ANNUAL REPORT 2012

Investec plc silo (excluding Investec Limited) annual financial statements

2012

Out of the Ordinary®

Investec

Specialist Bank and Asset Manager

Corporate information

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Registration number

Reg. No. 3633621

Auditors

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Investec directors

Refer to pages 127 to 129.

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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.

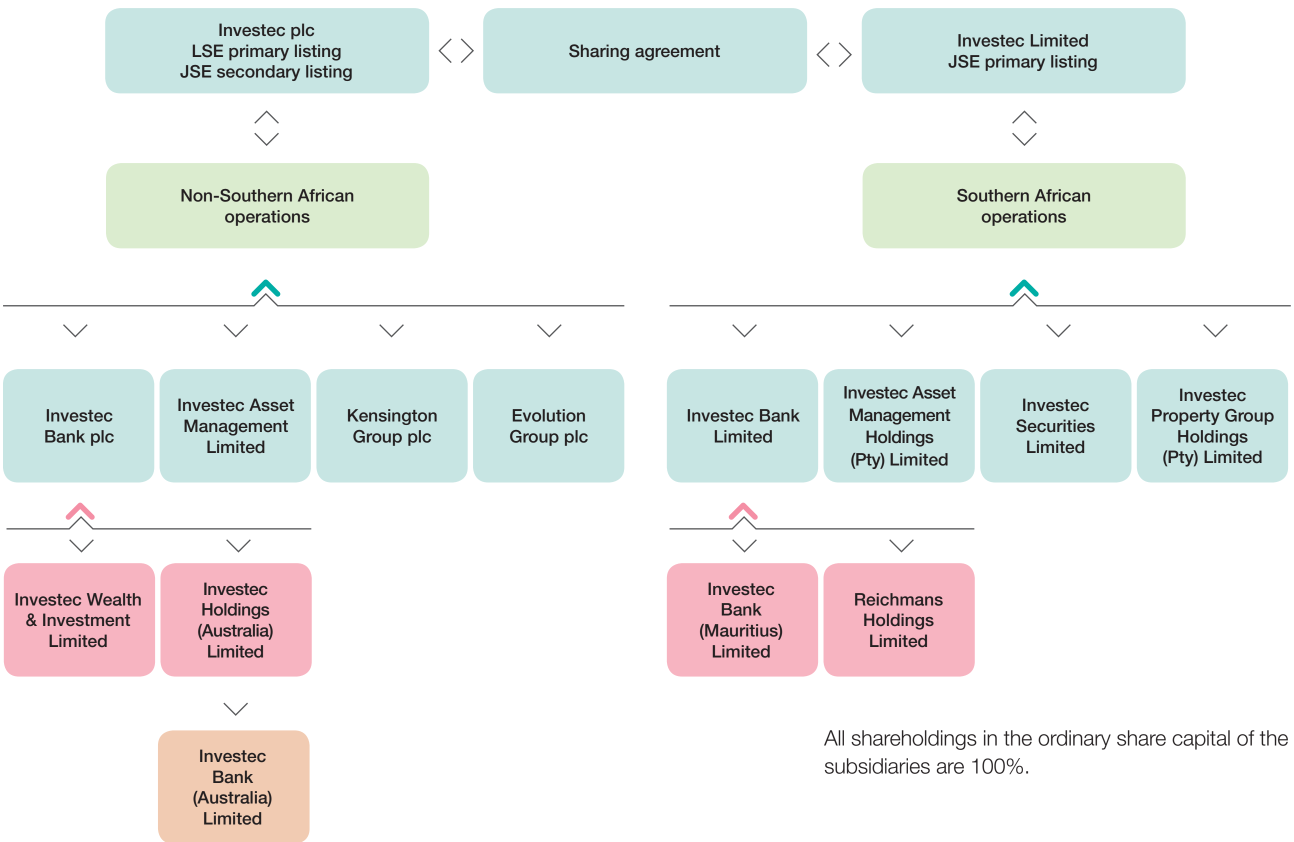
Overview of Investec's and Investec plc's organisational structure

Operational structure

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

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

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

Overview of the activities of Investec plc

Investec plc operates as a specialist bank and asset manager in two principal markets, namely 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, Taiwan and the USA. The three principal business units of Investec plc are discussed below.

Investec Asset Management

At Investec Asset Management, our business is to manage clients' investments to the highest standard possible by exceeding their investment and client service expectations. As at 31 March 2012, UK and international assets under management amounted to £36.2 billion, we manage these assets on behalf of our clients from around the world who are invested in our seven core investment capabilities. Employing over 140 investment professionals, we manage our investments from two investment centres (London and Cape Town) serving our client base from seven distinct client groups.

Established in 1991, we have grown largely organically from domestic roots in Southern Africa and are still managed by our founding members, representing continuity and stability throughout our growth.

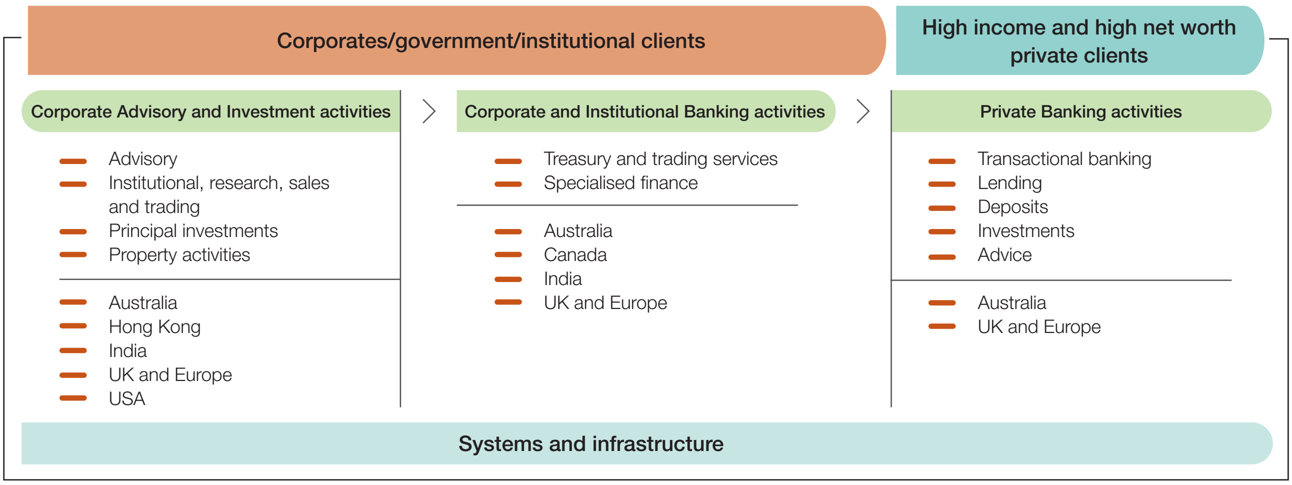
Wealth & Investment

Investec Wealth & Investment is made up of Investec Wealth & Investment Limited (formerly Rensburg Sheppards plc) and Williams de Broë Limited. The European operations are conducted through Wealth Management Europe.

Collectively the businesses provide portfolio management, wealth management and stockbroking services to private clients, charities, intermediaries, pension schemes and trusts. Over 1 000 staff operate from offices across the UK and in Switzerland, and with combined funds under management of £21 billion, the Investec Wealth & Investment operation is one of the UK's leading providers of private client investment management services.

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.



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, 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.

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Financial review

Snapshot of the year and strategic focus

Highlights

- 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 and asset management businesses now account for 87.2% of the group's operating profit (2011: 58.1%)
- 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 2.6% to £352.0 million and net fees and commissions increased by 14.2% to £525.4 million
- Investment and trading income decreased by 19.8% to £203.7 million
- Impairments on loans and advances increased by 6.3% with the credit loss charge on core loans improving from 2.05% at 31 March 2011 to 1.65%
- The bank has maintained a strong capital and liquidity position:
  - Tier 1 ratio of 11.6%
  - Cash and near cash balances rose 1.6% to £4.6 billion
  - Customer deposits increased by 7.4% to £11.0 billion
  - The ratio of loans and advances to deposits improved from 70.0% to 65.4%
  - Low gearing ratios, core loans and advances to equity fell to 3.5 times (2011: 3.7 times)

Momentum in realigning our business model continues…

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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)	94 233	134 337	(29.9%)
Earnings attributable to shareholders (£'000)	27 886	164 092	(83.0%)
Cost to income ratio	69.3%	66.6%	
Total capital resources (including subordinated liabilities) (£'000)	2 943 828	2 731 430	7.8%
Total shareholders' equity (£'000)	2 235 552	2 063 160	8.4%
Total assets (£'000)	24 215 070	23 065 420	5.0%
Net core loans and advances (£'000)	7 736 425	7 651 693	1.1%
Customer accounts (deposits) (£'000)	11 007 758	10 244 943	7.4%
Cash and near cash balances (£'000)	4 575 747	4 501 813	1.6%
Third party assets under management (£'million)	57 492	46 199	24.4%
Capital adequacy ratio	17.5%	16.8%	
Tier 1 ratio	11.6%	11.6%	

