
Other securitised assets	–	72 205
Interests in associated undertakings	–	–
Deferred taxation assets	–	–
Other assets	213 148	–
Property and equipment	–	–
Investment property	–	–
Goodwill	–	–
Intangible assets	–	–
	1 804 675	408 364
Liabilities		
Deposits by banks	–	–
Derivative financial instruments*	529 995	–
Other trading liabilities	402 326	–
Repurchase agreements and cash collateral on securities lent	456 413	–
Customer accounts (deposits)	–	–
Debt securities in issue	–	–
Liabilities arising on securitisation of own originated loans and advances	–	–
Liabilities arising on securitisation of other assets	–	–
Current taxation liabilities	–	–
Deferred taxation liabilities	–	–
Other liabilities	217 262	–
	1 605 996	–
Subordinated liabilities	–	
	1 605 996	–

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges. For more information on hedges, please refer to note 48 on pages 198 and 199.*

	Available-for-sale	Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
	–	–	–	1 142 547	–	1 142 547	–	1 142 547
	–	–	–	750 463	–	750 463	–	750 463
	–	455 380	–	1 017 568	–	1 017 568	–	1 472 948
	617 888	617 888	229 992	–	–	229 992	–	847 880
	1 178 320	1 179 892	–	155 570	–	155 570	–	1 335 462
	117 924	165 519	–	–	–	–	–	165 519
	–	641 212	–	–	–	–	–	641 212
	–	479 350	–	–	–	–	–	479 350
	85 612	199 818	–	–	–	–	–	199 818
	–	–	408 043	6 737 787	–	7 145 830	–	7 145 830
	–	–	–	483 315	–	483 315	–	483 315
	–	188 371	–	1 539 898	–	1 539 898	–	1 728 269
	–	72 205	–	583 098	–	583 098	–	655 303
	–	–	–	–	–	–	13 096	13 096
	–	–	–	–	–	–	62 436	62 436
	–	213 148	–	386 922	–	386 922	127 212	727 282
	–	–	–	–	–	–	235 219	235 219
	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	276 369	276 369
	–	–	–	–	–	–	126 216	126 216
	1 999 744	4 212 783	638 035	12 797 168	–	13 435 203	840 548	18 488 534
	–	–	–	–	765 912	765 912	–	765 912
	–	529 995	–	–	–	–	–	529 995
	–	402 326	–	–	–	–	–	402 326
	–	456 413	–	–	156 250	156 250	–	612 663
	–	–	–	–	10 329 009	10 329 009	–	10 329 009
	–	–	–	–	1 802 932	1 802 932	–	1 802 932
	–	–	–	–	472 109	472 109	–	472 109
	–	–	–	–	540 794	540 794	–	540 794
	–	–	–	–	–	–	41 580	41 580
	–	–	–	–	–	–	36 216	36 216
	–	217 262	–	–	257 839	257 839	228 510	703 611
	–	1 605 996	–	–	14 324 845	14 324 845	306 306	16 237 147
		–	–	–	603 133	603 133	–	603 133
	–	1 605 996	–	–	14 927 978	14 927 978	306 306	16 840 280

13. Reclassifications of financial instruments

During the year ended 31 March 2009 the group reclassified certain financial instruments out of fair value through profit and loss. These assets were originally classified as held for trading but the group's intentions in regard to these assets changed and the group reclassified £112.3 million and £7.8 million to the loans and receivables and available-for-sale classifications, respectively. The amount reclassified reflected the fair value of the financial assets at the date of reclassification.

The group did not undertake any further reclassifications under the amendment to IAS 39 in the current year.

The following table shows carrying values and fair values of the assets reclassified:

At 31 March £'000	Carrying value as at 31 March 2012	Fair value as at 31 March 2012	Carrying value as at 31 March 2011	Fair value as at 31 March 2011
Trading assets reclassified to loans and receivables	26 700	20 606	32 431	22 620
Trading assets reclassified to available-for-sale	–	–	–	–
	26 700	20 606	32 431	22 620

If the reclassifications had not been made, the group's income before tax in 2012 would have increased by £3.7 million (2011: an increase of £0.1 million).

In the current year the reclassified assets have contributed a £115 000 gain to profit and loss through the margin line and a loss of £2.0 million through impairments before taxation. In the prior year, after reclassification, the assets contributed £25 000 loss to profit and loss through the margin line and a loss of £1.2 million through impairments before taxation.

14. 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 (unadjusted) prices in active markets for identical assets or liabilities

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

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

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

At 31 March £'000	Total instruments at fair value	Valuation technique applied		
		Level 1	Level 2	Level 3
14. Fair value hierarchy (continued)				
2012				
Assets				
Loans and advances to banks	257	7	250	–
Reverse repurchase agreements and cash collateral on securities borrowed	304 022	–	304 022	–
Sovereign debt securities	1 392 273	1 160 449	231 824	–
Bank debt securities	673 064	142 895	530 169	–
Other debt securities	178 390	22 772	99 405	56 213
Derivative financial instruments	866 408	203 825	624 341	38 242
Securities arising from trading activities	372 570	365 687	6 883	–
Investment portfolio	317 313	76 065	111 417	129 831
Loans and advances to customers	17 760	–	17 172	588
Other loans and advances	175 523	–	–	175 523
Other securitised assets	65 569	7 630	–	57 939
Other assets	487 111	478 743	8 368	–
	4 850 260	2 458 073	1 933 851	458 336
Liabilities				
Derivative financial instruments	732 510	257 858	474 652	–
Other trading liabilities	271 627	271 627	–	–
Repurchase agreements and cash collateral on securities lent	271 721	–	271 721	–
Other liabilities	535 421	451 667	83 754	–
	1 811 279	981 152	830 127	–
2011				
Assets				
Reverse repurchase agreements and cash collateral on securities borrowed	455 380	–	455 380	–
Sovereign debt securities	617 888	393 425	224 463	–
Bank debt securities	1 179 892	650 251	529 641	–
Other debt securities	165 519	33 795	37 854	93 870
Derivative financial instruments	641 212	63 129	547 377	30 706
Securities arising from trading activities	479 350	475 432	3 918	–
Investment portfolio	199 818	116 151	57 599	26 068
Other loans and advances	188 371	–	–	188 371
Other securitised assets	72 205	9 377	–	62 828
Other assets	213 148	213 148	–	–
	4 212 783	1 954 708	1 856 232	401 843
Liabilities				
Derivative financial instruments	529 995	34 619	495 376	–
Other trading liabilities	402 326	402 326	–	–
Repurchase agreements and cash collateral on securities lent	456 413	–	456 413	–
Other liabilities	217 262	217 262	–	–
	1 605 996	654 207	951 789	–

Transfers between level 1 and 2

There were no significant transfers between level 1 and level 2 for the current or prior year.

At 31 March £'000	Total level 3 financial instruments	Fair value movements through income statement	Fair value movements through comprehensive income
14. Fair value hierarchy (continued)			
The following table shows a reconciliation from the opening balances to the closing balances for fair value measurements in level 3 of the fair value hierarchy:			
Group			
Balance as at 31 March 2010	336 344	316 556	19 788
Total gains or losses	19 516	14 053	5 463
In the income statement	16 799	14 053	2 746
In the statement of comprehensive income	2 717	–	2 717
Purchases	182 999	139 198	43 801
Sales	(124 184)	(116 388)	(7 796)
Issues	128	128	–
Settlements	(21 875)	(21 875)	–
Transfers into level 3	9 337	3 676	5 661
Transfers out of level 3	(562)	–	(562)
Foreign exchange adjustments	140	(971)	1 111
Balance as at 31 March 2011	401 843	334 377	67 466
Total gains or losses	(34 995)	(33 748)	(1 247)
In the income statement	(34 930)	(33 748)	(1 182)
In the statement of comprehensive income	(65)	–	(65)
Purchases	158 465	156 541	1 924
Sales	(24 939)	(15 663)	(9 276)
Settlements	(16 933)	(16 933)	–
Transfers into level 3	21 426	21 426	–
Transfers out of level 3	(46 503)	–	(46 503)
Foreign exchange adjustments	(28)	230	(258)
Balance as at 31 March 2012	458 336	446 230	12 106

In each year, instruments were transferred out of level 3 to level 2 due to improved levels of observable inputs for valuation of these instruments. Instruments were transferred into level 3 when certain significant inputs to model valuations were no longer observable.

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

For the year ended 31 March £'000	2012	2011
Total gains or losses included in the income statement for the year		
Net interest income	4 803	11 538
Fee and commission income	1 628	(1 942)
Investment income	(49 101)	7 203
Trading income arising from balance sheet management and other trading activities	7 740	–
	(34 930)	16 799

14. Fair value hierarchy (continued)

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

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

At 31 March £'000	Reflected in income statement Favourable changes	Reflected in income statement Unfavourable changes	Reflected in other comprehensive income Favourable changes	Reflected in other comprehensive income Unfavourable changes
2012				
Assets				
Other debt securities	2 041	2 138	2 306	2 467
Investment portfolio	62 109	23 558	2 109	2 199
Derivative financial instruments	59 849	1 396	–	–
Loans and advances to customers	1 211	294	–	–
Other loans and advances	3 953	1 024	–	–
Other securitised assets	23 703	13 811	–	–
	152 866	42 221	4 415	4 666
2011				
Assets				
Other debt securities	1 870	5 990	1 445	2 018
Investment portfolio	6 234	1 247	2 748	2 384
Derivative financial instruments	11 948	1 071	–	–
Loans and advances to customers	1 029	583	–	–
Other loans and advances	9 139	5 137	–	–
Other securitised assets	20 256	12 689	–	–
	50 476	26 717	4 193	4 402

The above variations have been determined with reference to the key unobservable inputs which mainly relate to future cash flows and discount rates applied.

At 31 March £'000	2012 Carrying amount	2012 Fair value	2011 Carrying amount	2011 Fair value
15. Fair value of financial instruments at amortised cost				
Assets				
Cash and balances at central banks	1 835 836	1 835 836	1 142 547	1 142 547
Loans and advances to banks	863 283	863 283	750 463	738 662
Reverse repurchase agreements and cash collateral on securities borrowed	855 116	855 116	1 017 568	944 353
Sovereign debt securities	254 998	254 998	229 992	229 795
Bank debt securities	151 488	146 861	155 570	155 762
Other debt securities	6 953	6 923	–	–
Loans and advances to customers	7 159 232	7 121 025	7 145 830	7 150 753
Own originated loans and advances to customers securitised	535 008	535 108	483 315	469 635
Other loans and advances	1 892 103	1 796 198	1 539 898	1 466 589
Other securitised assets	574 686	579 874	583 098	578 323
Other assets	463 371	478 953	386 922	386 923
	14 592 074	14 474 175	13 435 203	13 263 342

At 31 March £'000	2012 Carrying amount	2012 Fair value	2011 Carrying amount	2011 Fair value
15. Fair value of financial instruments at amortised cost (continued)				
Liabilities				
Deposits by banks	633 024	633 109	765 912	766 688
Repurchase agreements and cash collateral on securities lent	748 949	748 949	156 250	156 251
Customer accounts – deposits	11 103 365	11 102 703	10 329 009	10 327 832
Debt securities in issue	2 046 651	2 046 481	1 802 932	1 799 437
Liabilities arising on securitisation of own originated loans and advances	526 946	526 946	472 109	472 109
Liabilities arising on securitisation of other assets	508 668	358 837	540 794	416 112
Other liabilities	186 750	187 750	257 839	257 940
Subordinated liabilities	643 162	623 618	603 133	586 303
	16 397 515	16 228 393	14 927 978	14 782 672

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.

At 31 March 2012 £'000	Carrying value	Fair value adjustment		Change in fair value attributable to credit risk		Maximum exposure to credit risk
		Year to date	Cumulative	Year-to-date	Cumulative	
16. Designated at fair value: loans and receivables and financial liabilities						
Loans and receivables designated at fair value through profit or loss						
2012						
Loans and advances to banks	250	–	–	–	–	250
Loans and advances to customers	17 760	12 765	17 173	–	–	17 760
Other loans and advances	175 523	(885)	10 147	(257)	(2 402)	175 523
Other securitised assets	22 369	3 186	22 369	(10 250)	(19 511)	22 369
	215 902	15 066	49 689	(10 507)	(21 913)	215 902
2011						
Other loans and advances	188 371	(1 667)	10 926	(1 582)	11 032	188 371
Other securitised assets	27 258	(1 894)	27 258	(1 894)	27 258	27 258
	215 629	(3 561)	38 184	(3 476)	38 290	215 629

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.