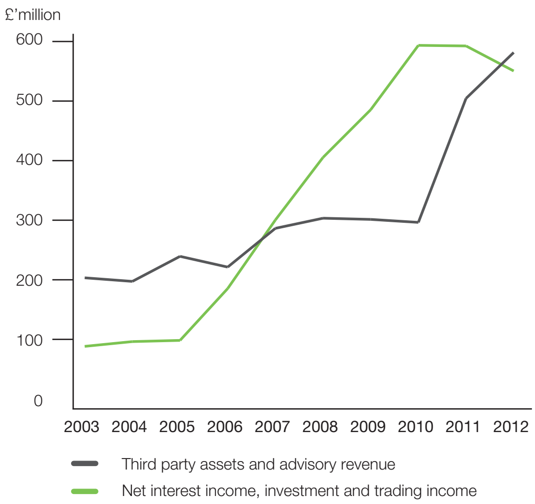
We have realigned our business model by building capital light revenues

Sustainable business model

Capital light businesses
£586 million
51%
of total revenue

Net fees and commissions of
£525 million
46% of total

Other of
£61 million
5% of total



Capital intensive businesses
£556 million
49%
of total revenue

Net interest income of
£352 million
31% of total

Investment income of
£134 million
12% of total

Trading income of
£70 million
6% of total

Third party asset management and advisory revenue

- Asset management
- Wealth management
- Advisory services
- Transactional banking services
- Property funds

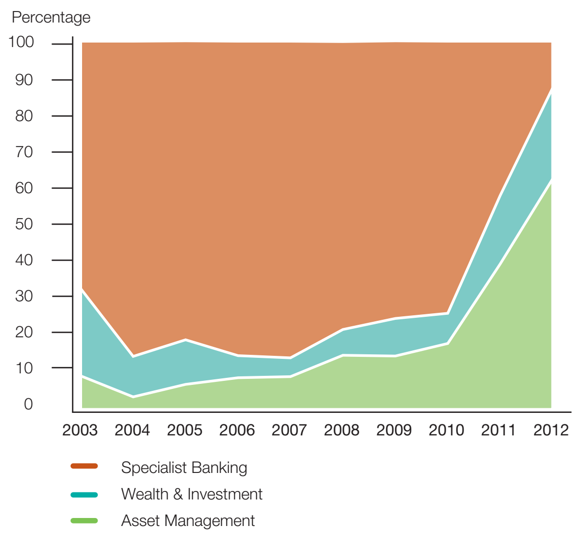
- Containing costs
- Maintaining credit quality
- Strictly managing risk and liquidity

Net interest income, investment income and trading income

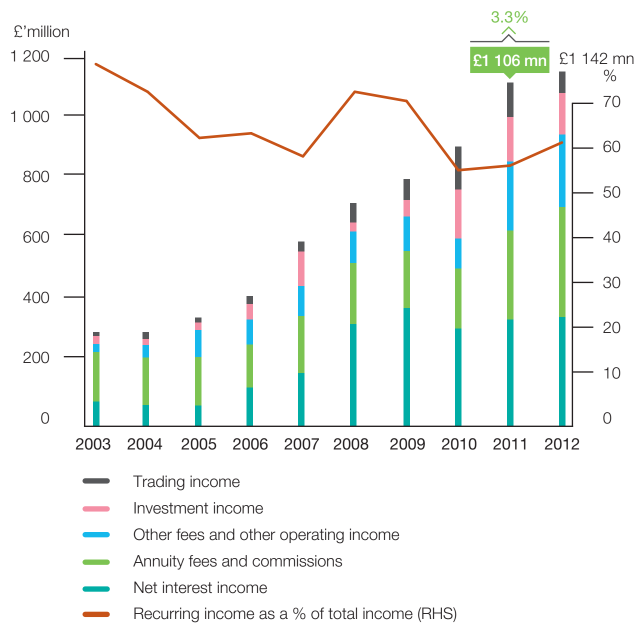
- Lending portfolios
- Investment portfolios
- Trading income arising from client flow
- Trading income arising from balance sheet management and other trading activities

Three distinct business areas supporting a large recurring revenue base

Contribution to operating profit before taxation*



Total operating income



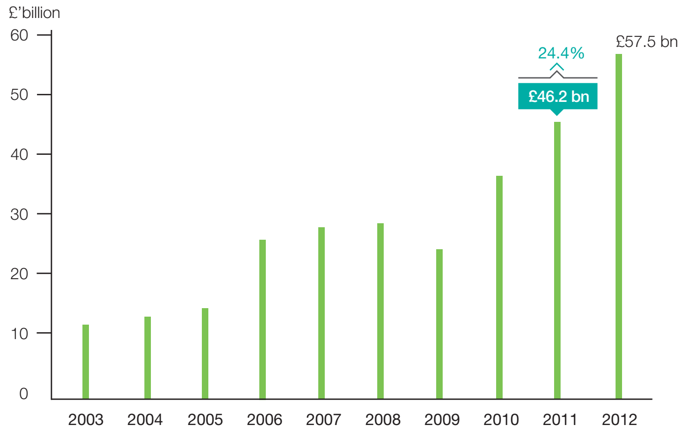
* *Before goodwill, acquired intangibles, non-operating items and after non-controlling interests.*

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

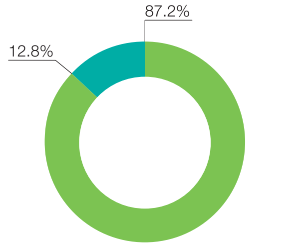
Momentum in building third party assets under management continues…

- Acquisition of the Evolution Group plc, adding approximately £7.0 billion in funds under management
- Investec Asset Management globally reported net inflows of £5.2 billion for the year.

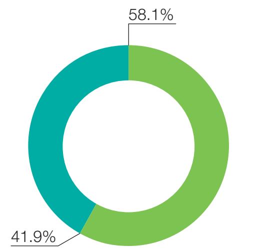
Third party assets under management



Contribution to group earnings



31 March 2012



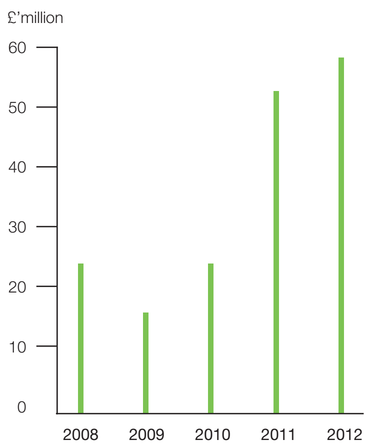
31 March 2011

- Asset management and wealth management businesses
- Specialist banking businesses

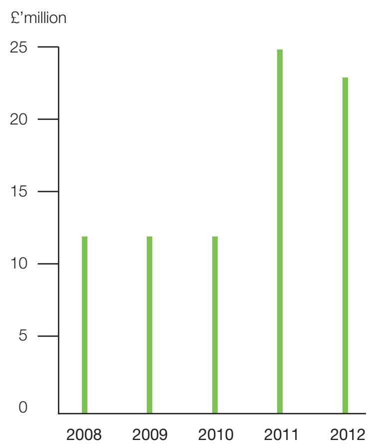
Specialist Banking has been held back by elevated impairments and a weaker performance from investment portfolios

Operating profit* before taxation by business

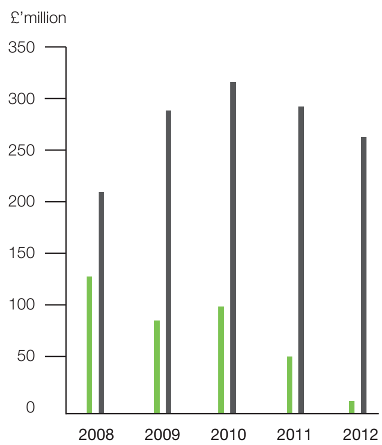
Asset Management



Wealth & Investment



Specialist Banking



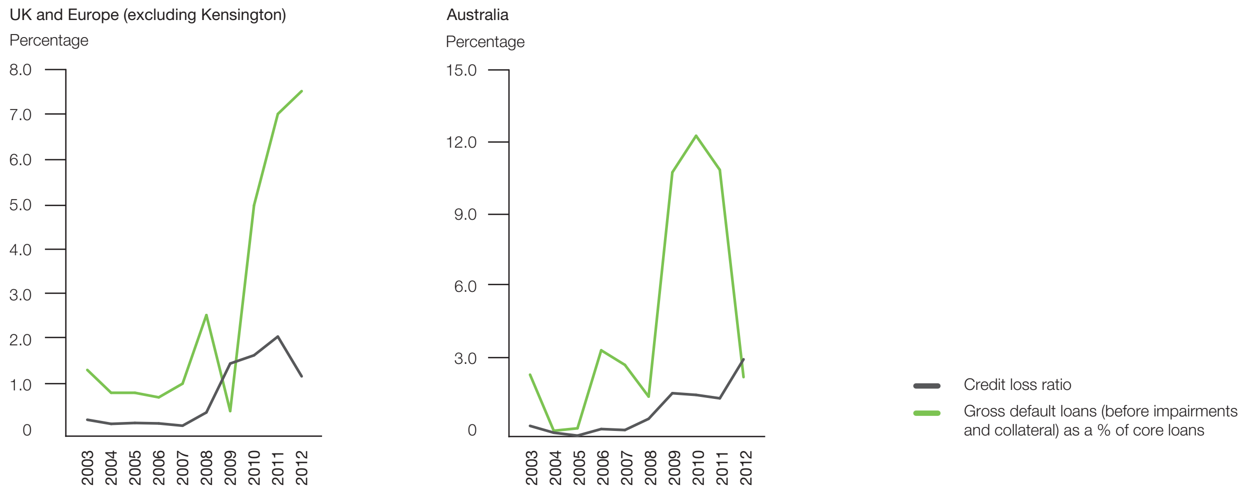
- Operating profit* before taxation and impairments
- Operating profit* before taxation

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

Impairments remained elevated but starting to decline...

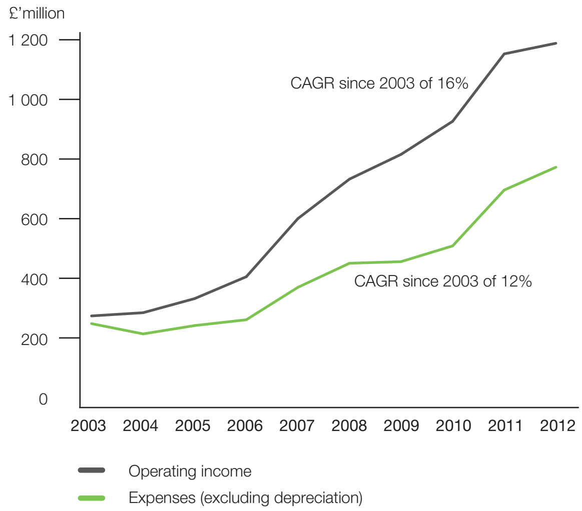
- Impairments are much improved in our UK and European operations
- The Australian credit loss ratio has increased substantially as a result of additional impairments required in light of the weak residential property markets
- The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances decreased to 4.10% (2011: 5.67%)
- The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.09 times (2011: 1.27 times).

Asset quality ratios



Costs relative to revenue deteriorated slightly… but our cost to income ratio is still within our target range

Cost to income ratio 69.3% (2011: 66.6%)



Headcount* relatively stable excluding acquisitions

* *Permanent headcount and includes Rensburg Sheppards plc from June 2010.*

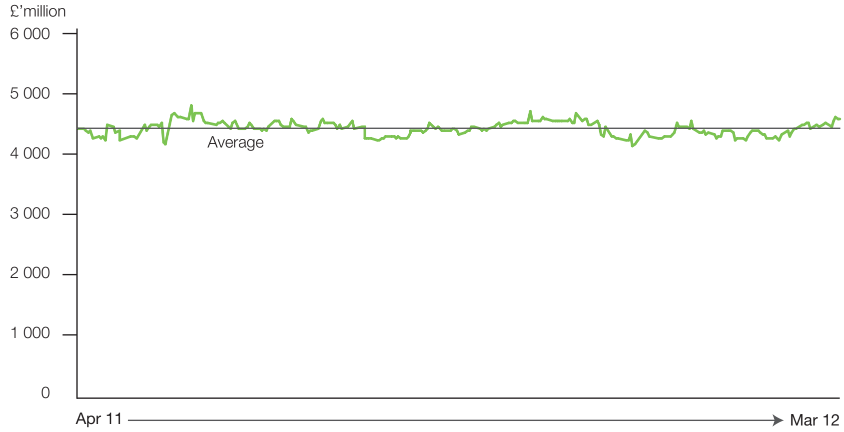
Sound capital and liquidity position maintained…

Capital adequacy and tier 1 ratios

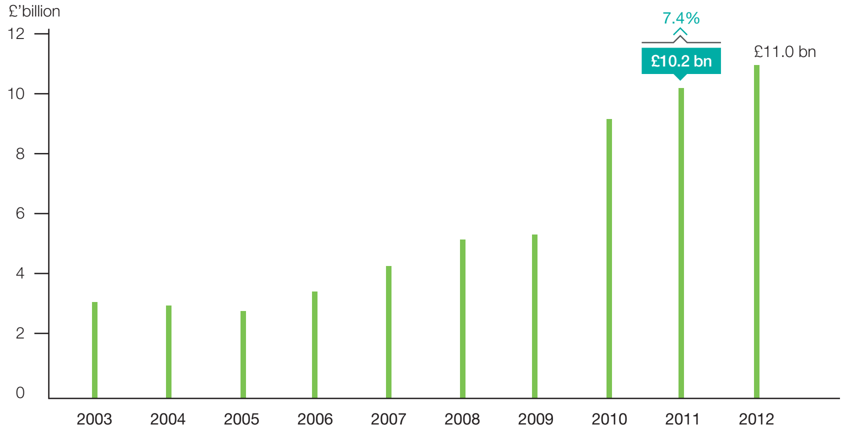
	31 March 2012		31 March 2011	
	Capital adequacy ratio	Tier 1 ratio	Capital adequacy ratio	Tier 1 ratio
Investec plc	17.5%	11.6%	16.8%	11.6%
Investec Bank plc	16.8%	11.5%	16.1%	11.3%
Investec Bank (Australia) Limited	17.6%	14.6%	17.6%	14.7%

…and benefited from increased customer deposits and cash balances

Cash and near cash trend



Customer accounts (deposits)



Sound capital and liquidity position maintained… achieved capital targets across all geographies

- 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 65.4% (2011: 70.0%).

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

Sustainability considerations

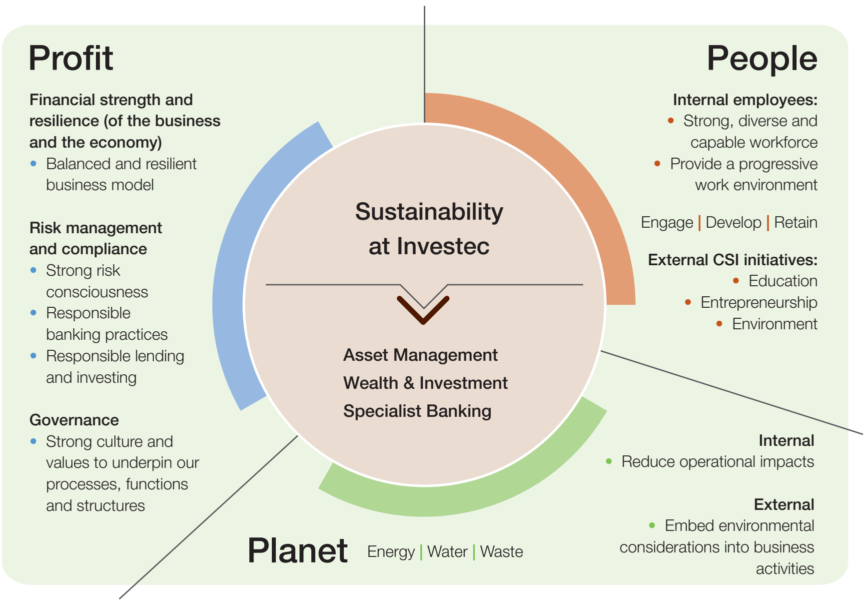
Our sustainability goals reflect our culture of continuous advancement and reaffirm our belief that sustainability in its broadest sense is about managing and positioning the group for the long term.

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.

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

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
- Maintain momentum in Asset Management
- Complete integration in Wealth & Investment and continue internationalising the offering
- Capture trade and investment opportunities between developed and emerging economies.

Our 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.

Our diversified business model

- Broadly defined, we operate in three distinct spaces: Specialist Banking, Wealth & Investment and Asset Management
- We live in a world where the market requires a high degree of transparency and the appropriate management of conflicts of interest
- Within specialist banking, we offer a broad range of services from advisory, structuring, lending, transactional banking, treasury and trading, and investment activities. These services are aimed at government, institutional, corporate and high net worth and high income clients in our selected geographies
- We have a global Wealth & Investment unit which provides investment management services and independent financial planning advice to private clients, charities and trusts
- Operating completely independently from these structures is Investec Asset Management. Its sole focus is the provision of investment management services to its predominantly global institutional client base
- We seek to maintain an appropriate balance between revenue earned from our operational risk activities and revenue earned from financial risk activities
- This ensures that we are not over reliant on any one part of our businesses to sustain our activities and that we have a large recurring revenue base that enables us to navigate through varying cycles and to support our long-term growth objectives.

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.

Financial review

The commentary and analysis of Investec 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.

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.

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.

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

3

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.