As at 31 March £'000	2012	2011
17. Cash and balances at central banks		
An analysis of cash and balances at central banks based on the country where the risk of the asset lies		
United Kingdom	1 640 375	945 792
Europe (excluding UK)	15 431	41 453
Australia and Other	180 030	155 302
Total	1 835 836	1 142 547

As at 31 March £'000	2012	2011
18. Loans and advances to banks		
An analysis of loans and advances to bank based on the country where the risk of the asset lies		
South Africa	5 965	11 843
United Kingdom	653 080	528 642
Europe (excluding UK)	80 178	39 285
Australia	72 197	113 410
United States of America	31 618	41 725
Other	20 502	15 558
Total	863 540	750 463

As at 31 March £'000	2012	2011
19. Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent		
Assets		
Reverse repurchase agreements	1 133 046	1 091 465
Cash collateral on securities borrowed	26 092	381 483
	1 159 138	1 472 948
As part of the reverse repurchase and securities borrowing agreements the group has received securities that it is allowed to sell or repledge. £620 million (2011: £407 million) has been resold or repledged to third parties in connection with financing activities or to comply with commitments under short sale transactions.		
Liabilities		
Repurchase agreements	969 287	576 451
Cash collateral on securities lent	51 383	36 212
	1 020 670	612 663

As at 31 March £'000	2012	2011
20. Sovereign debt securities		
Bonds	703 089	745 341
Commercial paper	218 292	38 411
Treasury bills*	725 890	64 128
	1 647 271	847 880
The risk of the above assets lies in the following geographies:		
United Kingdom	611 406	580 782
Europe (excluding UK)	522 698	42 634
Australia	231 824	224 464
United States of America	281 343	–
Total	1 647 271	847 880

* *Includes £255.0 million of short dated held-to-maturity treasury bills which matured on 2 April 2012 (2011: £230.0 million which matured on 4 April 2011).*

As at 31 March £'000	2012	2011
21. Bank debt securities		
Bonds	203 099	640 556
Commercial paper	–	710
Floating rate notes	621 453	694 196
	824 552	1 335 462
The risk of the above assets lies in the following geographies:		
United Kingdom	196 276	626 254
Europe (excluding UK)	124 514	218 297
Australia	462 454	490 911
United States of America	28 637	–
Other	12 671	–
Total	824 552	1 335 462

As at 31 March £'000	2012	2011
22. Other debt securities		
Bonds	58 083	45 081
Unlisted equities	629	–
Floating rate notes	112 900	104 802
Other investments	13 731	15 636
	185 343	165 519
The risk of the above assets lies in the following geographies:		
United Kingdom	42 002	39 531
Europe (excluding UK)	47 158	30 898
Australia	81 861	79 490
United States of America	13 607	15 600
Other	715	–
Total	185 343	165 519

23. Derivative financial instruments

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

In the tables that follow, notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair value of a derivative financial instrument represents the positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out by the group in an orderly market transaction at balance sheet date.

	2012			2011		
At 31 March £'000	Notional principal amounts	Positive fair value	Negative fair value	Notional principal amounts	Positive fair value	Negative fair value
Foreign exchange derivatives						
Forward foreign exchange contracts	3 050 170	16 464	(10 500)	5 586 644	39 458	(84 915)
Currency swaps	6 306 670	149 215	(60 843)	2 147 333	119 657	(69 102)
OTC options bought and sold	2 931 182	23 494	(19 831)	1 998 875	26 093	(12 024)
Other foreign exchange contracts	696 932	484	(2 333)	126 678	2 775	–
OTC derivatives	12 984 954	189 657	(93 507)	9 859 530	187 983	(166 041)
Interest rate derivatives						
Caps and floors	1 032 076	3 284	(4 460)	1 004 417	3 889	(3 703)
Swaps	13 439 023	263 866	(178 660)	12 269 511	175 392	(95 221)
Forward rate agreements	206 367	–	(40)	438 875	103	(52)
OTC options bought and sold	250 000	419	–	–	–	–
Other interest rate contracts	244 458	–	(150)	244 943	–	(197)
OTC derivatives	15 171 924	267 569	(183 310)	13 957 746	179 384	(99 173)
Exchange traded futures	389 138	–	(494)	457 955	–	(113)
	15 561 062	267 569	(183 804)	14 415 701	179 384	(99 286)

At 31 March £'000	2012 Notional principal amounts	2012 Positive fair value	2012 Negative fair value	2011 Notional principal amounts	2011 Positive fair value	2011 Negative fair value
23. Derivative financial instruments (continued)						
Equity and stock index derivatives						
OTC options bought and sold	1 805 067	9 817	(43 368)	2 036 849	15 623	(9 810)
Equity swaps and forwards	61 902	570	(714)	228 471	4 110	(2 626)
OTC derivatives	1 866 969	10 387	(44 082)	2 265 320	19 733	(12 436)
Exchange traded futures	1 340 564	20 869	(26 210)	178 333	1 471	(1 025)
Exchange traded options	3 578 941	154 447	(211 481)	161	35 721	(17 889)
Warrants	3 759	2 245	–	–	660	–
	6 790 233	187 948	(281 773)	2 443 814	57 585	(31 350)
Commodity derivatives						
OTC options bought and sold	30 265	1 485	(101)	31 845	3 101	(1 060)
Commodity swaps and forwards	125 631	170 512	(169 336)	366 611	174 920	(228 712)
OTC derivatives	155 896	171 997	(169 437)	398 456	178 021	(229 772)
Credit derivatives						
Credit swaps	489 635	13 258	(3 989)	56 917	7 430	(3 546)
OTC derivatives	489 635	13 258	(3 989)	56 917	7 430	(3 546)
Embedded derivatives*		35 979	–		30 809	–
Derivatives per balance sheet		866 408	(732 510)		641 212	(529 995)

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

At 31 March £'000	2012	2011
24. Securities arising from trading activities		
Listed equities	122 562	87 027
Bonds	47 450	23 157
Government securities	202 558	369 166
	372 570	479 350

At 31 March £'000	2012	2011
25. Investment portfolio		
Listed equities	33 041	65 598
Unlisted equities	284 272	134 220
	317 313	199 818

At 31 March £'000	2012	2011
26. Loans and advances to customers and other loans and advances		
Gross loans and advances to customers	7 340 042	7 329 573
Impairments of loans and advances to customers	(163 050)	(183 743)
Net loans and advances to customers	7 176 992	7 145 830
Gross other loans and advances to customers	2 101 996	1 756 302
Impairments of other loans and advances to customers	(34 370)	(28 033)
Net other loans and advances to customers	2 067 626	1 728 269
For further analysis on loans and advances refer to pages 53 to 68 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	182 225	111 807
Charge to the income statement	148 617	167 797
Disposals	(83 597)	–
Utilised	(80 813)	(104 835)
Exchange adjustment	(6 195)	7 456
Balance at end of year	160 237	182 225
Portfolio impairment		
Balance at beginning of year	1 518	17 530
Charge to the income statement	(516)	(13 949)
Exchange adjustment	1 811	(2 063)
Balance at end of year	2 813	1 518
Other loans and advances		
Specific impairment		
Balance at beginning of year	22 993	11 932
Charge to the income statement	4 857	14 419
Utilised	(1 128)	(215)
Exchange adjustment	2 479	(3 143)
Balance at end of year	29 201	22 993
Portfolio impairment		
Balance at beginning of year	5 040	1 714
Charge to the income statement	2 911	1 277
Exchange adjustment	(2 782)	2 049
Balance at end of year	5 169	5 040
Total specific impairments	189 437	205 218
Total portfolio impairments	7 982	6 558
Total impairments	197 419	211 776
Interest income recognised on loans that have been impaired	6 668	10 909

At 31 March £'000	2012	2011
26. Loans and advances to customers and other loans and advances (continued)		
Reconciliation of income statement charge:		
Loans and advances	148 101	153 848
Specific impairment charged to income statement	148 617	167 797
Portfolio impairment charged to income statement	(516)	(13 949)
Securitised assets (refer to note 27)	1 107	1 010
Specific impairment charged to income statement	1 353	1 072
Portfolio impairment charged to income statement	(246)	(62)
Other loans and advances	7 768	15 696
Specific impairment charged to income statement	4 857	14 419
Portfolio impairment charged to income statement	2 911	1 277
Total income statement charge	156 976	170 554

At 31 March £'000	2012	2011
27. Securitised assets and liabilities arising on securitisation		
Gross own originated loans and advances to customers securitised	536 297	484 162
Impairments of own originated loans and advances to customers securitised	(1 289)	(847)
Net own originated loans and advances to customers securitised	535 008	483 315
Other securitised assets are made up of the following categories of assets:		
Other securitised assets		
Cash and cash equivalents	30 068	15 267
Loans and advances to customers	610 187	640 036
Total other securitised assets	640 255	655 303
The associated liabilities are recorded on balance sheet in the following line items:		
Carrying value at 31 March		
Liabilities arising on securitisation of own originated loans and advances	526 946	472 109
Liabilities arising on securitisation of other assets	508 668	540 794
Specific and portfolio impairments		
Reconciliation of movements in group specific and portfolio impairments of assets that have been securitised:		
Specific impairment		
Balance at beginning of year	210	906
Charge to the income statement	1 353	1 072
Utilised	(648)	(1 789)
Exchange adjustment	(23)	21
Balance at end of year	892	210
Portfolio impairment		
Balance at beginning of year	637	665
Charge to the income statement	(246)	(62)
Exchange adjustment	6	34
Balance at end of year	397	637
Total	1 289	847

At 31 March £'000	2012	2011
28. Interests in associated undertakings		
Interests in associated undertakings consist of:		
Net asset value	10 369	6 024
Goodwill	7 411	7 072
Investment in associated undertakings	17 780	13 096
Analysis of the movement in our share of net assets:		
At beginning of year	6 024	7 273
Exchange adjustments	7	120
Acquisitions	3 953	51
Disposal	(250)	(1 647)
Operating income from associates	930	1 150
Dividends received	(295)	(923)
At end of year	10 369	6 024
Analysis of the movement in goodwill:		
At beginning of year	7 072	7 072
Acquisitions	339	–
At end of year	7 411	7 072
All associates are unlisted.		
Summarised financial information of the bank's principal associate, Hargreave Hale, is as follows:		
Total assets	35 497	44 256
Total liabilities	26 036	35 146
Total revenue	21 732	20 461
Profit before tax	1 675	2 009

At 31 March £'000	2012	2011
29. Deferred taxation		
Deferred tax asset		
Accelerated capital allowances	17 337	21 152
Income and expenditure accruals	11 405	13 967
Arising from unexpired share options	15 533	14 872
Unrealised fair value adjustments on financial instruments	6 515	4 305
Losses carried forward	35 649	5 617
Other temporary differences	3 051	2 523
	89 490	62 436
Deferred tax liability		
Deferred capital allowances	(380)	–
Unrealised fair value adjustments on financial instruments	(2 339)	(2 046)
Deferred tax on acquired intangibles	(24 822)	(29 139)
Other temporary differences	(4 946)	(5 031)
	(32 487)	(36 216)
Net deferred tax asset	57 003	26 220
Reconciliation of net deferred tax asset		
At beginning of year	26 220	77 526
Credit/(charge) to profit and loss	25 105	(26 128)
Credit/(charge) directly in equity	2 425	(2 485)
Arising on acquisition of subsidiary undertaking	3 433	(27 816)
Arising on disposals	–	2 610
Exchange adjustments	–	1 423
Other	(180)	1 090
At end of year	57 003	26 220
Deferred tax on available-for-sale instruments recognised directly in other comprehensive income	(2 748)	(2 046)

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 crystallisation of capital gains and the eligibility of potential losses is uncertain.

At 31 March £'000	2012	2011
30. Other assets		
Settlement debtors	857 307	543 328
Dealing properties	90 529	58 434
Accruals and prepayments	35 992	39 517
Trading initial margin	57 952	25 080
Other debtors	75 046	60 923
	1 116 826	727 282

At 31 March £'000	Freehold properties	Leasehold improve-ments	Furniture and vehicles	Equipment	Operating leases	Total
31. Property and equipment						
2012						
Cost						
At beginning of year	7 020	38 524	14 595	17 548	210 342	288 029
Exchange adjustments	12	(88)	112	(154)	–	(118)
Acquisition of subsidiary undertakings	–	–	13	–	–	13
Additions	–	17 904	1 205	4 806	38 852	62 767
Disposals	(3 754)	(4 054)	(912)	(1 273)	(144 519)*	(154 512)
At end of year	3 278	52 286	15 013	20 927	104 675	196 179
Accumulated depreciation						
At beginning of year	–	(17 200)	(8 164)	(11 631)	(15 815)	(52 810)
Exchange adjustments	–	59	(11)	148	–	196
Disposals	–	3 114	775	1 083	11 770*	16 742
Depreciation charge for year	(138)	(3 438)	(2 189)	(3 296)	(28 544)	(37 605)
At end of year	(138)	(17 465)	(9 589)	(13 696)	(32 589)	(73 477)
Net carrying value	3 140	34 821	5 424	7 231	72 086	122 702
2011						
Cost						
At beginning of year	32 893	33 760	12 946	135 857	–	215 456
Exchange adjustments	(1 157)	337	577	(4 025)	–	(4 268)
Disposal of subsidiary undertakings	(30 633)	–	–	(119 480)	–	(150 113)
Acquisition of subsidiary undertakings	2 687	1 722	31	1 782	–	6 222
Additions	3 230	2 801	1 972	3 785	226 097	237 885
Disposals	–	(96)	(931)	(371)	(15 755)	(17 153)
At end of year	7 020	38 524	14 595	17 548	210 342	288 029
Accumulated depreciation						
At beginning of year	(7 089)	(14 257)	(6 760)	(47 029)	–	(75 135)
Exchange adjustments	281	(397)	(180)	1 217	–	921
Disposal of subsidiary undertakings	7 393	–	–	39 360	–	46 753
Disposals	–	95	760	329	632	1 816
Depreciation charge for year	(585)	(2 641)	(1 984)	(5 508)	(16 447)	(27 165)
At end of year	–	(17 200)	(8 164)	(11 631)	(15 815)	(52 810)
Net carrying value	7 020	21 324	6 431	5 917	194 527	235 219

* *Included in the disposals of operating leases are operating leases that have been converted to finance leases with a cost of £75.1 million and a related amortisation of £8.4 million.*

On 3 December 2010 the group acquired a portfolio of operating leased assets comprising motor vehicles. The operating lease income from this portfolio has been included in other operating income (note 5) and the depreciation of these operating leased assets has been shown separately on the face of the income statement.