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 – 3 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, 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, Taiwan and the USA. We are organised as a network comprising three principal business divisions: Asset Management, 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
Asset Management			
	• Fixed fees as a percentage of assets under management • Variable performance fees	• Movements in the value of the assets underlying client portfolios • Performance of portfolios against set benchmarks • Net sales	• Fees and commissions
Wealth & 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

Business activity	Key income drivers	Income impacted primarily by	Income statement – primarily reflected as
Specialist Banking (continued)			
	• Deposit and product structuring and distribution	• The level of clients' investment activity, which, in turn, is affected by among other things, the performance of the global markets and the investment risk appetite of our clients • Distribution channels • Ability to create innovative products • Regulatory requirements	• Net interest income • Fees and commissions
	• 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 41 to 72
Liquidity risk may impair our ability to fund our operations	See pages 91 to 100
Our net interest earnings and net asset value may be adversely affected by interest rate risk	See pages 88 to 91
Market, business and general economic conditions and fluctuations could adversely affect our businesses in a number of ways	See pages 73 to 86
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 100 to 103
Operational risk may disrupt our business or result in regulatory action	See pages 100 to 103
We may be vulnerable to the failure of our systems and breaches of our security systems	See pages 100 to 103
We may have insufficient capital in the future and may be unable to secure additional financing when it is required	See pages 104 to 115
The financial services industry in which we operate is intensely competitive	See pages 17 to 19
Legal and regulatory risks are substantial in our businesses	See pages 103 and 104
Reputational, strategic and business risk	See page 103
We may be exposed to pension risk in our UK operations	See page 103

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

Investec plc posted a 29.9% decrease in operating profit after non-controlling interests to £94.2 million (2011: £134.3 million). The balance sheet remains strong with a capital adequacy ratio of 17.5% (2011: 16.8%).

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

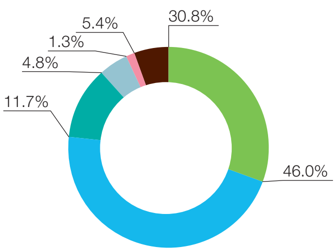
Total operating income before impairment losses on loans and advances of £1 142 million is 3.3% higher than the prior year. The various components of total operating income are analysed below.

£'000	31 March 2012	% of total income	31 March 2011	% of total income	% change
Net interest income	352 019	30.8%	343 223	31.0%	2.6%
Net fee and commission income	525 399	46.0%	459 901	41.6%	14.2%
Investment income	134 125	11.7%	143 039	12.9%	(6.2%)
Trading income					
– Arising from customer flow	54 291	4.8%	48 753	4.4%	11.4%
– Arising from balance sheet management and other trading activities	15 305	1.3%	62 163	5.6%	(75.4%)
Other operating income	60 949	5.4%	48 793	4.5%	24.9%
Total operating income before impairment losses on loans and advances	1 142 088	100.0%	1 105 872	100.0%	3.3%

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

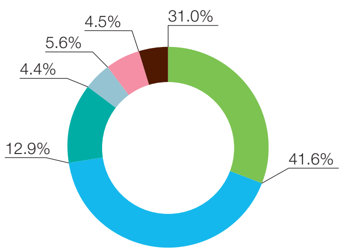
£'000	31 March 2012	% of total income	31 March 2011	% of total income	% change
Asset Management	202 078	17.7%	179 012	16.2%	12.9%
Wealth & Investment	142 447	12.5%	102 232	9.2%	39.3%
Specialist Banking	797 563	69.8%	824 628	74.6%	(3.3%)
Total operating income before impairment losses on loans and advances	1 142 088	100.0%	1 105 872	100.0%	3.3%

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



31 March 2012

£1 142.1 million



31 March 2011

£1 105.9 million

- Net interest income
- Net fee and commission income
- Investment income
- Trading income arising from customer flow
- Trading income arising from balance sheet management and other trading activities
- Other operating income

3

Net interest income

Net interest income increased by 2.6% to £352.0 million (2011: £343.2 million) largely as a result of improved margins on the banks 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	5 516 447	50 414	1 010 485	59 939	6 526 932	110 353
Core loans and advances	2	5 788 118	359 715	1 948 307	186 654	7 736 425	546 369
Private Client		3 431 420	200 531	1 593 600	158 697	5 025 020	359 228
Corporate, institutional and other clients		2 356 698	159 184	354 707	27 957	2 711 405	187 141
Other debt securities and other loans and advances		1 483 015	78 608	81 860	4 310	1 565 142	82 918
Other interest earning assets	3	4 393 681	206 197	–	–	4 393 681	206 197
Total interest earning assets		17 181 261	694 934	3 040 652	250 903	20 222 180	945 837

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	4 271 470	90 387	777 186	62 939	5 048 656	153 326
Customer accounts		9 471 155	204 366	1 536 603	83 708	11 007 758	288 074
Other interest bearing liabilities	5	2 361 985	53 614	526 946	33 569	2 888 931	87 183
Subordinated liabilities		661 921	60 890	46 355	4 345	708 276	65 235
Total interest bearing liabilities		16 766 531	409 257	2 887 090	184 561	19 653 621	593 818
Net interest income			285 677		66 342		352 019

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) warehoused assets – Kensington; other securitised assets.*
4. *Comprises (as per the balance sheet) deposits by banks; deposits by banks – Kensington warehouse funding; 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.*

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	4 711 585	19 642	1 005 685	52 918	5 717 270	72 560
Core loans and advances	2	5 576 252	318 102	2 075 441	187 343	7 651 693	505 445
Private Client		3 378 214	178 218	1 820 449	158 958	5 198 663	337 176
Corporate, institutional and other clients		2 198 038	139 884	254 992	28 385	2 453 030	168 269
Other debt securities and other loans and advances		1 031 931	60 109	133 466	6 746	1 165 397	66 855
Other interest earning assets	3	5 291 232	235 937	–	–	5 291 232	235 937
Total interest earning assets		16 611 000	633 790	3 214 592	247 007	19 255 592	880 797

For the year ended 31 March 2011 £'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	3 470 063	70 911	1 000 122	56 577	4 470 185	127 488
Customer accounts		8 823 141	192 455	1 421 802	80 388	10 244 943	272 844
Other interest bearing liabilities	5	3 174 267	53 699	472 109	35 558	3 646 376	89 257
Subordinated liabilities		636 468	45 912	31 802	2 073	668 270	47 985
Total interest bearing liabilities		16 103 939	362 977	2 925 835	174 596	19 029 774	537 574
Net interest income			270 812		72 411		343 223

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) warehoused assets – Kensington; other securitised assets.*
4. *Comprises (as per the balance sheet) deposits by banks; deposits by banks – Kensington warehouse funding; 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 fee and commission income

Net fee and commission income increased by 14.2% to £525.4 million (2011: £459.9 million). The group benefited from higher average funds under management, solid net inflows and the acquisitions of Rensburg Sheppards plc and the Evolution Group plc. The Specialist Banking business recorded an increase in net fees and commissions, however, transactional activity levels remain mixed.

£'000	31 March 2012	31 March 2011	Variance	% change
Asset Management	201 675	178 961	22 714	12.7%
Wealth & Investment	134 179	95 695	38 484	40.2%
Specialist Banking	189 545	185 245	4 300	2.3%
Net fee and commission income	525 399	459 901	65 498	14.2%

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	404 327	5 674	410 001
Private client transactional fees	62 486	9 251	71 737
Corporate and institutional transactional and advisory services	138 312	23 531	161 843
Fee and commission income	605 125	38 456	643 581
Fee and commission expense	(114 807)	(3 375)	(118 182)
Net fees and commissions	490 318	35 081	525 399
Annuity fees (net of fees payable)	339 849	14 115	353 964
Deal	150 469	20 966	171 435

For the year ended 31 March 2011 £'000	UK and Europe	Australia	Total group
Fund management fees/fees for assets under management	332 621	7 580	340 201
Private client transactional fees	53 763	12 761	66 524
Corporate and institutional transactional and advisory services	136 841	19 697	156 538
Fee and commission income	523 225	40 038	563 263
Fee and commission expense	(99 473)	(3 889)	(103 362)
Net fees and commissions	423 752	36 149	459 901
Annuity fees (net of fees payable)	263 961	24 030	287 991
Deal	159 791	12 119	171 910

Investment income

Investment income decreased by 6.2% to £134.1 million (2011: £143.0 million) largely due to fewer realisations in the investment and fixed income portfolios.

£'000	31 March 2012	31 March 2011	Variance	% change
Asset Management	–	–	–	–
Wealth & Investment	(392)	701	(1 093)	(>100.0%)
Specialist Banking	134 517	142 338	(7 821)	(5.5%)
Investment income	134 125	143 039	(8 914)	(6.2%)

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	129 057	(8 929)	120 128
Unrealised	11 652	(66)	11 586
Dividend income	1 890	521	2 411
Investment income	142 599	(8 474)	134 125

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	43 049	86 511	13 039	142 599
Realised	26 230	89 737	13 090	129 057
Unrealised	14 929	(3 226)	(51)	11 652
Dividend income	1 890	–	–	1 890
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	124 196	4 061	128 257
Unrealised	13 054	767	13 821
Dividend income	943	18	961
Investment income	138 193	4 846	143 039

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	43 770	89 222	5 201	138 193
Realised	29 610	89 385	5 201	124 196
Unrealised	13 217	(163)	–	13 054
Dividend income	943	–	–	943
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 11.4% to £54.3 million (2011: £48.8 million) whilst trading income arising from balance sheet management and other trading activities decreased by 75.4% to £15.3 million (2011: £62.2 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
Asset Management	–	–	–	–
Wealth & Investment	(386)	(1 932)	1 546	80.0%
Specialist Banking	54 677	50 685	3 992	7.9%
Trading income arising from customer flow	54 291	48 753	5 538	11.4%

Arising from balance sheet management and other trading activities

£'000	31 March 2012	31 March 2011	Variance	% change
Asset Management	61	–	61	n/a
Wealth & Investment	(7)	(528)	521	98.7%
Specialist Banking	15 251	62 691	(47 440)	(75.7%)
Trading income arising from balance sheet management and other trading activities	15 305	62 163	46 858	(75.4%)

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 £140.6 million to £88.5 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 £170.8 million to £156.4 million (excluding Kensington).

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 2.05% at 31 March 2011 to 1.65%. The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounts to 4.10% (2011: 5.67%). The ratio of collateral to default loans (net of impairments) is at 1.09 times (2011: 1.27 times). Further information is provided on pages 57 to 71.

Impairment losses on loans and advances relating to the Kensington business increased from £69.9 million to £99.4 million as a result of adopting new guidelines (published by UK Financial Services Authority during the past year) relating to provisioning methodology in respect of borrowers that have benefited from forbearance.

Operating costs and depreciation

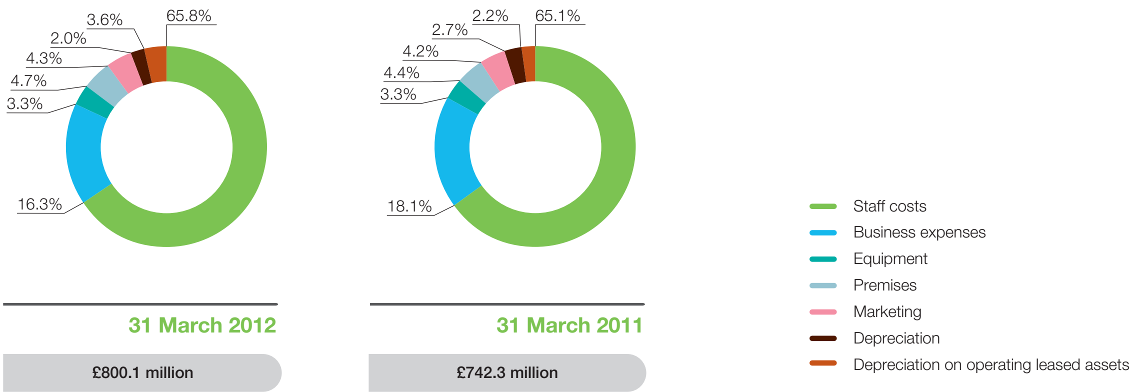
The ratio of total operating expenses to total operating income deteriorated from 66.6% to 69.3%.

Total expenses grew by 7.8% to £800.1 million (2011: £742.3 million) largely as a result of the costs associated with the restructuring of the Australian business, the acquisitions of Rensburg Sheppards plc and the Evolution Group 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)	526 797	65.8%	483 088	65.1%	9.0%
Business expenses	130 404	16.3%	134 557	18.1%	(3.1%)
Equipment (excluding depreciation)	26 665	3.3%	24 654	3.3%	8.2%
Premises (excluding depreciation)	37 786	4.7%	32 466	4.4%	16.4%
Marketing expenses	34 110	4.3%	31 258	4.2%	9.1%
Depreciation	15 776	2.0%	19 825	2.7%	(20.4%)
Depreciation on operating leased assets	28 544	3.6%	16 447	2.2%	73.6%
Total expenses	800 082	100.0%	742 295	100.0%	7.8%

% of total expenses



Amortisation of acquired intangibles

Amortisation of acquired intangibles relates to the wealth and 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 8.4% to £2.2 billion largely as a result of retained earnings and the issue of shares
- Total assets increased by 5.0% to £24.2 billion largely as a result of an increase in cash and near cash balances and an increase in our fixed income and investment portfolios.

Business overview

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

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
Asset Management	58 922	–	58 922
Wealth & Investment	23 268	–	23 268
Specialist Banking	77 924	(65 881)	12 043
Private Banking activities	1 841	(73 679)	(71 838)
Core Private Bank	6 691	9 602	16 293
Property loan portfolio being run off*	(4 850)	(83 281)	(88 131)
Property activities	572	3 351	3 923
Corporate Advisory and Investment activities	7 893	(3 157)	4 736
Corporate and Institutional Banking activities	118 496	12 956	131 452
Group Services and Other activities	(50 878)	(5 352)	(56 230)
Total group	160 114	(65 881)	94 233
Core business	164 964	17 400	182 364
Property loan portfolio being run off*	(4 850)	(83 281)	(88 131)
Non-controlling interest – equity			(8 018)
Operating profit			86 215

For the year ended 31 March 2011 £'000	UK and Europe	Australia	Total group
Asset Management	53 002	–	53 002
Wealth & Investment	25 008	–	25 008
Specialist Banking	55 621	706	56 327
Private Banking activities	(84 036)	(10 390)	(94 426)
Core Private Bank	(38 725)	19 276	(19 449)
Property loan portfolio being run off*	(45 311)	(29 666)	(74 977)
Property activities	376	7 155	7 531
Corporate Advisory and Investment activities	8 888	(6 716)	2 172
Corporate and Institutional Banking activities	139 978	9 860	149 838
Group Services and Other activities	(9 585)	797	(8 788)
Total group	133 631	706	134 337
Core business	178 942	30 372	209 314
Property loan portfolio being run off*	(45 311)	(29 666)	(74 977)
Non-controlling interest – equity			(11 452)
Operating profit			122 885

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

Asset Management

Overview of performance

The Asset Management division posted an increase in operating profit of 11.2% to £58.9 million (2011: £53.0 million) largely as a result of higher average assets under management and positive net flows. Total assets under management amount to £36.2 billion (2011: £30.8 billion).

Developments

- Equity market conditions have been volatile over the financial year which has had an effect on the bottom line
- Revenues were subdued in the second half of the financial year as a consequence of fears over the Eurozone crisis
- During the 2011 calendar year we won several awards:
  - Winner of Fund Europe's European Asset Management Company of the Year
  - Winner of Imbasa Yegolide's Global Manager of the Year award (second year running)
  - Runner up in Financial News award for European Asset Management Firm of the Year
- Over the year, we continued to focus on institutional clients from across the world, a strategy which has paid off with total flows for the financial year at over £5 billion and a positive pipeline of new business opportunities
- We have continued to invest in our investment capabilities resulting in competitive investment performance.

Looking forward

The momentum of our business is positive and we have benefited from sustained performance over many years. Weak markets will continue to affect our flows, revenues and profits, but our broad range of investment capabilities is well positioned to serve current and future investor demand. With this as a foundation and with our global client reach and institutional market focus, we have managed to steer a stable course in this uncertain climate. However, given the world is subject to dramatic changes in regulatory agendas, demographic shifts and relative risk perceptions, we continue to be vigilant and the key risks to our business remain market levels, key staff retention, reputational risk and investment performance. We believe that our long-term strategy will continue to create substantial value for clients and shareholders alike.

Wealth & Investment

Overview of performance and developments

The Wealth & Investment division posted operating profit of £23.3 million (2011: £25.0 million). The division has benefited from the full year inclusion of the Rensburg Sheppards plc acquisition, however, overall results have continued to be negatively impacted by the restructuring of the wealth management operation in Switzerland. In addition, the prior year results include operating profit of £1.6 million in respect of Rensburg Fund Management, which was acquired by Investec on 25 June 2010 and subsequently disposed of on 18 January 2011. Total funds under management amount to £21.0 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. As at 31 March 2012 Williams de Broë had approximately £7.1 billion funds under management, which are included in 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.

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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

Specialist Banking decreased operating profit from £56.3 million to £12.0 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 decreased from £210.5 million to £187.9 million. Investment income has 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

- The Private Banking division in the 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.

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

Developments

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

- 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 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
- The structured finance business remains very active, especially in aircraft finance.

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.

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Risk, governance and additional information

Risk disclosures provided in line with the requirements of International Financial Reporting Standard 7 Financial Instruments: Disclosures (IFRS 7) and disclosures on capital required by International Accounting Standard 1: Presentation of Financial Statements (IAS 1) are included within this section of the annual report (pages 37 to 117) with further disclosures provided within the financial statements section (pages 145 to 226). 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 17 to 19.

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

- Intimate involvement of executive management ensuring stringent management of risk, liquidity and capital
- Strong risk and capital management culture embedded into our day-to-day activities and values. We seek to achieve an appropriate balance between risk and reward in our business, taking cognisance of all stakeholders' interests
- Reward programmes that align directors' and employees' interests with those of stakeholders, ensuring that these programmes promote effective risk management. Annual bonuses are closely linked to business performance, determined in the main by realised economic value-added profit performance against pre-determined targets above a risk and capital weighted return. This model has been consistently applied within the group for in excess of ten years
- Credit and counterparty exposures to a select target market; our risk appetite continues to favour lower risk, income-based lending, with credit risk taken over a short to medium term. Exposure is taken against defined target clients displaying sound financial strength and integrity, a core competency and an established track record in the activity funded. Impairments in the UK decreased from £140.6 million to £88.5 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 £170.8 million to £156.4 million (excluding Kensington). 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 2.05% at 31 March 2011 to 1.65%. The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounts to 4.10% (31 March 2011: 5.67%)

Group Risk Management objectives are to:

- Be the custodian of our risk management culture
- Ensure the business operates within the board stated appetite
- Support the long-term sustainability of the group by providing an established, independent framework for identifying, evaluating, monitoring and mitigating risk
- Set, approve and monitor adherence to risk parameters and limits across the group and ensure they are implemented and adhered to consistently
- Aggregate and monitor our exposure across risk classes
- Co-ordinate risk management activities across the organisation, covering all legal entities and jurisdictions
- Give the boards reasonable assurance that the risks we are exposed to are identified and, to the best extent possible, managed and controlled
- Run appropriate risk committees, as mandated by the board.