At 31 March £'000	2012	2011
32. Investment property		
At beginning of year	–	–
Additions	11 386	–
Fair value movement	114	–
At end of year	11 500	–

Investment properties are carried at fair value.

At 31 March £'000	2012	2011
33. Goodwill		
Cost		
At beginning of year	309 327	119 191
Acquisition of subsidiary undertaking	2 286	197 809
Disposal of subsidiary undertaking	–	(11 221)
Exchange adjustments	(11)	3 548
At end of year	311 602	309 327
Accumulated impairments		
At beginning of year	(32 958)	(32 630)
Exchange adjustments	(70)	(328)
At end of year	(33 028)	(32 958)
Net carrying value	278 574	276 369
Analysis of goodwill by line of business and geography		
UK and Europe		
Wealth & Investment	193 058	193 058
Specialist Banking	35 968	34 040
	229 026	227 098
Australia		
Specialist Banking	49 548	49 271
Total group	278 574	276 369

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 cashflows within the cash-generating units of the group to which the goodwill is allocated. Key assumptions within the calculation include discount rates, growth rates in revenue and related expenditure.

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

33. Goodwill (continued)

UK, Europe and Australia

The two significant cash-generating units giving rise to goodwill are Investec Wealth & Investment and the Specialist Banking activities of the group's Australian operations.

For Investec Wealth & Investment, goodwill of £193.1 million arising on the acquisition of Rensburg Sheppards plc in March 2011 has been tested for impairment on the basis of cash flow projections for the next three years discounted at 11.5%.

The Australian operations have been tested for impairment as follows:

Wentworth Associates was acquired in 2001. The recoverable amount for goodwill represents a normalised pre-tax historic average earning multiple of approximately six to seven times. Management are comfortable that this carrying value is supported based on discussions with investment banking executives and available market data for comparable businesses. Management believe that it is highly unlikely that a change in any of the above key assumptions would cause the carrying value to materially exceed its recoverable amount.

Experien Finance was acquired in October 2007. The goodwill amount is derived from the estimated purchase consideration taking into account an upfront payment plus future expected earn-out payments which have now substantially been achieved.

The recoverable amount of goodwill represents a normalised pre-tax historic average earnings multiple of approximately eight times. Management are comfortable that this carrying value is supported based on discussions with Experien executives and available market data for comparable businesses. Management believe that it is highly unlikely that a change in any of the above key assumptions would cause the carrying value to materially exceed its recoverable amount.

Movement in goodwill

2012

Goodwill in the year arose from the acquisition of Access Capital. For further details see note 35.

2011

£193.1 million of goodwill arose in the year from the acquisition of Rensburg Sheppards plc and £4.8 million from the acquisition of Investec Holdings (Ireland) Limited.

At 31 March £'000	Acquired software	Client relationships	Intellectual property	Total
34. Intangible assets				
2012				
Cost				
At beginning of year	37 673	107 168	1 245	146 086
Exchange adjustments	18	(16)	5	7
Acquisition of subsidiary undertakings	242	688	–	930
Additions	1 885	–	2 424	4 309
At end of year	39 818	107 840	3 674	151 332
Accumulated amortisation and impairments				
At beginning of year	(19 575)	–	(295)	(19 870)
Exchange adjustments	217	–	(2)	215
Amortisation	(5 984)	(8 168)	–	(14 152)
At end of year	(25 342)	(8 168)	(297)	(33 807)
Net carrying value	14 476	99 672	3 377	117 525

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

Client relationships relate mainly to the acquisition of Rensburg Sheppards plc in March 2011.

35. Acquisitions and disposals

2012

Acquisitions

On 18 April 2011 the bank acquired the entire ordinary share capital of Access Capital Limited and changed its name to Investec Capital Asia Limited (ICAL). ICAL 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.

The book value and fair value of assets and liabilities at the date of acquisition, goodwill arising on this transaction and total consideration paid are disclosed in the table below:

£'000	
Loans and advances to banks	535
Other assets	354
Property and equipment	13
Intangible assets	930
Goodwill*	2 286
	4 118
Other liabilities	20
	20
Net assets/fair value of net assets acquired	4 098
Fair value of cash consideration	4 098
Loans and advances to banks at acquisition	535
Fair value of cash consideration	(4 098)
Net cash outflow	(3 563)

* *The goodwill on ICAL represents the benefits expected to arise from extending the group's investment banking capability to the Hong Kong market. None of the goodwill arising during the year is expected to be deductible for corporation tax purposes.*

Disposals

There were no significant disposals of subsidiaries during the year ended 31 March 2012.

35. Acquisitions and disposals (continued)

2011

Acquisitions

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

On 30 September 2010 the bank issued 22 million ordinary shares of £1 each at a value of 152 pence each as consideration for the acquisition of the entire issued ordinary share capital of Investec Holdings (Ireland) Limited (IHI).

On 31 March 2011 the bank issued 190 million ordinary shares of £1 each at a value of 154 pence each as consideration for the acquisition of the entire issued ordinary share capital of Rensburg Sheppards plc (RS).

In the period from 30 September 2010 to 31 March 2011, IHI made a profit before taxation of £1 754 000.

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

£'000	Rensburg Sheppards plc	Investec Holdings (Ireland) Limited	Total
Loans and advances to banks	67 914	26 109	94 023
Loans and advances to customers	–	6 333	6 333
Investment securities	1 483	12	1 495
Deferred taxation assets	2 721	–	2 721
Other assets	137 812	1 353	139 165
Property and equipment	4 683	1 539	6 222
Intangible assets	112 034	468	112 502
	326 647	35 814	362 461
Deposits by banks	867	–	867
Debt securities in issue	–	2 065	2 065
Current taxation liabilities	11 085	–	11 085
Deferred taxation liabilities	29 317	1 220	30 537
Other liabilities	156 637	3 751	160 388
	197 906	7 036	204 942
Net assets/fair value of net assets	128 741	28 778	157 519
Goodwill	193 059	4 750	197 809
Fair value of consideration	321 800	33 528	355 328
Fair value of cash consideration	29 200	–	29 200

The book values and fair values of assets and liabilities were the same at the dates of acquisition.

Disposals

The bank incurred a net loss of £8.6 million on the sale and deconsolidation of investments previously consolidated as subsidiaries.

This loss was net of the waiver of a loan of £27.0 million from the bank's parent which was funding these investments.

At 31 March £'000	2012	2011
36. Other trading liabilities		
Short positions		
Equities	102 063	65 520
Gilts	169 564	336 806
	271 627	402 326

At 31 March £'000	2012	2011
37. Debt securities in issue		
Bonds and medium term notes repayable:		
Up to one year	–	15 590
	–	15 590
Other unlisted debt securities in issue repayable:		
Not more than three months	557 452	146 003
Over three months but not more than one year	64 592	205 794
Over one year but not more than five years	1 249 599	1 234 142
Greater than five years	175 008	201 403
	2 046 651	1 787 342
	2 046 651	1 802 932
Analysis by customer type:		
Retail	466 786	239 719
Wholesale	1 579 865	1 563 213
	2 046 651	1 802 932

At 31 March £'000	2012	2011
38. Other liabilities		
Settlement liabilities	695 080	446 203
Other creditors and accruals	181 151	182 174
Other non interest bearing liabilities	66 879	75 234
	943 110	703 611

At 31 March £'000	2012	2011
39. Pension commitments		
Income statement charge		
Cost of defined contribution schemes included in administration expenses	16 047	11 546
Net income statement charge in respect of pensions	16 047	11 546

The group operates pension schemes throughout its areas of operation. The majority of the schemes are defined contribution schemes with the exception of one scheme in the United Kingdom being the Guinness Mahon Pension Fund scheme (GM scheme). The scheme is a final salary pension plan with assets held in separate trustee administered funds. The scheme is closed to new members and the accrual of service ceased on 31 March 2002. The scheme has been valued at 31 March 2012 by qualified independent actuaries in accordance with IAS 19. There were no unpaid contributions in relation to the defined contribution scheme outstanding at the year end.

The major assumptions used were:	2012	2011
Discount rate	4.70%	5.50%
Rate of increase in salaries	3.30%	3.50%
Rate of increase in pensions in payment	2.1% – 3.2%	1.8% – 3.4%
Inflation (RPI)	3.30%	3.50%
Inflation (CPI)	2.30%	2.80%

At 31 March £'000	2012	2011

39. 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:

	2012	2011
Male aged 66	87.4	87.4
Female aged 66	89.5	89.5
Male aged 46	89.3	89.3
Female aged 46	90.0	90.9

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

	2012		2011	
At 31 March	Value £'000	Long-term rate of return expected	Value £'000	Long-term rate of return expected
GM scheme				
Equities	26 899	7.20%	27 937	7.70%
Gilts	91 359	3.20%	79 003	4.20%
Cash	8 107	3.20%	3 619	4.20%
Total market value of assets	126 365		110 559	

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

At 31 March £'000	2012	2011
Recognised in the balance sheet		
Fair value of fund assets	126 365	110 559
Present value of obligations	(100 743)	(91 552)
Net asset	25 622	19 007
Amounts in balance sheet		
Assets	25 622	19 007
Liability	–	–
Net asset	25 622	19 007
Recognised in the income statement		
Expected return on pension scheme assets	5 338	5 858
Interest on pension obligations	(4 910)	(5 484)
Net return	428	374
Recognised in the statement of comprehensive income		
Actuarial gain on plan assets	11 478	1 178
Actuarial (loss)/gain	(8 843)	11 334
Actuarial gain	2 635	12 512
Deferred tax	(548)	(3 420)
Actuarial gain in statement of comprehensive income	2 087	9 092

The cumulative amount of net actuarial losses recognised in the statement of comprehensive income of Investec plc is £10.8 million (£7.2 million net of deferred tax) (2011: £13.4 million (£9.3 million net of deferred tax)).

At 31 March £'000	Total
39. Pension commitments (continued)	
Changes in the fair value of defined benefit obligations	
Opening defined benefit obligation at 1 April 2010	102 018
Interest cost	5 484
Actuarial loss	(11 334)
Benefits paid	(4 616)
Opening defined benefit obligation at 1 April 2011	91 552
Interest cost	4 910
Actuarial gain	8 843
Benefits paid	(4 562)
Closing defined benefit obligation at 31 March 2012	100 743
Changes in the fair value of plan assets	
Opening defined benefit obligation at 1 April 2010	104 587
Expected return	5 858
Actuarial gain	1 178
Contributions by the employer	3 552
Benefits paid	(4 616)
Opening defined benefit obligation at 1 April 2011	110 559
Expected return	5 338
Actuarial gain	11 478
Contributions by the employer	3 552
Benefits paid	(4 562)
Closing fair value of plan assets at 31 March 2012	126 365

The bank does not expect to make any contributions to the defined benefit schemes in the 2013 financial year.

At 31 March £'000	2012	2011	2010	2009	2008
History of experience gains and losses					
GM Scheme					
Defined benefit obligation	(100 743)	(91 552)	(102 018)	(79 586)	(80 319)
Plan assets	126 365	110 559	104 587	89 912	97 950
Surplus	25 622	19 007	2 569	10 326	17 631
Experience adjustments on plan liabilities	(8 843)	11 334	(18 585)	1 770	11 543
Experience adjustments on plan assets	11 478	1 178	7 794	(12 838)	(2 410)

At 31 March £'000	2012	2011
40. Subordinated liabilities		
Issued by Investec Bank plc		
Subordinated fixed rate medium-term notes	576 827	502 126
Issued by subsidiaries of Investec Bank plc:		
Issued by Investec Finance plc		
Guaranteed subordinated step-up notes	33 979	33 979
Guaranteed undated subordinated callable step-up notes	19 230	19 471
Issued by Investec Australia Limited		
Subordinated floating rate medium-term notes	13 126	13 052
Issued by Global Ethanol Holdings Limited		
Subordinated loan notes	–	34 505
	643 162	603 133
Remaining maturity:		
In one year or less, or on demand	–	34 505
In more than two years, but not more than five years	53 209	40 015
In more than five years	589 953	528 613
	643 162	603 133

Issued by Investec Bank plc

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 2022 at a discount (2022 notes). Interest is paid annually. The notes are listed on the London Stock Exchange. The notes will be redeemed at par on 17 February 2022.