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

- Limited exposure to rated and unrated structured credit investments; representing approximately 2.6% of total assets
- No exposures to peripheral European sovereign debt and limited private client and corporate client exposures to peripheral Europe amounting to approximately 1.3% of total assets. In addition the group has certain branch and subsidiary-related activities in Ireland, with total assets representing 3.5% of group assets
- A low leverage (gearing) ratio of 10.8 times
- A low level of net assets and liabilities exposed to the volatility of IFRS fair value accounting; with level 3 assets amounting to 1.9% of total assets
- Low equity (investment) risk exposure; within total investments comprising 1.9% of total assets
- Modest proprietary market risk within our trading portfolio. Value at risk and stress testing scenarios remain at prudent levels
- Potential losses that could arise in our trading book portfolio when stress tested under extreme market conditions (i.e. per extreme value theory) amount to less than 0.2% of total operating income
- A high level of readily available, high quality liquid assets; cash and near cash of £4.6 billion, representing 31.1% 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.

Geographic summary of the year in review from a risk perspective

Detailed information on key developments during the financial year in review is provided in the sections that follow (refer to pages 48 and 49, page 86 and pages 98 to 100), 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 4.23% to 4.92% of core loans and advances and the credit loss ratio has improved from 2.22% to 1.22%, 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 3.13% 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)	7 736	7 652
Gross defaults as a % of gross core loans and advances	6.10%	7.88%
Defaults (net of impairments) as a % of net core loans and advances	4.10%	5.67%
Net defaults (after collateral and impairments) as a % of net core loans and advances	–	–
Credit loss ratio*	1.65%	2.05%
Structured credit investments as a % of total assets	2.56%	2.67%
Banking book investment and equity risk exposures as a % of total assets	1.89%	1.23%
Traded market risk: one-day value at risk (£'million)	0.6	1.1
Cash and near cash (£'million)	4 576	4 502
Customer accounts (deposits) (£'million)	11 008	10 245
Core loans to equity ratio	3.5x	3.7x
Total gearing/leverage ratio**	10.8x	11.2x
Core loans (excluding own originated assets which have been securitised) to customer deposits	65.4%	70.0%
Capital adequacy ratio	17.5%	16.8%
Tier 1 ratio	11.6%	11.6%

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

** *Total assets to total equity.*

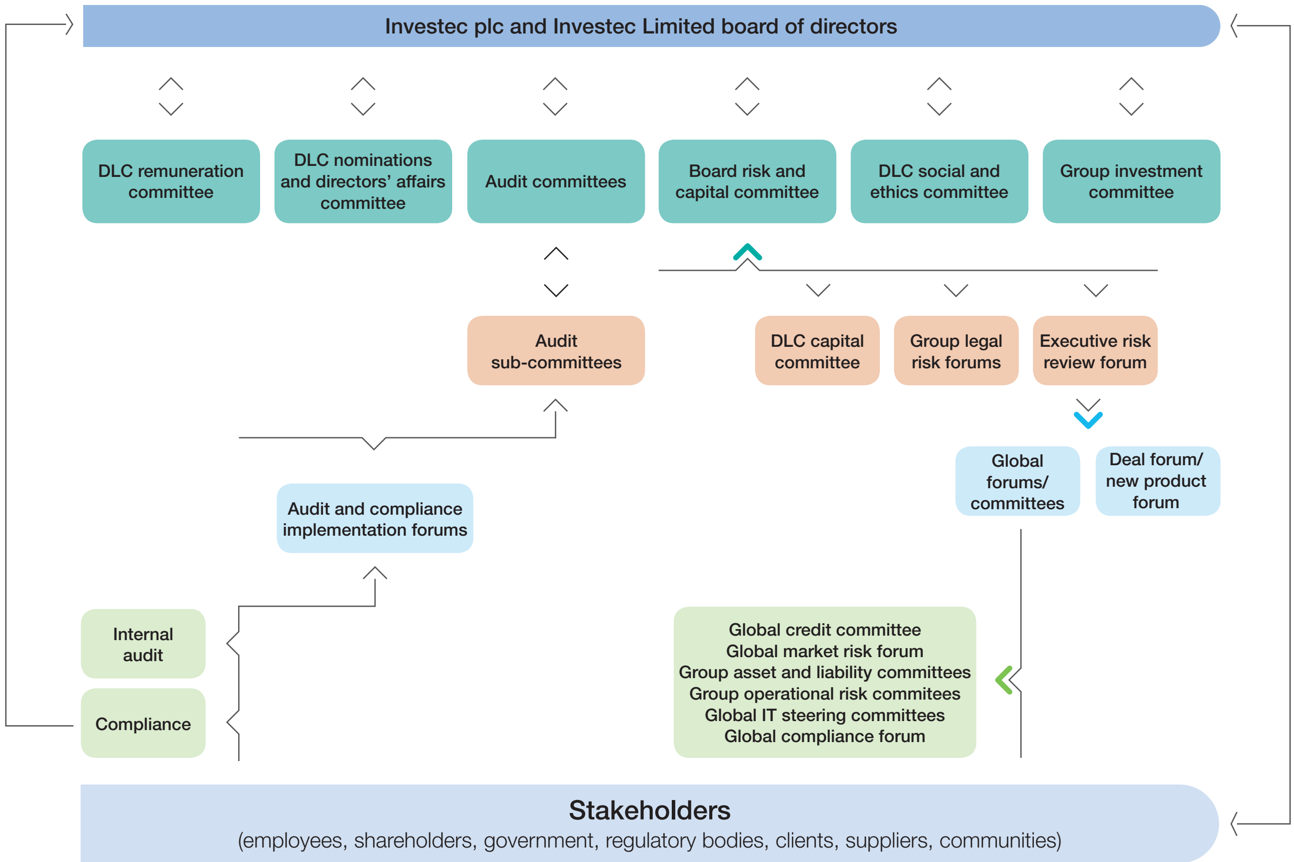
An overview of key risks

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

Additional risks and uncertainties not presently 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 at both a business unit level in various locations and at a group level. These committees and forums operate together with group Risk Management and are mandated by the board. A diagram of our governance and risk framework is provided below.



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

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

Credit and counterparty risk management

Credit and counterparty risk description Audited

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

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

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

To manage, measure and mitigate credit and counterparty risk, independent credit committees exist in each geography where we assume credit risk.

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

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 72 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 75 to 77 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 idiosyncratic risk profile and against extreme downturn events.

Fitch, Standard and Poors, 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.

Credit risk arises mainly through our Private Client and Corporate Client activities.

Private Client activities

Our Private Client activities take place in the UK (mainly London) including branches 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.

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.

4

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 70 and 71.

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 credit-worthiness.

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 70 and 71.

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.

Asset Management

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

Credit and counterparty risk in Australia

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

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

An analysis of the private client and corporate client loan portfolios and asset quality information is provided on pages 70 and 71.

Asset quality analysis – credit risk classification and provisioning policy Audited

It is a policy requirement overseen by Central Credit Management that each operating division makes provision for specific impairments and calculates the appropriate level of portfolio impairments. This is in accordance with established group guidelines and in conjunction with the watchlist committee 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 57). 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.

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 by private clients 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 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 72.

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 4.23% to 4.92% of core loans and advances. The credit loss ratio has improved from 2.22% to 1.30%. 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 increase has principally been driven by three transactions which we expect to see remediated during the course of 2012. The Irish branch collateralised property portfolio continues to remain under intense active management but has shown no sign of further deterioration during the year.

There was an increase in the Kensington impairment charge as a result of adopting new guidelines (published by UK FSA during the past year) relating to provisioning methodology in respect of borrowers that have benefited from forbearance. The overall Kensington arrears position remained stable and the legacy book continues to decrease in size. The Irish mortgage book however, continued to deteriorate, due to the economic and political environment in the country impacting borrowers' ability and willingness to pay, respectively.

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.