On 29 June 2011 Investec Bank plc issued £75 000 000 of 9.625% subordinated notes due 2022 at a premium. These notes were consolidated to form a single series, and are fungible, with the £500 000 000 2022 notes issued on 17 February 2011.

Issued by subsidiaries of Investec Bank plc

Guaranteed subordinated step-up notes

At 31 March 2012 Investec Finance plc had in issue £33 793 000 of guaranteed subordinated step-up notes due in 2016.

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 6.482%, the aggregate of 3.5% and the gross redemption yield of the relevant benchmark gilt.

Guaranteed undated subordinated callable step-up notes

At 31 March 2012 Investec Finance plc had in issue £17 861 000 of 6.25% guaranteed undated subordinated step-up notes callable in 2017 at a discount (perpetual notes). Interest 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.

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

A$20 000 000 of floating rate medium-term notes (MTN) was issued by IBAL 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 on 12 February 2015. After this date, if the issuer's call is not exercised, the interest will be the aggregate of three-month BBSW plus 7.5% payable quarterly in arrears.

Subordinated loan notes

The group disposed of its interest in Global Ethanol Holdings on 28 March 2012. At that date the £19 902 000 of loan notes due to parties outside the Investec group and the equal and opposite amount included in non-controlling interests were both removed from Investec's balance sheet.

At 31 March	2012	2011
41. Ordinary share capital		
Authorised		
The authorised share capital is £2 000 million (2011: £2 000 million) comprising:		
2 000 million ordinary shares of £1 each (2011: 2 000 million ordinary shares of £1 each)		
Issued, allotted and fully paid		
Number of ordinary shares	Number	Number
At beginning of year	1 026 000 000	748 000 000
Issued during the year	44 700 000	278 000 000
At end of year	1 070 700 000	1 026 000 000
Nominal value of ordinary shares	£'000	£'000
At beginning of year	1 026 000	748 000
Issued during the year	44 700	278 000
At end of year	1 070 700	1 026 000

At 31 March £'000	2012	2011
42. Non-controlling interests		
Non-controlling interests attributable in partially held subsidiaries	(2 145)	(23 794)
	(2 145)	(23 794)

At 31 March £'000	2012 Total future minimum payments	2012 Present value	2011* Total future minimum payments	2011* Present value
43. Finance lease disclosures				
Finance lease receivables included in loans and advances to customers				
Lease receivables due in:				
Less than 1 year	160 997	133 725	127 998	115 110
1 – 5 years	342 161	299 169	280 644	236 018
Later than 5 years	25 648	19 695	13 396	7 486
	528 806	452 589	422 038	358 614
Unearned finance Income	76 217		63 424	

* *Restated for prior year incorrect gross up.*

At 31 March 2012, unguaranteed residual values accruing to the benefit of Investec were £36.8 million (2011: £37.9 million). Finance leases in the group mainly relate to leases on property and motor vehicles.

For the year ended 31 March £'000	2012	2011
44. Notes to cash flow statement		
Reconciliation of profit before taxation to net operating cash flows		
Profit before taxation	37 355	51 821
Adjustment for non-cash items included in profit before taxation:		
Amortisation of acquired intangibles	8 168	–
Net loss on sale of subsidiaries	–	8 579
Depreciation of operating lease assets	28 544	16 447
Depreciation and impairment of property, equipment and intangibles	15 045	15 719
Impairment of loans and advances	156 976	170 554
Operating income from associates	(930)	(1 150)
Dividends received from associates	295	923
Share-based payment charges	–	1 531
	245 453	264 424
Increase in operating assets		
Loans and advances to banks	17 454	697 631
Reverse repurchase agreements and cash collateral on securities borrowed	313 810	(982 454)
Sovereign debt securities	(799 391)	(2 448)
Bank debt securities	510 910	(427 256)
Other debt securities	(19 824)	(67 060)
Securities arising from trading activities	106 780	(335 603)
Derivative financial instruments	(225 196)	115 708
Investment portfolio	(141 071)	60 643
Loans and advances to customers	(459 655)	(806 935)
Securitised assets	(37 752)	(18 771)
Other assets	(385 342)	(126 347)
Investment properties	(11 500)	–
	(1 130 777)	(1 892 892)
Increase in operating liabilities		
Deposits by banks	(132 888)	(614 878)
Derivative financial instruments	196 553	212 031
Other trading liabilities	(130 699)	(9 394)
Repurchase agreements and cash collateral on securities lent	408 007	67 645
Customer accounts	774 356	1 064 535
Debt securities in issue	243 719	28 193
Securitised liabilities	22 711	(35 465)
Other liabilities	188 825	133 335
	1 570 584	846 002

At 31 March £'000	2012	2011
45. Commitments		
Undrawn facilities	673 368	860 557
Other commitments	–	242
	673 368	860 799
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	7 310	17 077
1– 5 years	34 827	46 968
Later than 5 years	31 460	12 598
	73 597	76 643
At 31 March 2012, 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	27 922	107 635
1 – 5 years	15 416	92 058
Later than 5 years	–	1 519
	43 338	201 212

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 £'000	Carrying amount 2012	Carrying amount 2011	Related liability 2012	Related liability 2011
Pledged assets				
Loans and advances to customers	14 868	28 042	14 026	27 822
Loans and advances to banks	222 638	227 576	222 638	227 576
Sovereign debt securities	317 776	18 743	317 776	8 453
Bank debt securities	56 601	47 811	56 601	21 561
Other debt securities	9 359	51 142	9 359	23 063
Trading book securities arising from customer flows	328 654	416 330	328 654	363 648
Reverse repurchase agreements and cash collateral on securities borrowed	966 714	20 965	1 002 383	11 143
Derivatives	255 716	–	–	–
	2 172 326	810 609	1 951 437	683 266

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

At 31 March £'000	2012	2011
46. Contingent liabilities		
Guarantees and irrevocable letters of credit	214 636	219 891

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), the UK's statutory fund of last resort, provides compensation to customers of UK authorised financial institutions in the event that an institution which is a participating member of the FSCS is unable, or is likely to be unable, to pay claims against it.

The FSCS raises annual levies from participating members 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) as at 31 December of the year preceding the scheme year. During the year ended 31 March 2011 the group also settled interim levies from the FSCS following the failure of Keydata Investment Services Limited and other intermediaries.

The FSCS has borrowed from HM Treasury to fund the compensation costs associated with Bradford & Bingley, Heritable Bank, Kaupthing Singer & Friedlander, Landsbanki 'Icesave' and London Scottish Bank plc. These borrowings are on an interest-only basis until the FSCS determines otherwise. The interest rate to be applied for the period 1 April 2012 on which levies for the scheme year 2012/2013 has recently been announced to increase from LIBOR plus 30 basis points to LIBOR plus 100 points.

Investec Bank plc is a participating member of the FSCS and the bank has accrued £2.48 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 2013. The accrual is based on estimates for the interest the FSCS will pay on the loan and estimates of the level of the bank's market participation in the relevant periods. Interest will continue to accrue to the FSCS on the HM Treasury loan and will form part of future FSCS levies.

If the remaining available assets of the defaulting institutions are insufficient to allow the FSCS to repay the HM Treasury loan when due, the FSCS will agree a schedule of repayments of any remaining principal outstanding with HM Treasury, which will be recouped from the industry in the form of additional levies.

At present there remains a significant degree of uncertainty over the level of future FSCS levies, which will depend upon the cost to the FSCS of compensating investors for the failure of other entities in the financial services sector. The FSCS has raised the possibility that the failure of CF Arch Cru and MF Global may result in compensation being paid, but at present the FSCS has been unable to quantify the risk or extent of such further levies until more information regarding the losses and the likely number of eligible claimants becomes available.

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.

Specifically, a claim has been made in the Royal Court of Guernsey against Investec Trust (Guernsey) Limited, a subsidiary of Investec plc, for breach of equitable duty for skill and care with a related claim for liability for the debts of a client trust. The outcome of these claims cannot reasonably be estimated at this time but Investec does not expect the ultimate resolution of the proceedings to have a material adverse effect on the financial position of the group.

For the year ended 31 March £'000	2012	2011
47. 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	17 453	8 071
Increase in loans	19 245	14 095
Repayment of loans	(12 286)	(4 713)
At end of year	24 412	17 453
Guarantees		
At beginning of year	–	495
Additional guarantees granted	–	–
Guarantees cancelled	–	(495)
At end of year	–	–
Deposits		
At beginning of year	(33 318)	(26 760)
Increase in deposits	(6 617)	(20 330)
Decrease in deposits	22 828	13 772
At end of year	(17 107)	(33 318)

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.

Refer to pages 116 to 128 in the directors' remuneration report for key management personnel.

Details of share-based payments transactions are included in note 7.

At 31 March £'000	Investec plc, its subsidiaries and associates	Investec Limited and subsidiaries	Associates of the bank	Total
2012				
Transactions with other related parties				
Assets				
Loans and advances to banks	–	5 928	–	5 928
Loans and advances to customers	739 241	2 241	10 957	752 439
Reverse repurchase agreements and cash collateral on securities borrowed	–	636 958	–	636 958
Derivative financial instruments	568	602	–	1 170
Other assets	32	13 348	–	13 380
Liabilities				
Deposits from banks	–	(16 354)	–	(16 354)
Customer accounts	(95 725)	(11 600)	–	(107 325)
Debt securities in issue	(47 847)	(106 404)	–	(154 251)
Derivative financial instruments	–	(9 714)	–	(9 714)
Other liabilities	–	(16 520)	–	(16 520)

At 31 March £'000	Investec plc, its subsidiaries and associates	Investec Limited and subsidiaries	Associates of the bank	Total
47. Related party transactions (continued)				
2011				
Assets				
Loans and advances to banks	–	11 792	–	11 792
Loans and advances to customers	783 144	936	8 206	792 286
Reverse repurchase agreements and cash collateral on securities borrowed	–	73 215	–	73 215
Derivative financial instruments	262	3 514	–	3 776
Other assets	38	10 121	–	10 159
Liabilities				
Deposits from banks	–	(47 736)	–	(47 736)
Customer accounts	(86 798)	(10 901)	–	(97 699)
Debt securities in issue	–	(2 003)	–	(2 003)
Derivative financial instruments	(23)	(7 698)	–	(7 721)
Subordinated liabilities	–	(16 102)	–	(16 102)

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

In the normal course of business, services are provided by Investec Bank plc to other companies in the group. In the year to 31 March 2012, Investec Bank plc received £22.7 million (2011: £20.7 million) for these services. Specific transactions between group entities have resulted in a net fee payment to Investec Bank plc of £nil (2011: £0.9 million).

During the year to March 2012, interest of £11.2 million (2011: £9.3 million) was paid to entities in the Investec Limited group and £0.2 million (2011: £0.4 million) was paid to Investec plc and fellow subsidiaries. Interest of £2.3 million (2011: £0.1 million) was received from Investec Limited group and interest of £36.7 million (2011: £48.3 million) was received from Investec plc and fellow subsidiaries.

The bank has issued a guarantee on behalf of Start Funding No. 2 (SF2), an ultimate subsidiary of Investec plc. The terms of the guarantee are with regard to performance by SF2 of its obligations to Barclays Bank plc under a €200 million Revolving Credit Facility Agreement (the Facility). The guarantee expires in January 2014. Drawings under the Facility were €178.5 million (2011: €183.9 million) as at 31 March 2012. SF2 pays a fee of 0.21% per annum to the bank on the drawn amount of the Facility.

48. Hedges

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

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

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

Fair value hedges

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

At 31 March £'000	Description of financial instrument designated as hedging instrument	Fair value of hedging instrument	Cumulative gains or (losses) on hedging instrument	Current year gains or (losses) on hedging instrument	Cumulative gains or (losses) on hedged item	Current year gains or (losses) on hedged item
2012						
Assets						
	Interest rate swap	12 188	12 372	4 016	(12 891)	(4 551)
	Cross currency swap	(41 228)	(41 228)	(9 327)	41 228	9 327
Liabilities	Interest rate swap	(7 384)	(7 384)	(418)	7 767	1 092
		(36 424)	(36 240)	(5 729)	36 104	5 868
2011						
Assets	Interest rate swap	12 124	12 319	5 131	(11 890)	(4 341)
	Cross currency swap	(31 898)	(31 898)	(13 653)	31 898	13 653
Liabilities	Interest rate swap	(7 053)	(7 053)	24 853	6 773	(24 845)
	Fx currency swap	(1 471)	(1 471)	(1 244)	1 471	1 545
		(28 298)	(28 103)	15 087	28 252	(13 988)

48. 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
2012			
Assets	Interest rate swap	4 089	1 to 5 Years
Liabilities	Interest rate swap	(11 899)	1 to 5 Years
		(7 810)	
2011			
Assets	Interest rate swap	424	1 to 5 Years
Liabilities	Interest rate swap	(1 654)	1 to 5 Years
		(1 230)	

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 Bank 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
2012	10 412
2011	14 545

There was no ineffective portion recognised in the income statement.

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
49. Liquidity analysis of financial liabilities based on undiscounted cash flows								
2012								
Liabilities								
Deposits by banks	281 441	53 809	66 402	30 961	57 452	161 925	16 750	668 740
Derivative financial instruments	503 140	2 362	13 821	6 807	22 416	189 702	70 090	808 338
Derivative financial instruments – held for trading	500 339	833	1 972	2 751	3 156	14 255	25 873	549 179
Derivative financial instruments – held for hedging risk	2 801	1 529	11 849	4 056	19 260	175 447	44 217	259 159
Repurchase agreements and cash collateral on securities lent	323 104	212 129	–	5 012	–	494 842	–	1 035 087
Customer accounts	1 675 404	1 318 485	2 776 258	2 881 055	837 923	1 731 508	117 866	11 338 499
Debt securities in issue	–	230 367	146 101	49 332	47 074	1 550 454	278 701	2 302 029
Liabilities arising on securitisation of own originated loans and advances	1 667	23 118	55 900	62 835	282 348	191 653	11 784	629 305
Liabilities arising on securitisation of other assets	–	7 623	7 876	13 955	25 785	227 561	421 463	704 263
Other liabilities	891 586	155 920	144 901	51 055	13 694	29 099	528	1 286 783
Subordinated liabilities	–	(1 307)	669	889	8 082	89 003	630 978	728 314
Total on balance sheet liabilities	3 676 342	2 002 506	3 211 928	3 101 901	1 294 774	4 665 747	1 548 160	19 510 358
Contingent liabilities	137 713	5 675	54 131	23 484	25 360	257 503	84 482	588 348
Total liabilities	3 814 055	2 008 181	3 266 059	3 125 385	1 320 134	4 923 250	1 632 642	20 089 706

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
49. Liquidity analysis of financial liabilities based on undiscounted cash flows (continued)								
2011								
Liabilities								
Deposits by banks	281 782	158 502	65 650	32 567	118 905	104 768	10 840	773 014
Derivative financial instruments	376 272	1 060	10 395	10 021	25 988	159 179	5 622	588 537
Derivative financial instruments – held for trading	261 749	–	–	–	–	–	–	261 749
Derivative financial instruments – held for hedging risk	114 523	1 060	10 395	10 021	25 988	159 179	5 622	326 788
Repurchase agreements and cash collateral on securities lent	555 474	–	57 334	–	–	–	–	612 808
Customer accounts	1 587 081	1 750 787	2 538 862	3 176 564	756 069	674 362	226 604	10 710 329
Debt securities in issue	1 289	67 618	129 699	143 203	269 825	1 294 974	144 642	2 051 250
Liabilities arising on securitisation of own originated loans and advances	2 000	19 175	50 443	294 470	54 486	104 290	9 044	533 908
Liabilities arising on securitisation of other assets	–	–	11 132	10 950	21 518	214 664	328 284	586 547
Other liabilities	784 702	207 124	105 356	24 992	17 642	25 480	1 790	1 167 086
Subordinated liabilities	–	–	638	1 243	100 625	264 588	807 727	1 174 821
Total on balance sheet liabilities	3 588 600	2 204 266	2 969 510	3 694 009	1 365 057	2 842 305	1 534 553	18 198 300
Contingent liabilities	344 895	74 362	38 104	53 953	150 312	339 496	38 795	1 039 917
Total liabilities	3 933 495	2 278 628	3 007 614	3 747 962	1 515 369	3 181 801	1 573 348	19 238 217

The balances in the above table will not agree directly to the balances in the consolidated balance sheet as the table incorporates all cash flows on an undiscounted basis relating to both principal and those associated with all future coupon payments (except for trading liabilities and trading derivatives). Furthermore loan commitments are generally not recognised on the balance sheet.

Trading liabilities and trading derivatives have been included in the 'Demand' time bucket and not by contractual maturity because trading liabilities are typically held for short periods of time. For an unaudited analysis based on discounted cash flows please refer to pages 87 to 89.

At 31 March	Principal activity	Country of incorporation	Interest % 2012	Interest % 2011
50. Principal subsidiaries and associated companies				
Direct subsidiaries of Investec Bank plc				
Investec Asset Finance PLC	Leasing company	England and Wales	100.0%	100.0%
Investec Bank (Switzerland) AG	Banking institution	Switzerland	100.0%	100.0%
Investec Capital Asia Limited	Investment banking	Hong Kong	100.0%	–
Investec Finance plc	Debt issuer	England and Wales	100.0%	100.0%
Investec Holdings (Ireland) Limited	Holding company	Ireland	100.0%	100.0%
Guinness Mahon & Co Limited	Investment holding	England and Wales	100.0%	100.0%
Rensburg Sheppards plc	Holding company	England and Wales	100.0%	100.0%
Indirect subsidiaries of Investec Bank plc				
Investec Experien Pty Limited	Financial services	Australia	100.0%	100.0%
Investec Bank (Australia) Limited	Banking institution	Australia	100.0%	100.0%
Investec Bank (Channel Islands) Limited	Banking institution	Guernsey	100.0%	100.0%
Investec Ireland Limited	Financial services	Ireland	100.0%	100.0%
Investec Trust Holdings AG	Investment holding	Switzerland	100.0%	100.0%
Investec Trust (Switzerland) S.A.	Trust company	Switzerland	100.0%	100.0%
Investec Trust (Jersey) Limited	Trust company	Jersey	100.0%	100.0%
Leasedirect Finance Limited	Finance broker	England and Wales	81.3%	75.0%
Investec Wealth & Investment Limited	Stockbroking and portfolio management	England and Wales	100.0%	100.0%
All of the above subsidiary undertakings are included in the consolidated accounts.				
Principal associated company				
Hargreave Hale Limited	Stockbroking and portfolio management	England and Wales	35.0%	33.2%

The company has taken advantage of the exception 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, has affected the financial statements. A complete list of subsidiary and associated undertakings is included in the Investec Bank plc annual report.

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

Investec Bank plc has no equity interest in the following special purpose entities which are consolidated on the basis of the group sharing in the risks and rewards associated with the entities:

Gemgarto 2012-1 plc
Glacier Securities Limited 2010-2 series
Landmark Mortgage Securities No 1 plc
Landmark Mortgage Securities No 2 plc
Zebra Capital II Limited

51. Reclassifications

Commentary on consolidated income statement reclassifications

The previously reported principal transaction income line item has been split into the following line items:

- **Investment income:** income, other than margin, from securities held for the purpose of generating interest yield, dividends and capital appreciation
- **Client flow trading income:** income from trading activities arising from facilitating client activities
- **Income from balance sheet management and other trading activities:** includes proprietary trading income and other gains and losses as well as income earned from the balance sheet management desk.

For the year ended 31 March 2011 £'000	New format	As previously reported	Reclassifi-cations
51. Reclassifications (continued)			
Interest income	731 895	731 895	–
Interest expense	(486 173)	(486 173)	–
Net interest income	245 722	245 722	–
Fee and commission income	198 362	198 362	–
Fee and commission expense	(17 286)	(17 286)	–
Principal transactions		253 100	(253 100)
Investment income	141 833	–	141 833
Trading income:			
– Arising from customer flow	46 198	–	46 198
– Arising from balance sheet management and other trading activities	65 069	–	65 069
Other operating income	45 590	45 590	–
Other income	479 766	479 766	–
Total operating income before impairment losses on loans and advances	725 488	725 488	–

Commentary on consolidated balance sheet reclassifications

The main driver behind the revision to the balance sheet is to enable a better understanding of Investec's exposures and to minimise reconciliation points to the detailed risk disclosures in the annual report.

It is noted that there are no measurement changes nor are there any changes to total assets, liabilities, equity and the cash flow statement.

Each category of reclassification is noted below:

- Loans and securitisation
  To better align the balance sheet with the group's risk management disclosures, loans and advances and securitised assets that form part of our 'core' lending activities have been separated from assets that are in warehoused facilities and structured credit investments arising out of our securitisation and principal finance activities. This has resulted in a need to split loans and advances and securitised assets into two balance sheet categories for each.

  Securitised liabilities has been split into two line items to enable the relationship with securitised assets to be clearly identified.

- Securities reclassification
  The group's previous balance sheet split securities (other than lending related) into two key line items being trading and investment securities. This classification was driven by the accounting rule sets that mainly distinguish between instruments fair valued through profit and loss, those carried at amortised cost (held-to-maturity) and those fair valued through equity (available-for-sale). The group is of the view that disclosure of the nature of exposures on the balance sheet, distinguishing between instruments held to manage balance sheet liquidity, as principal exposure and balance sheet instruments arising from trading desk activities provides more meaningful disclosure on the face of the balance sheet. The line item 'Securities arising from trading activities' includes all instruments (other than derivative instruments) that are held on balance sheet in relation to trading activities.

At 31 March 2011 £'000	New format	As previously reported	Loans and securitisations	Securities reclassifi-cations	Total reclassifi-cations
51. Reclassifications (continued)					
Assets					
Cash and balances at central banks	1 142 547	1 142 547	–	–	–
Loans and advances to banks	750 463	750 463	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	1 472 948	1 472 948	–	–	–
Sovereign debt securities	847 880	–	–	847 880	847 880
Bank debt securities	1 335 462	–	–	1 335 462	1 335 462
Other debt securities	165 519	–	–	165 519	165 519
Trading securities	–	642 013	–	(642 013)	(642 013)
Derivative financial instruments	641 212	641 212	–	–	–
Investment securities	–	2 386 011	–	(2 386 011)	(2 386 011)
Securities arising from trading activities	479 350	–	–	479 350	479 350
Investment portfolio	199 818	–	–	199 818	199 818
Loans and advances to customers	7 145 830	8 874 104	(1 728 274)	–	(1 728 274)
Securitised assets	–	1 138 618	(1 138 618)	–	(1 138 618)
Own originated loans and advances to customers securitised	483 315	–	483 315	–	483 315
Other loans and advances	1 728 269	–	1 728 274	(5)	1 728 269
Other securitised assets	655 303	–	655 303	–	655 303
Interests in associated undertakings	13 096	13 096	–	–	–
Deferred taxation assets	62 436	62 436	–	–	–
Other assets	727 282	727 282	–	–	–
Property and equipment	235 219	235 219	–	–	–
Goodwill	276 369	276 369	–	–	–
Intangible assets	126 216	126 216	–	–	–
Total assets	18 488 534	18 488 534	–	–	–
Liabilities					
Liabilities arising on securitisation	–	1 012 903	–	(1 012 903)	–
Liabilities arising on securitisation of own originated loans and advances	472 109	–	–	472 109	–
Liabilities arising on securitisation of other assets	540 794	–	–	540 794	–
	1 012 903	1 012 903	–	–	–

As at 31 March 2010 £'000	New format	As previously reported	Loans and securitisations	Securities reclassifi-cations	Total reclassifi-cations
51. Reclassifications (continued)					
Assets					
Cash and balances at central banks	2 008 743	2 008 743	–	–	–
Loans and advances to banks	1 307 254	1 307 254	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	490 494	490 494	–	–	–
Sovereign debt securities	845 432	–	–	845 432	845 432
Bank debt securities	908 206	–	–	908 206	908 206
Other debt securities	98 459	–	–	98 459	98 459
Trading securities	–	347 763	–	(347 763)	(347 763)
Derivative financial instruments	757 136	757 136	–	–	–
Investment securities	–	1 880 655	–	(1 880 655)	(1 880 655)
Securities arising from trading activities	143 747	–	–	143 747	143 747
Investment portfolio	232 574	–	–	232 574	232 574
Loans and advances to customers	6 706 753	8 226 215	(1 519 462)	–	(1 519 462)
Securitised assets	–	1 121 867	(1 121 867)	–	(1 121 867)
Own originated loans and advances to customers securitised	517 799	–	517 799	–	517 799
Other loans and advances	1 519 462	–	1 519 462	–	1 519 462
Other securitised assets	604 068	–	604 068	–	604 068
Interests in associated undertakings	14 345	14 345	–	–	–
Deferred taxation assets	84 730	84 730	–	–	–
Other assets	488 424	488 424	–	–	–
Property and equipment	140 321	140 321	–	–	–
Goodwill	86 561	86 561	–	–	–
Intangible assets	26 218	26 218	–	–	–
Total assets	16 980 726	16 980 726	–	–	–
Liabilities					
Liabilities arising on securitisation	–	1 048 368	–	(1 048 368)	–
Liabilities arising on securitisation of own originated loans and advances	515 360	–	–	515 360	–
Liabilities arising on securitisation of other assets	533 008	–	–	533 008	–
	1 048 368	1 048 368	–	–	–

Statement of directors’ responsibilities

The directors are responsible for preparing the directors’ report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company’s transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the board

David van der Walt
Chief executive officer

28 June 2012

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

We have audited the parent company financial statements of Investec Bank plc for the year ended 31 March 2012 which comprise the balance sheet, the statement of total recognised gains and losses, the accounting policies set out on pages 211 to 219, and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement set out on page 206, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2012;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

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

Other matter

We have reported separately on the group financial statements of Investec Bank plc for the year ended 31 March 2012.