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

An analysis of gross credit and counterparty exposures

Credit and counterparty exposures increased by 7.3% to £18.7 billion largely as a result of an increase in cash and near cash balances and warehoused assets partially offset by a decrease in off-balance sheet exposures. Cash and near cash balances increased by 1.6% to £4.6 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 and 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	1 060 122	916 671	15.6%	988 397
Reverse repurchase agreements and cash collateral on securities borrowed	1 159 138	1 399 733	(17.2%)	1 279 435
Sovereign debt securities	1 647 271	849 624	93.9%	1 248 448
Bank debt securities	824 552	1 335 462	(38.3%)	1 080 007
Other debt securities	169 223	183 715	(7.9%)	176 469
Derivative financial instruments	653 160	544 152	20.0%	598 656
Securities arising from trading activities	250 071	365 277	(31.5%)	307 674
Loans and advances to customers (gross)	7 364 466	7 351 273	0.2%	7 357 870
Own originated loans and advances to customers securitised (gross)	536 297	484 163	10.8%	510 230
Other loans and advances (gross)	1 284 608	923 776	39.1%	1 104 192
Warehoused assets Kensington (gross)	1 052 805	619 246	70.0%	836 025
Other securitised assets (gross)	67 349	107 435	(37.3%)	87 392
Other assets	2 390	183 804	(98.7%)	93 097
Property and equipment	19 761	64 713	(69.5%)	42 237
Total on-balance sheet exposures	17 927 033	16 471 582	8.8%	17 199 308
Guarantees^	56 321	51 920	8.5%	54 121
Contingent liabilities, committed facilities and other	687 376	883 788	(22.2%)	785 582
Off-balance sheet exposures	743 697	935 708	(20.5%)	839 703
Total gross credit and counterparty exposures pre collateral or other credit enhancements	18 670 730	17 407 290	7.3%	18 039 011

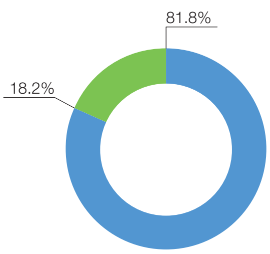
* *Where the average is based on a straight-line average.*
** *Restated as discussed on page 150.*
^ *Excludes guarantees provided to clients which are backed/secured by cash on deposit with the bank.*

An analysis of gross credit and counterparty exposures by geography

Audited £'million	UK and Europe		Australia		Total	
	31 March 2012	31 March 2011*	31 March 2012	31 March 2011*	31 March 2012	31 March 2011*
Cash and balances at central banks	1 656	988	180	155	1 836	1 143
Loans and advances to banks	992	821	68	96	1 060	917
Reverse repurchase agreements and cash collateral on securities borrowed	1 159	1 400	–	–	1 159	1 400
Sovereign debt securities*	1 415	625	232	225	1 647	850
Bank debt securities	295	805	530	530	825	1 335
Other debt securities	87	104	82	80	169	184
Derivative financial instruments	519	463	134	81	653	544
Securities arising from trading activities	243	365	7	–	250	365
Loans and advances to customers (gross)	5 937	5 732	1 427	1 619	7 364	7 351
Own originated loans and advances to customers securitised (gross)	–	–	536	484	536	484
Other loans and advances (gross)	1 285	870	–	54	1 285	924
Warehoused assets Kensington (gross)	1 053	619	–	–	1 053	619
Other securitised assets (gross)	67	107	–	–	67	107
Other assets	3	184	–	–	3	184
Property and equipment	20	65	–	–	20	65
Total on-balance sheet exposures	14 731	13 148	3 196	3 324	17 927	16 472
Guarantees	24	12	32	40	56	52
Contingent liabilities, committed facilities and other	522	718	165	165	687	883
Off-balance sheet exposures	546	730	197	205	743	935
Total gross credit and counterparty exposures pre collateral or other credit enhancements	15 277	13 878	3 393	3 529	18 670	17 407

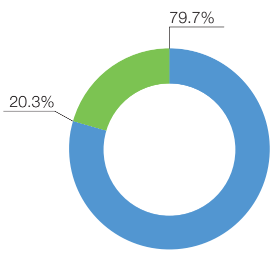
* *Restated as discussed on page 150.*

An analysis of gross credit and counterparty exposures by geography



31 March 2012

£18 670 million



31 March 2011

£17 407 million

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	29		1 835 849
Loans and advances to banks	1 060 122	–		1 060 122
Reverse repurchase agreements and cash collateral on securities borrowed	1 159 138	–		1 159 138
Sovereign debt securities	1 647 271	–		1 647 271
Bank debt securities	824 552	–		824 552
Other debt securities	169 223	37 893		207 116
Derivative financial instruments	653 160	398 205		1 051 365
Securities arising from trading activities	250 071	122 499		372 570
Investment portfolio	–	320 111	1	320 111
Loans and advances to customers	7 364 466	(163 049)	2	7 201 417
Own originated loans and advances to customers securitised	536 297	(1 289)	2	535 008
Other loans and advances	1 284 608	73 418		1 358 026
Warehoused assets Kensington	1 052 805	378 907	3	1 431 712
Other securitised assets	67 349	2 894 620	4	2 961 969
Interest in associated undertakings	–	24 430		24 430
Deferred taxation assets	–	119 690		119 690
Other assets	2 390	1 324 517	5	1 326 907
Property and equipment	19 761^	107 736		127 497
Investment properties	–	11 500		11 500
Goodwill	–	454 623		454 623
Intangible assets	–	184 197		184 197
Total on-balance sheet exposures	17 927 033	6 288 037		24 215 070

^ *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 73 to 75.*
2. *Largely relates to impairments and the impact of hedge accounting.*
3. *Whilst the group manages all risks (including credit risk) from a day-to-day operational perspective, these assets are within special purpose vehicles that ring-fence the assets to specific credit providers and 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'.*
4. *Largely relates to net investments in Kensington securitised vehicles to which Investec has no direct exposure as discussed on pages 78 and 79.*
5. *Other assets include settlement debtors where 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	27		1 142 565
Loans and advances to banks	916 671	–		916 671
Reverse repurchase agreements and cash collateral on securities borrowed	1 399 733	73 215		1 472 948
Sovereign debt securities	849 624	–		849 624
Bank debt securities	1 335 462	–		1 335 462
Other debt securities	183 715	–		183 715
Derivative financial instruments	544 152	202 558		746 710
Securities arising from trading activities	365 277	114 142		479 419
Investment portfolio	–	199 818	1	199 818
Loans and advances to customers	7 351 273	(182 895)	2	7 168 378
Own originated loans and advances to customers securitised	484 163	(848)	2	483 315
Other loans and advances	923 776	57 906		981 682
Warehoused assets Kensington	619 246	992 935	3	1 612 181
Other securitised assets	107 435	3 571 616	4	3 679 051
Interest in associated undertakings	–	19 001		19 001
Deferred taxation assets	–	76 916		76 916
Other assets	183 804	733 129	5	916 933
Property and equipment	64 713^	172 125		236 838
Goodwill	–	437 953		437 953
Intangible assets	–	126 240		126 240
Total on-balance sheet exposures	16 471 582	6 593 838		23 065 420

* *Restated as discussed on page 150.*

^ *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 73 to 75.*
2. *Largely relates to impairments and the impact of hedge accounting.*
3. *Whilst the group manages all risks (including credit risk) from a day-to-day operational perspective, these assets are within special purpose vehicles that ring-fence the assets to specific credit providers and 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'.*
4. *Largely relates to net investments in Kensington securitised vehicles to which Investec has no direct exposure as discussed on pages 80 and 81.*
5. *Other assets include settlement debtors where 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	–	–	–	–	–	1 060 122
Non-sovereign and non-bank cash placements	–	–	–	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	–	1 159 138
Sovereign debt securities	–	–	–	1 470 207	–	177 064
Bank debt securities	–	–	–	–	–	824 552
Other debt securities	–	–	–	–	–	86 643
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)	4 630 973	13 559	368 128	148 830	218 905	304 180
Own originated loans and advances to customers securitised (gross)	536 297			–		–
Other loans and advances (gross)	–	–	–	–	–	431 658
Warehoused assets Kensington (gross)	–	–	–	–	–	–
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	5 168 177	14 076	384 272	3 478 457	228 179	4 870 619
Guarantees	5 857	–	4 395	–	–	6 762
Contingent liabilities, committed facilities and other	282 601	–	43 810	17 683	8 684	69 675
Off-balance sheet exposures	288 458	–	48 205	17 683	8 684	76 437
Total gross credit and counterparty exposures pre collateral or other credit enhancements	5 456 635	14 076	432 477	3 496 140	236 863	4 947 056

Summary analysis of gross credit and counterparty exposures by industry

Private client loans account for 65.4% 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 pages 43 and 44 and a more detailed analysis of the private client loan portfolio is provided on pages 70 and 71. 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 44 and 45 and a more detailed analysis of the corporate client loan portfolio is provided on pages 70 and 71.

Other credit and counterparty exposures are largely reflective of cash and near cash balances held with institutions and central banks, thus the large balance reflected in the 'public and non-business services' and 'finance and insurance' sectors. These exposures also include off-balance sheet items such as guarantees, committed facilities and contingent liabilities, largely to our HNW and professional individual Private Client division clients.