Ernst & Young LLP

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

London
28 June 2012

Notes

1. *The maintenance and integrity of the Investec Bank plc web site 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 web site.*
2. *Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.*

Balance sheet

At 31 March £'000	Notes	2012	2011
Assets			
Cash and balances at central banks		1 645 747	976 739
Treasury bills and other eligible bills	6	293 828	64 225
Loans and advances to banks	5	1 576 750	1 860 981
Loans and advances to customers	5/7	7 635 189	7 011 886
Debt securities	8	1 427 116	1 349 557
Equity shares	10	239 944	137 409
Interests in associated undertakings	11	9 260	9 261
Shares in group undertakings	12	908 405	923 801
Investment property	13	11 500	–
Tangible fixed assets	14	96 309	220 427
Derivative assets	22	721 435	541 702
Other assets	15	678 240	492 081
Prepayments and accrued income		8 421	11 864
		15 252 144	13 599 933
Liabilities			
Deposits by banks	5	2 019 355	1 788 299
Customer accounts	5	8 318 800	7 675 480
Debt securities in issue	5	1 130 757	879 526
Derivative liabilities	22	645 783	481 503
Trading liabilities – short positions		271 627	402 326
Other liabilities	16	730 373	405 347
Accruals and deferred Income		93 743	96 124
		13 210 438	11 728 605
Subordinated liabilities	5/18	632 062	555 451
		13 842 500	12 284 056
Equity			
Ordinary share capital	19	1 070 700	1 026 000
Share premium account		129 255	105 117
Capital reserve		114 128	114 128
Other reserves		(23 914)	(9 477)
Profit and loss account		119 475	80 109
Total shareholder's equity	1	1 409 644	1 315 877
Total liabilities and shareholder's equity		15 252 144	13 599 933
Memorandum items			
Commitments	20	860 557	611 057
Contingent liabilities	21	239 544	213 631
		1 100 101	824 688

The notes on pages 220 to 238 form an integral part of these accounts.

The directors approved the accounts and authorised them for issue on 28 June 2012.

David van der Walt
Chief executive officer

28 June 2012

Statement of total recognised gains and losses

For the year ended 31 March £'000	2012	2011
Profit for the year attributable to shareholders	55 366	30 726
Fair value movements on available-for-sale assets	(13 122)	17 611
Revaluation of investment property	114	–
Currency translation movements	(1 429)	(22 399)
Total recognised gains relating to the year	40 929	25 938

There was no material difference between the results as reported and the results that would have been reported on an unmodified historical cost basis.

Accordingly, no note of historical cost profits and losses has been included.

Significant accounting policies

Basis of presentation

The bank's financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice and on a going concern basis. The bank's financial statements have been prepared under the historical cost convention except for those assets and liabilities which are held at fair value in line with accounting standards requirements.

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

Share-based payments to employees

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

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

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

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

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

Foreign currency transactions and foreign operations

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

The bank has a foreign branch, the activities of which are based in a functional currency other than that of the bank. The functional currency of the bank is determined based on the primary economic environment in which the bank operates.

The results and financial position of foreign operations are translated into the presentation currency of the bank as follows:

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

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

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

Significant accounting policies (continued)

Revenue recognition

Revenue consists of interest income, fee and commission income, investment income, trading income arising from customer flow, trading income arising from balance sheet management and other trading activities and other operating income.

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

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

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

Fee and commission income includes fees earned from providing advisory services as well as portfolio management and includes rental income from investment properties.

Investment income includes income, other than margin, from securities held for the purpose of generating interest yield, dividends and capital appreciation.

Customer flow trading income includes income from trading activities arising from making and facilitating client activities.

Trading income arising from balance sheet management and other trading activities consists of proprietary trading income and other gains and losses arising from balance sheet management.

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.

Dividend income is recognised when the bank's right to receive payment is established.

Included in other operating income is incidental rental income, gains on realisation of properties (other than investment properties which is included in investment income), operating lease income and income from interests in associated undertakings.

Financial instruments

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

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

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

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

Financial instruments classified as 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 and loss are designated as such on initial recognition of the instrument and remain in this classification until derecognition. In certain instances debt instruments which contain equity features are designated as held at fair value through profit or loss.

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

- They eliminate or significantly reduce 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 bank is provided internally on that basis to the bank's key management personnel; and
- A contract contains one or more embedded derivatives (which significantly modifies the cash flows that would be required by the contract and is not clearly prohibited from separation from the host contract) and the bank has designated the entire hybrid contract as a financial instrument at fair value through profit and loss.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial instruments with fixed or determinable payments and maturity dates which the bank has the intention and ability to hold to maturity.

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

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.

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

Available-for-sale financial assets

Available-for-sale financial assets are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity, or loans and receivables. They include strategically held equity instruments that are not associates, joint ventures or subsidiaries of the bank. Further, certain loans and receivables that are held at fair value due to being quoted on an active market, which are neither actively traded nor held-to-maturity instruments, are classified as available-for-sale financial assets.

Financial assets classified as available-for-sale are measured at fair value on the balance sheet, with unrealised gains and losses recognised in the statement of total recognised gains and losses. When the asset is disposed of, the cumulative gain or loss previously recognised in reserves 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 reserves 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.

Significant accounting policies (continued)

Financial liabilities

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

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

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

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

Valuation of financial instruments

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

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

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

Subsequent to initial recognition, the fair value of financial instruments quoted in an active market is based on published price quotations.

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

'Day 1' profit or loss

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

Impairments of financial assets held at amortised cost

Financial assets carried at amortised cost are impaired if there is objective evidence that the bank would not receive cash flows according to the original contractual terms. Financial assets are assessed for objective evidence of impairment at least at each balance sheet reporting date.

The test for impairment is based either on specific financial assets or collectively on a portfolio of similar, homogeneous assets. Over and above individual collective impairments raised at specific portfolio levels, the bank has implemented a collective impairment allowance at a central level that takes into account macroeconomic factors, mainly driven by data related to the prevailing credit markets and which indicate incurred but not specifically identified losses across the loan portfolios. Assets specifically identified as impaired are excluded from the collective assessment.

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

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

Derecognition of financial assets and liabilities

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

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

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

Reclassification of financial instruments

The bank may reclassify, in certain circumstances, non-derivative financial assets out of the held-for-trading category and into the available-for-sale, loans and receivables, or held-to-maturity categories. It may also reclassify, in certain circumstances, financial instruments out of the available-for-sale category and into the loans and receivables category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

Derivative instruments

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

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

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

Hedge accounting

The bank applies either fair value or cash flow hedge or hedge of net investments in foreign operations accounting when the transactions meet the specified hedge accounting criteria. To qualify for hedge accounting treatment, the bank ensures that all of the following conditions are met:

- At inception of the hedge the bank formally documents the relationship between the hedging instrument(s) and hedged item(s) including the risk management objectives and the strategy in undertaking the hedge transaction. Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%
- For cash flow hedges, a forecasted transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit and loss
- The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured
- The hedge effectiveness is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

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

For qualifying cash flow hedges in respect of non-financial assets and liabilities, the change in fair value of the hedging instrument, relating to the effective portion is initially recognised in the statement of total recognised gains and losses 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 the statement of total recognised gains and losses is reclassified to the income statement immediately and recognised in trading income from balance sheet management and other trading activities.

Significant accounting policies (continued)

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 the statement of total recognised gains and losses and is released to the income statement in the same period during which the relevant financial asset or liability affects the income statement. Any ineffective portion of the hedge is immediately recognised in the income statement.

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

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

Embedded derivatives

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

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

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset when there is both an intention to settle on a net basis (or simultaneously) and a legal right to offset exists.

Issued debt and equity financial instruments

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

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

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

Sale and repurchase agreements (including securities borrowing and lending)

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

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

Financial guarantees

Financial guarantee contracts issued by the bank are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due, in accordance with the terms of the debt instrument. Financial guarantees are initially recognised at fair value, adjusted for the transaction costs that are directly attributable to the issuance of the guarantee.

Subsequent to initial recognition the liability under each guarantee is measured at the higher of the amount recognised less cumulative amortisation and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Subsequent to initial measurement all changes in the balance sheet carrying value are recognised in the income statement.

Instalment credit, leases and rental agreements

A finance lease is a lease that transfers substantially all of the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a financial lease.

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

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

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and impairments.

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

Depreciation is provided on the depreciable amount of each component on a straight-line basis over the anticipated useful life of the asset. The depreciable amount related to each asset is determined as the difference between the cost and the residual value of the asset. The residual value is the estimated amount, net of disposal costs, that the bank would currently obtain from the disposal of an asset in similar age and condition as expected at the end of its useful life.

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

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

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

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

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

Investment properties

An interest in land and/or buildings held by the bank for capital appreciation or rental yield are classified as investment properties. Investment properties are carried on balance sheet at open market value. Changes to the market value of investment properties are taken to the statement of total recognised gains and losses unless a deficit (or its reversal) on an individual investment property is expected to be permanent, in which case it should be charged (or credited) to the profit and loss account of the period.

Dealing properties

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

Impairment of non-financial assets

At each balance sheet date the bank reviews the carrying value of non-financial assets, other than investment property and deferred tax assets, for indication of impairment. The recoverable amount, being the higher of fair value less cost to sell and value in use, is determined for any assets for which an indication of impairment is identified. If the recoverable amount of an asset is less than its carrying value, the carrying value of the asset is reduced to its recoverable value.

Impairment losses are recognised as an expense in the income statement in the period in which they are identified. Reversal of impairment losses is recognised in income in the period in which the reversal is identified, to the extent that the asset is not revalued to a carrying value that would have been calculated without impairment.

Trust and fiduciary activities

The bank acts as a trustee or in other fiduciary capacities that result in the holding, placing or managing of assets for the account of and at the risk of clients.

As these are not assets of the bank, they are not reflected on the balance sheet but are included at market value as part of assets under administration.

Taxation and deferred taxation

Current tax payable is provided on taxable profits at rates that are enacted or substantively enacted and applicable to the relevant period.

Deferred taxation is provided using the balance sheet method on temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base, except where such temporary differences arise from:

- The initial recognition of goodwill
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction has no effect on the income statement
- In respect of temporary differences associated with the investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets or liabilities are measured using the tax rates that have been enacted or substantively enacted by the balance sheet date.

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

Items recognised directly in reserves are net of related current and deferred taxation.

Employee benefits

The bank operates various defined contribution schemes and one closed defined benefit scheme.

In respect of the defined contribution scheme all employee contributions are charged to income as incurred, in accordance with the rules of the scheme.

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

Actuarial gains and losses related to the defined benefit asset or liability are recognised immediately directly in the statement of total recognised gains and losses.

The bank has no liabilities for other post-retirement benefits.

Intangible assets

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

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

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

Borrowing costs

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

Provisions, contingent liabilities and contingent assets

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

Bank's own profit and loss account

The bank has taken advantage of the exemption in section 408 of the Companies Act 2006 to not present its own profit and loss account.

Cash flow statement

The bank has taken advantage of the exemption in Financial Reporting Standard 1 to not present its own cash flow statement. A cash flow statement, prepared under International Financial Reporting Standards as adopted by the EU, is included in the consolidated financial statements of the bank.

Financial instruments: Disclosures

The bank has taken advantage of the exemption in Financial Reporting Standard 29 to not present its own disclosures in respect of financial instruments as disclosures, prepared in accordance with International Financial Reporting Standard 7, are included in the consolidated financial statements of the bank.

Notes to the annual financial statements

For the year ended 31 March £'000	Share capital	Share premium account	Capital reserve	Other reserves: Available-for-sale reserves	Other reserves: Revaluation reserve	Other reserves: Foreign currency reserves	Profit and loss account	Total
1. Reconciliation of shareholder's funds and movements in reserves								
At 31 March 2010	748 000	70 533	–	(4 683)	–	(6)	72 383	886 227
Retained profit for the year	–	–	–	–	–	–	30 726	30 726
Fair value movements on available-for-sale assets	–	–	–	17 611	–	–	–	17 611
Foreign currency adjustments	–	–	–	–	–	(22 399)	–	(22 399)
Total recognised gains/(losses) for the year	–	–	–	17 611	–	(22 399)	30 726	25 938
Issue of ordinary shares	278 000	34 584	114 128	–	–	–	–	426 712
Dividends paid to ordinary shareholder	–	–	–	–	–	–	(23 000)	(23 000)
At 31 March 2011	1 026 000	105 117	114 128	12 928	–	(22 405)	80 109	1 315 877
Retained profit for the year	–	–	–	–	–	–	55 366	55 366
Fair value movements on available-for-sale assets	–	–	–	(13 122)	–	–	–	(13 122)
Revaluation of investment property	–	–	–	–	114	–	–	114
Foreign currency adjustments	–	–	–	–	–	(1 429)	–	(1 429)
Total recognised gains/(losses) for the year	–	–	–	(13 122)	114	(1 429)	55 366	40 929
Issue of ordinary shares	44 700	24 138		–	–	–	–	68 838
Dividends paid to ordinary shareholder	–	–	–	–	–	–	(16 000)	(16 000)
At 31 March 2012	1 070 700	129 255	114 128	(194)	114	(23 834)	119 475	1 409 644

2. Parent company profit and loss account

No profit and loss account is presented for the bank as permitted by section 408 of the Companies Act 2006. The bank's profit for the year, determined in accordance with the Act, was £55 366 000 (2011: £30 726 000).

Audit fees

Details of the bank's audit fees are set out in note 6 of the group financial statements.

Dividends

Details of the bank's dividends are set out in note 9 of the group financial statements.

For the year ended 31 March £'000	2012	2011
3. Directors' emoluments		
Aggregate emoluments (excluding pension contributions)	3 438	6 006
Contributions to defined contributions scheme	103	100
	3 541	6 106
Number of directors in defined contributions scheme	2	3
Number of directors in closed defined benefits scheme	–	–

Included in aggregate emoluments for the current year are performance awards to executive directors. The amount incudes £450 034 in cash, £499 996 in deferred cash (vesting annually over a three year period) and £425 535 in EVA forfeitable shares (vesting annually over a three year period).

Included in aggregate emoluments for the prior year are deferred bonuses of £2 718 000 which are payable in two equal instalments on 31 May 2012 and 31 May 2013. The deferred component will be equivalent to the value of 285 505 Investec plc shares at the close of business on each of 31 May 2012 and 31 May 2013.

Emoluments of the highest paid director were £2 178 993 (2011: £4 121 297) excluding £38 750 (2011: £36 437) of pension contributions to the defined contributions scheme.

The 2012 emoluments of the highest paid director includes £300 000 in cash, £450 000 in deferred cash (vesting annually over a three year period) and £364 743 in EVA forfeitable shares (vesting annually over a three year period).

For further details of the deferral of performance awards refer to the remuneration report on pages 116 to 128.

Notes to the annual financial statements (continued)

At 31 March £'000	At fair value through profit and loss Trading	 Designated at inception
4. Classification of financial assets and financial liabilities		
2012		
Assets		
Cash and balances at central banks	–	–
Treasury bills and other eligible bills	–	–
Loans and advances to banks	304 022	–
Loans and advances to customers	–	255 309
Debt securities	263 702	29 365
Equity shares	122 563	94 529
Interests in associated undertakings	–	–
Shares in group undertakings	–	–
Investment property	–	–
Tangible fixed assets	–	–
Derivative assets	721 435	–
Other assets	484 232	–
Prepayments and accrued income	–	–
	1 895 954	379 203
Liabilities		
Deposits by banks	271 721	–
Customer accounts	–	–
Debt securities in issue	–	–
Derivative liabilities	645 783	–
Trading liabilities – short positions	271 627	–
Other liabilities	535 421	–
Accruals and deferred Income	–	–
Subordinated liabilities	–	–
	1 724 552	–

	Loans and receivables	Available-for-sale	Held-to-maturity	Financial assets or financial liabilities at amortised cost	Non-financial instruments	Total
	1 645 747	–	–	–	–	1 645 747
	–	293 828	–	–	–	293 828
	1 272 728	–	–	–	–	1 576 750
	7 160 352	–	219 528	–	–	7 635 189
	151 075	982 974	–	–	–	1 427 116
	–	22 852	–	–	–	239 944
	–	–	–	–	9 260	9 260
	–	–	–	–	908 405	908 405
	–	–	–	–	11 500	11 500
	–	–	–	–	96 309	96 309
	–	–	–	–	–	721 435
	130 789	–	–	–	63 219	678 240
	8 421	–	–	–	–	8 421
	10 369 112	1 299 654	219 528	–	1 088 693	15 252 144
	–	–	–	1 747 634	–	2 019 355
	–	–	–	8 318 800	–	8 318 800
	–	–	–	1 130 757	–	1 130 757
	–	–	–	–	–	645 783
	–	–	–	–	–	271 627
	–	–	–	47 567	147 385	730 373
	–	–	–	93 743	–	93 743
	–	–	–	632 062	–	632 062
	–	–	–	11 970 563	147 385	13 842 500

4. Classification of financial assets and financial liabilities (continued)

At 31 March £'000	At fair value through profit and loss – Trading	At fair value through profit and loss – Designated at inception
2011		
Assets		
Cash and balances at central banks	–	–
Treasury bills and other eligible bills	–	–
Loans and advances to banks	455 380	–
Loans and advances to customers	–	16 611
Debt securities	421 740	4 006
Equity shares	95 106	6 289
Interests in associated undertakings	–	–
Shares in group undertakings	–	–
Tangible fixed assets	–	–
Derivative assets	541 702	–
Other assets	202 618	–
Prepayments and accrued income	–	
	1 716 546	26 906
Liabilities		
Deposits by banks	456 413	–
Customer accounts	–	–
Debt securities in issue	–	–
Derivative liabilities	481 503	–
Trading liabilities – short positions	402 326	–
Other liabilities	217 262	–
Accruals and deferred Income	–	–
Subordinated liabilities	–	–
	1 557 504	–

	Loans and receivables	Available-for-sale	Held-to-maturity	Financial assets or financial liabilities at amortised cost	Non-financial instruments	Total
	976 739	–	–	–	–	976 739
	–	64 225	–	–	–	64 225
	1 405 601	–	–	–	–	1 860 981
	6 587 232	–	408 043	–	–	7 011 886
	155 564	768 247	–	–	–	1 349 557
	–	36 014	–	–	–	137 409
	–	–	–	–	9 261	9 261
	–	–	–	–	923 801	923 801
	–	–	–	–	220 427	220 427
	–	–	–	–	–	541 702
	228 006	–	–	–	61 457	492 081
	11 864	–	–	–	–	11 864
	9 365 006	868 486	408 043	–	1 214 946	13 599 933
	–	–	–	1 331 886	–	1 788 299
	–	–	–	7 675 480	–	7 675 480
	–	–	–	879 526	–	879 526
	–	–	–	–	–	481 503
	–	–	–	–	–	402 326
	–	–	–	113 189	74 896	405 347
	–	–	–	96 124	–	96 124
	–	–	–	555 451	–	555 451
	–	–	–	10 651 656	74 896	12 284 056

Notes to the annual financial statements (continued)

At 31 March £'000	Demand	Up to one month
5. Maturity of loans and deposits		
2012		
Assets		
Loans and advances to banks	628 739	340 011
Loans and advances to customers	391 839	218 065
Liabilities		
Deposits by banks	585 101	626 606
Customer accounts	1 612 820	428 512
Debt securities in issue	454 347	15 000
Subordinated liabilities	–	–
2011		
Assets		
Loans and advances to banks	1 296 173	482 856
Loans and advances to customers	727 516	438 034
Liabilities		
Deposits by banks	821 958	303 553
Customer accounts	843 422	1 318 563
Debt securities in issue	299 524	5 000
Subordinated liabilities	–	–

	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total	Balances with group companies
	–	–	–	255 000	353 000	1 576 750	640 931
	418 952	639 338	811 438	3 214 263	1 941 294	7 635 189	1 376 354
	40 243	26 000	28 000	473 891	239 514	2 019 355	409 992
	1 448 901	2 494 545	641 996	1 557 890	134 136	8 318 800	436 257
	17 419	19 644	27 960	575 378	21 009	1 130 757	2 009
	–	–	–	53 096	578 966	632 062	–
	6 000	–	–	75 952	–	1 860 981	84 673
	378 451	318 784	660 129	2 617 374	1 871 598	7 011 886	1 246 599
	170 738	96 000	41 000	355 050	–	1 788 299	533 428
	1 396 719	2 491 839	352 339	1 209 158	63 440	7 675 480	416 057
	7 000	5 000	19 000	474 600	69 402	879 526	2 002
	–	–	5 934	33 607	515 910	555 451	36 764

Notes to the annual financial statements (continued)

At 31 March £'000	2012	2011
6. Treasury bills and other eligible bills		
Securities designated as available-for-sale:		
Treasury bills	285 129	54 822
Other eligible bills – other issuers	8 699	9 403
	293 828	64 225
At beginning of year	64 225	110 349
Purchases	297 724	2 157 819
Maturities	(63 525)	(2 204 248)
Movement in fair value during the year	(85)	379
Exchange adjustments	(4 511)	(74)
Fair value at end of year	293 828	64 225

Treasury bills and other eligible bills are unlisted, mainly short-term in maturity and have a book value not materially different from market value.

At 31 March £'000	2012	2011
7. Customer accounts		
Total loans and advances to customers	7 635 189	7 011 886
Less: Trading book loans and cash equivalent debtors	(358)	(2 895)
	7 634 831	7 008 991
Category analysis		
Private Banking	3 084 053	3 243 460
Corporate and public sector	3 318 906	2 655 215
Other	1 405 986	1 298 195
	7 808 945	7 196 870
Specific impairment	(167 278)	(182 201)
Portfolio impairment	(6 836)	(5 678)
	7 634 831	7 008 991
Specific and portfolio impairments		
Reconciliation of movements in specific and portfolio impairments for bad and doubtful debts:		
Specific impairment		
At beginning of year	182 201	64 269
Charge to the income statement	60 618	166 565
Utilised	(68 846)	(50 870)
Exchange adjustments	(6 695)	2 237
At end of year	167 278	182 201
Portfolio impairment		
At beginning of year	5 678	18 672
Charge to the income statement	2 131	(13 039)
Exchange adjustments	(973)	45
At end of year	6 836	5 678

At 31 March £'000	2012	2011
8. Debt securities		
Unlisted debt securities:		
– designated as held-for-trading or designated as held at fair value through profit and loss	293 067	425 746
– held at amortised cost	151 075	155 564
	444 142	581 310
Securities designated as available-for-sale		
Unlisted bank and building society certificates of deposit	–	–
Other unlisted debt securities	982 974	768 247
	982 974	768 247
Total debt securities	1 427 116	1 349 557
The cost of trading securities has not been disclosed as it cannot be determined without unreasonable expense.		
Available-for-sale securities		
At beginning of year	768 247	423 656
Additions	665 957	1 262 000
Sold/matured	(444 077)	(916 285)
Exchange adjustments	(405)	(2 686)
Movement in fair value during the year	(6 748)	1 562
At end of year	982 974	768 247

At 31 March £'000	2012	2011
9. Securitisation		
There have been no transactions undertaken by the bank during the year in which, in the normal course of business, it has transferred portfolios of financial assets directly to special purpose entities but where the financial assets transferred do not qualify for derecognition and the assets continue to be disclosed on the face of the balance sheet.		
The financial assets that have been transferred during the year but which continue to be disclosed are:		
Loans and advances to customers	–	637 011
	–	637 011

Notes to the annual financial statements (continued)

At 31 March £'000	2012	2011
10. Equity shares		
Trading securities and securities designated as at fair value through profit and loss		
Listed	124 251	87 898
Unlisted	92 841	13 432
	217 092	101 330
Securities designated as available-for-sale		
Listed	3 737	10 340
Unlisted	19 115	25 739
	22 852	36 079
Total equity shares	239 944	137 409
The cost of trading securities has not been disclosed as it cannot be determined without unreasonable expense.		
Available-for-sale securities		
At beginning of year net of provisions	36 079	29 398
Additions	368	3 840
Disposals	(14 397)	(2 726)
Exchange adjustments	(832)	86
Movement in fair value during the year	1 634	5 481
Fair value at end of year	22 852	36 079

At 31 March £'000	2012	2011
11. Interests in associated undertakings		
Analysis of the movement in investment:		
At beginning of year	11 589	11 616
Exchange adjustments	(1)	(27)
At end of year	11 588	11 589
Provision for impairment in value		
At beginning of year	(2 328)	(2 328)
Provision made	–	–
At end of the year	(2 328)	(2 328)
Net book value at the end of the year	9 260	9 261

The associated undertakings are unlisted.

At 31 March £'000	2012	2011
12. Shares in group undertakings		
Cost		
At beginning of year	925 820	570 270
Additions	4 507	355 550
Recapitalisation of subsidiaries	10 337	–
At end of year	940 664	925 820
Provision for impairment in value		
At beginning of year	(2 019)	(2 019)
New impairments	(30 240)	–
At end of year	(32 259)	(2 019)
Net book value at end of year	908 405	923 801

Full details of the acquisitions are included in note 35 of the consolidated accounts of the bank.

All subsidiary undertakings are unlisted.

At 31 March £'000	2012	2011
13. Investment property		
Investment property	11 500	–

The investment property was valued by the Global Head of Property at open market value on 18 November 2011. The cost of the property was £11 386 000 (2011: £nil).

No investment properties are occupied by group companies.

At 31 March £'000	Leasehold improvements	Furniture and vehicles	Computer equipment	Operating leases	Total
14. Tangible fixed assets					
Cost or valuation					
At beginning of year	27 027	5 002	29 009	210 342	271 380
Additions	3 109	39	1 670	38 852	43 670
Disposals	–	–	–	(144 519)	(144 519)
At end of year	30 136	5 041	30 679	104 675	170 531
Accumulated depreciation and amortisation					
At beginning of year	(12 269)	(4 229)	(18 640)	(15 815)	(50 953)
Disposals	–	–	–	11 770	11 770
Charge for the year	(1 970)	(184)	(4 341)	(28 544)	(35 039)
At end of year	(14 239)	(4 413)	(22 981)	(32 589)	(74 222)
Net book value at 31 March 2012	15 897	628	7 698	72 086	96 309
Net book value at 31 March 2011	14 758	773	10 369	194 527	220 427

At 31 March £'000	2012	2011
15. Other assets		
Settlement debtors	555 139	417 768
Trading initial margin	57 952	25 080
Deferred tax asset (note 17)	28 987	21 297
Dealing properties	3 353	5 377
Other debtors	32 809	22 559
	678 240	492 081

Dealing properties are recorded at the lower of cost or selling price less cost to sell.

At 31 March £'000	2012	2011
16. Other liabilities		
Settlement creditors	652 381	326 844
Corporation and other taxes	17 034	7 403
Trade creditors and maintenance liabilities arising from operating leased assets	36 789	21 688
Other creditors and accruals	24 169	49 412
	730 373	405 347

At 31 March £'000	2012	2011
17. Deferred tax		
Deferred tax asset		
Deferred capital allowances	3 831	3 425
Arising from unexpired share options	10 791	10 998
Income and expenditure accruals	10 889	6 671
Losses carried forward	3 510	–
Other timing differences	(34)	203
	28 987	21 297
Deferred tax liability	–	–
Net deferred tax asset	28 987	21 297
Reconciliation of net deferred tax asset:		
At beginning of year	21 297	42 235
Arising on acquisition of subsidiary undertaking	3 510	–
Credit to profit and loss	4 180	(20 938)
At end of year	28 987	21 297

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

At 31 March £'000	2012	2011
18. Subordinated liabilities		
Dated subordinated debt		
Medium term subordinated notes	578 966	502 126
Subordinated loans	53 096	53 325
	632 062	555 451
Remaining maturity:		
In one year or less, or on demand	–	5 934
In more than two years, but not more than five years	53 096	33 607
In more than five years	578 966	515 910
	632 062	555 451

Subordinated debt

Medium-term subordinated notes

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

On 29 June 2011 Investec Bank plc issued £75 000 000 of 9.625% subordinated notes due 2022 at a premium. These notes were consolidated to form a single series, and are fungible, with the £500 000 000 2022 notes issued on 17 February 2011.

Subordinated loans

The net proceeds of two issues of step-up notes by a subsidiary of the bank, Investec Finance plc, have been on lent to the bank on a subordinated basis.

The terms of the step-up notes, which are guaranteed by the bank, are detailed in note 40 of the consolidated financial statements of the bank.

At 31 March	2012	2011
19. Ordinary share capital		
Authorised		
The authorised share capital is £2 000 million (2011: £2 000 million) comprising 2 000 million ordinary shares of £1 each (2011: 2 000 million shares of £1 each).		
Issued, allotted and fully paid		
Number of ordinary shares	Number	Number
At beginning of year	1 026 000 000	748 000 000
Issued during the year	44 700 000	278 000 000
At end of year	1 070 700 000	1 026 000 000
Nominal value of ordinary shares	£'000	£'000
At beginning of year	1 026 000	748 000
Issued during the year	44 700	278 000
At end of year	1 070 700	1 026 000

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

For the year ended 31 March £'000	2012	2011
20. Commitments		
Undrawn facilities	419 318	611 057

The bank has entered into loan commitments in the normal course of its banking business.

Notes to the annual financial statements (continued)

At 31 March £'000	2012	2011
21. Contingent liabilities		
Guarantees and irrevocable letters of credit	239 544	213 631

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

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

A subsidiary of the bank, Investec Finance plc, has issued both medium-term notes and other debt securities.

The proceeds of these issues have been placed on deposit with the bank.

The bank has issued a guarantee to the holders of these notes. The amount of these guarantees is supported by, and limited to, the amount of the cash deposits.

Financial Services Compensation Scheme

The UK Financial Services Compensation Scheme (FSCS), the UK's statutory fund of last resort, provides compensation to customers of UK authorised financial institutions in the event that an institution which is a participating member of the FSCS is unable, or is likely to be unable, to pay claims against it.

The FSCS raises annual levies from participating members 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) as at 31 December of the year preceding the scheme year.

The FSCS has borrowed from HM Treasury to fund the compensation costs associated with Bradford & Bingley, Heritable Bank, Kaupthing Singer & Friedlander, Landsbanki 'Icesave' and London Scottish Bank plc. These borrowings are on an interest-only basis until the FSCS determines otherwise. The interest rate to be applied with effect from 1 April 2012 on which levies for the scheme year 2012/2013 have recently been announced to increase from LIBOR plus 30 basis points to LIBOR plus 100 points.

Investec Bank plc is a participating member of the FSCS and the bank has accrued £2.48 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 2013. The accrual is based on estimates for the interest the FSCS will pay on the loan and estimates of the level of the bank's market participation in the relevant periods. Interest will continue to accrue to the FSCS on the HM Treasury loan and will form part of future FSCS levies.

If the remaining available assets of the defaulting institutions are insufficient to allow the FSCS to repay the HM Treasury loan when due, the FSCS will agree a schedule of repayments of any remaining principal outstanding with HM Treasury, which will be recouped from the industry in the form of additional levies.

At the date of these financial statements, it is not possible to estimate whether there will ultimately be additional levies on the industry, the level of Investec's market participation or other factors that may affect the amounts or timing of amounts that may ultimately become payable, nor the effect that such levies may have upon operating results in any particular financial period.

Legal proceedings

The bank is party to various legal proceedings, the ultimate resolution of which are not expected to have a material adverse effect on the financial position of the bank.

22. Derivatives

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

In the tables below, notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair value of a derivative financial instrument represents the positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out by the group in an orderly market transaction at balance sheet date.

At 31 March £'000	2012 Notional principal amounts	2012 Positive fair value	2012 Negative fair value	2011 Notional principal amounts	2011 Positive fair value	2011 Negative fair value
22. Derivatives						
Foreign exchange derivatives						
Forward foreign exchange	1 929 648	13 406	(9 948)	4 614 380	32 906	(79 939)
Currency swaps	6 326 815	84 954	(59 484)	1 618 451	59 106	(62 333)
OTC options bought and sold	2 920 257	23 493	(19 831)	1 977 148	25 771	(11 702)
Other foreign exchange contracts	677 181	461	(2 307)	119 942	2 769	–
OTC derivatives	11 853 901	122 314	(91 570)	8 329 921	120 552	(153 974)
Interest rate derivatives						
Caps and floors	909 560	2 970	(3 762)	998 315	3 757	(3 365)
Swaps	9 860 762	193 140	(100 599)	9 558 871	150 609	(62 607)
Forward rate agreements	206 367	–	(40)	279 792	99	(51)
OTC options bought and sold	250 000	419	–	–	–	–
Other interest rate contracts	250 622	3 930	150	251 107	3 527	(197)
OTC derivatives	11 477 311	200 459	(104 251)	11 088 085	157 992	(66 220)
Equity and stock index derivatives						
OTC options bought and sold	1 804 580	9 817	(43 368)	2 036 849	15 622	(9 809)
Equity swaps and forwards	61 902	693	(724)	228 471	4 111	(2 626)
OTC derivatives	1 866 482	10 510	(44 092)	2 265 320	19 733	(12 435)
Exchange traded futures	1 340 564	20 869	(26 210)	178 333	1 471	(1 025)
Exchange traded options	3 578 941	154 447	(211 481)	161	35 721	(17 889)
Warrants	1	55	–	–	504	–
	6 785 988	185 881	(281 783)	2 443 814	57 429	(31 349)
Commodity derivatives						
Commodity swaps and forwards	89 892	164 333	(164 188)	322 264	170 148	(226 414)
OTC derivatives	89 892	164 333	(164 188)	322 264	170 148	(226 414)
Credit derivatives						
Credit swaps bought and sold	556 340	13 259	(3 991)	47 932	7 430	(3 546)
OTC derivatives	556 340	13 259	(3 991)	47 932	7 430	(3 546)
Embedded derivatives		35 189	–		28 151	–
Derivatives per balance sheet		721 435	(645 783)		541 702	(481 503)

At 31 March £'000	Description of financial instrument designated as hedging instrument	Fair value of hedging instrument	Cumulative gains/ (losses) on hedging instrument	Current year gains/ (losses) on hedging instrument	Cumulative gains/ (losses) on hedged item	Current year gains/ (losses) on hedged item
23. Hedges						
2012						
Assets	Interest rate swap	15 456	15 639	6 386	(16 158)	(6 921)
	Cross currency swap	(40 335)	(40 625)	(9 056)	40 635	9 056
Liabilities	Interest rate swap	(18 946)	(18 946)	(18 881)	19 351	19 523
		(43 825)	(43 932)	(21 551)	43 828	21 658
2011						
Assets	Interest rate swap	12 890	13 085	5 028	(12 645)	(4 198)
	Cross currency swap	(31 579)	(31 579)	(13 334)	31 579	13 334
Liabilities	Interest rate swap	(65)	(65)	16 422	(173)	(16 346)
	FX currency swap	–	–	227	–	74
		(18 754)	(18 559)	8 343	18 761	(7 136)

At 31 March £'000	2012	2011
24. Related party transactions		
Transactions, arrangements and agreements involving directors, key management and connected persons and companies controlled by them:		
Loans		
At beginning of year	17 453	8 071
Increase in loans	19 245	14 095
Repayment of loans	(12 286)	(4 713)
At end of year	24 412	17 453
Guarantees		
At beginning of year	–	495
Additional guarantees granted	–	–
Guarantees cancelled	–	(495)
At end of year	–	–
Deposits		
At beginning of year	(33 318)	(26 760)
Increase in deposits	(6 617)	(20 330)
Decrease in deposits	22 828	13 772
At end of year	(17 107)	(33 318)

The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment.

None of the loans have been impaired.

Transactions with other related parties of the group

As the bank is a 100% subsidiary undertaking, and consolidated financial statements for its ultimate parent, Investec plc, are publicly available, group transactions with wholly owned subsidiaries have not been disclosed pursuant to exemptions permitted in Financial Reporting Standard No 8.

In the current year the bank has made recharges to its partially held subsidiary, Leasedirect Finance Limited, totalling £393 000 (2011: £321 000).

25. Reclassifications

During the 2009 year the bank reclassified certain financial instruments out of fair value through profit and loss. These assets were originally classified as held-for-trading but the bank's intentions in regard to these assets changed and the bank reclassified £112.3 million and £7.8 million to the loans and receivables and available-for-sale classifications, respectively. The amount reclassified reflected the fair value of the financial assets at the date of reclassification.

The bank did not undertake any further reclassifications in the current year.

At 31 March £'000	2012	2011
26. Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent		
Assets		
Reverse repurchase agreements	940 980	1 005 441
Cash collateral on securities borrowed	26 092	381 483
	967 072	1 386 924
As part of the reverse repurchase and securities borrowing agreements, the bank has received securities that it is allowed to sell or pledge. £620 million (2011: £407 million) of securities has been resold or repledged to third parties in connection with financing activities or to comply with commitments under short sale transactions.		
Liabilities		
Repurchase agreements	969 286	576 451
Cash collateral on securities lent	51 384	36 212
	1 020 670	612 663

27. Ultimate parent undertaking

The bank's immediate parent undertaking is Investec 1 Limited.

The bank's ultimate parent undertaking and controlling party is Investec plc, a company incorporated in the UK and registered in England and Wales, which is the smallest and largest company into which the bank is consolidated.

The consolidated financial statements of Investec plc are available to the public and may be obtained from Investec plc at 2 Gresham Street, London, EC2V 7QP.

Notes to the annual financial statements (continued)

At 31 March	Principal activity	Country of Incorporation	Interest % 2012	Interest % 2011
28. Principal subsidiary and associated undertakings				
Direct subsidiary undertakings of Investec Bank plc				
Guinness Mahon & Co Limited	Investment holding company	England and Wales	100.0%	100.0%
Investec Asset Finance PLC	Leasing	England and Wales	100.0%	100.0%
Investec Bank (Switzerland) AG	Banking institution	Switzerland	100.0%	100.0%
Investec Capital Asia Limited	Investment banking	Hong Kong	100.0%	–
Investec Finance plc	Debt issuer	England and Wales	100.0%	100.0%
Investec Holdings (Ireland) Limited	Holding company	Ireland	100.0%	100.0%
Rensburg Sheppards plc	Holding company	England and Wales	100.0%	100.0%
Indirect subsidiary undertakings of Investec Bank plc				
Investec Bank (Australia) Limited	Banking institution	Australia	100.0%	100.0%
Investec Bank (Channel Islands) Limited	Banking institution	Guernsey	100.0%	100.0%
Investec Experien Pty Limited	Financial services	Australia	100.0%	100.0%
Investec Ireland Limited	Financial services	Ireland	100.0%	100.0%
Investec Trust Holdings AG	Investment holding company	Switzerland	100.0%	100.0%
Investec Trust (Jersey) Limited	Trust company	Jersey	100.0%	100.0%
Investec Trust (Switzerland) S.A.	Trust company	Switzerland	100.0%	100.0%
Leasedirect Finance Limited	Finance broker	England and Wales	81.3%	75.0%
Investec Wealth and Investments Limited	Stockbroking and portfolio management	England and Wales	100.0%	100.0%
All of the above subsidiary undertakings are included in the consolidated accounts				
Principal associated undertaking of Investec Bank plc				
Hargreave Hale Limited	Stockbroking and portfolio management	England and Wales	35.0%	33.2%

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