	Retailers and wholesalers	Manufac-turing and commerce	Construction	Commercial real estate	Residential mortgages	Mining and resources	Leisure, entertainment and tourism	Transport and com-munication	Total
	–	–	–	–	–	–	–	–	1 835 820
	–	–	–	–	–	–	–	–	1 060 122
	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	1 159 138
	–	–	–	–	–	–	–	–	1 647 271
	–	–	–	–	–	–	–	–	824 552
	–	–	6 831	59 530	–	–	12 313	3 906	169 223
	7 846	17 707	17 010	17 472	–	5 020	4 528	1 500	653 160
	–	–	–	–	–	–	–	–	250 071
	268 965	415 882	47 992	384 277	–	89 032	117 694	356 049	7 364 466
									536 297
	–	–	–	–	852 950	–	–	–	1 284 608
	–	–	–	–	1 052 805	–	–	–	1 052 805
	–	–	–	32 549	–	–	–	–	67 349
	–	–	–	–	–	–	–	–	2 390
	2 569	4 375	553	1 633	–	–	330	1 935	19 761
	279 380	437 964	72 386	495 461	1 905 755	94 052	134 865	363 390	17 927 033
	1 858	–	–	–	–	33 828	500	3 121	56 321
	24 922	48 412	23 679	2 845	–	28 064	7 163	129 838	687 376
	26 780	48 412	23 679	2 845	1 905 755	61 892	7 663	132 959	743 697
	306 160	486 376	96 065	498 306	1 905 755	155 944	142 528	496 349	18 670 730

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	5 167 270	5 368 323	289 365	471 586	5 456 635	5 839 909
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	3 347 310	2 137 468	3 496 140	2 272 805
Business services	218 905	195 726	17 958	74 341	236 863	270 067
Finance and insurance	304 180	271 610	4 642 876	5 104 603	4 947 056	5 376 213
Retailers and wholesalers	268 965	192 787	37 195	15 845	306 160	208 632
Manufacturing and commerce	415 882	438 817	70 494	57 773	486 376	496 590
Construction	47 992	225	48 073	480	96 065	705
Commercial real estate	384 277	341 023	114 029	221 915	498 306	562 938
Residential mortgages	–	–	1 905 755	1 123 035	1 905 755	1 123 035
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	356 049	359 276	140 300	68 771	496 349	428 047
Total	7 900 763	7 835 436	10 769 967	9 571 854	18 670 730	17 407 290

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	1 058 083	105	1 792	142	–	–	1 060 122
Reverse repurchase agreements and cash collateral on securities borrowed	1 159 138	–	–	–	–	–	1 159 138
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	12 849	–	7 145	–	27 913	121 316	169 223
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	1 374 393	956 963	1 070 562	3 250 688	530 491	181 369	7 364 466
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	1 224 057	1 284 608
Warehoused assets Kensington	–	–	–	–	–	1 052 805	1 052 805
Other securitised assets	–	–	–	–	–	67 349	67 349
Other assets	2 390	–	–	–	–	–	2 390
Property and equipment	2 620	2 580	4 041	10 520	–	–	19 761
Total on-balance sheet exposures	6 325 614	1 223 237	1 309 730	4 669 680	646 967	3 751 805	17 927 033
Guarantees	14 414	14 758	15 484	11 572	93	–	56 321
Contingent liabilities, committed facilities and other	137 553	37 383	70 240	327 680	97 898	16 622	687 376
Total off-balance sheet exposures	151 967	52 141	85 724	339 252	97 991	16 622	743 697
Total gross credit and counterparty exposures pre collateral or other credit enhancements	6 477 581	1 275 378	1 395 454	5 008 932	744 958	3 768 427	18 670 730

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	7 201 417	7 168 378
Add: own originated loans and advances securitised as per the balance sheet	535 008	483 315
Net core loans and advances to customers	7 736 425	7 651 693

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

Audited £'000	31 March 2012	31 March 2011
Gross core loans and advances to customers	7 900 763	7 835 436
Total impairments	(164 338)	(183 743)
Portfolio impairments	(3 210)	(1 518)
Specific impairments	(161 128)	(182 225)
Net core loans and advances to customers	7 736 425	7 651 693
Average gross core loans and advances to customers	7 868 100	7 612 323
Current loans and advances to customers	7 177 965	6 934 084
Past due loans and advances to customers (1 – 60 days)	230 053	257 018
Special mention loans and advances to customers	10 834	27 051
Default loans and advances to customers	481 911	617 283
Gross core loans and advances to customers	7 900 763	7 835 436
Current loans and advances to customers	7 177 965	6 934 084
Gross core loans and advances to customers that are past due but not impaired	256 624	441 212
Gross core loans and advances to customers that are impaired	466 174	460 140
Gross core loans and advances to customers	7 900 763	7 835 436
Total income statement charge for core loans and advances	(156 361)	(170 804)
Gross default loans and advances to customers	481 911	617 283
Specific impairments	(161 128)	(182 225)
Portfolio impairments	(3 210)	(1 518)
Defaults net of impairments	317 573	433 540
Collateral and other credit enhancements	347 112	551 279
Net default loans and advances to customers (limited to zero)	–	17*
Ratios:		
Total impairments as a % of gross core loans and advances to customers	2.08%	2.35%
Total impairments as a % of gross default loans	34.10%	29.77%
Gross defaults as a % of gross core loans and advances to customers	6.10%	7.88%
Defaults (net of impairments) as a % of net core loans and advances to customers	4.10%	5.67%
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)	1.65%	2.05%

* *Exposures cannot be set-off against one another.*

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	5 940 202	5 731 767	1 960 561	2 103 669	7 900 763	7 835 436
Total impairments	(152 084)	(155 515)	(12 254)	(28 228)	(164 338)	(183 743)
Portfolio impairments	(1 667)	–	(1 543)	(1 518)	(3 210)	(1 518)
Specific impairments	(150 417)	(155 515)	(10 711)	(26 710)	(161 128)	(182 225)
Net core loans and advances to customers	5 788 118	5 576 252	1 948 307	2 075 441	7 736 425	7 651 693
% of total	74.8%	72.9%	25.2%	27.1%	100.0%	100.0%
% change since 31 March 2011	3.8%	–	(6.1%)	–	1.1%	–
Average gross core loans and advances to customers	5 835 985	5 634 261	2 032 115	1 978 062	7 868 100	7 612 323
Current loans and advances to customers	5 278 429	5 094 609	1 899 536	1 839 475	7 177 965	6 934 084
Past due loans and advances to customers (1 – 60 days)	215 758	232 866	14 295	24 152	230 053	257 018
Special mention loans and advances to customers	9 411	13 160	1 423	13 891	10 834	27 051
Default loans and advances to customers^	436 604	391 132	45 307	226 151	481 911	617 283
Gross core loans and advances to customers	5 940 202	5 731 767	1 960 561	2 103 669	7 900 763	7 835 436
Current loans and advances to customers	5 278 429	5 094 609	1 899 536	1 839 475	7 177 965	6 934 084
Gross core loans and advances to customers that are past due but not impaired	230 488	300 873	26 136	140 339	256 624	441 212
Gross core loans and advances to customers that are impaired	431 285	336 285	34 889	123 855	466 174	460 140
Gross core loans and advances to customers	5 940 202	5 731 767	1 960 561	2 103 669	7 900 763	7 835 436
Total income statement charge for core loans and advances	(88 489)	(140 597)	(67 872)	(30 207)	(156 361)	(170 804)
Gross default loans and advances to customers^	436 604	391 132	45 307	226 151	481 911	617 283
Specific impairments	(150 417)	(155 515)	(10 711)	(26 710)	(161 128)	(182 225)
Portfolio impairments	(1 667)	-	(1 543)	(1 518)	(3 210)	(1 518)
Defaults net of impairments	284 520	235 617	33 053	197 923	317 573	433 540
Collateral and other credit enhancements	311 329	336 739	35 783	214 540	347 112	551 279
Net default loans and advances to customers (limited to zero)	–	17**	–	–	–	17**

* *Largely impacted by the depreciation of the Rand against Pound Sterling over the period, with the currency neutral increase in core loans and advances amounting to 4.3%.*

^ *These numbers have declined over the period for the reason set out on page 49.*

** *Exposures cannot be set-off against one another.*

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	2.56%	2.71%	0.63%	1.34%	2.08%	2.35%
Total impairments as a % of gross default loans	34.83%	39.76%	27.05%	12.48%	34.10%	29.77%
Gross defaults as a % of gross core loans and advances to customers	7.35%	6.82%	2.31%	10.75%	6.10%	7.88%
Defaults (net of impairments) as a % of net core loans and advances to customers	4.92%	4.23%	1.70%	9.54%	4.10%	5.67%
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)	1.22%	2.22%	3.13%	1.53%	1.65%	2.05%

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	3 562 107	1 605 163	5 167 270
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	3 431 420	1 593 600	5 025 020
Average gross core loans and advances	3 540 997	1 726 800	5 267 797
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	351 802	42 497	394 299
Gross core loans and advances to customers	3 562 107	1 605 163	5 167 270
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	206 812	20 176	226 988
Gross core loans and advances to customers that are impaired	346 748	33 285	380 033
Gross core loans and advances to customers	3 562 107	1 605 163	5 167 270
Total income statement charge for impairments on loans and advances	(52 188)	(72 647)	(124 835)
Gross default loans and advances to customers	351 802	42 497	394 299
Specific impairments	(130 687)	(10 020)	(140 707)
Portfolio impairments	–	(1 543)	(1 543)
Defaults net of impairments	221 115	30 934	252 049
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 70 and 71.*

	Corporate Client**			Other*			
	UK and Europe	Australia	Total	UK and Europe	Australia	Total	Total
	2 234 201	295 340	2 529 541	143 894	60 058	203 952	7 900 763
	(19 731)	(690)	(20 421)	(1 667)	–	(1 667)	(164 338)
	–	–	–	(1 667)	–	(1 667)	(3 210)
	(19 731)	(690)	(20 421)	–	–	–	(161 128)
	2 214 470	294 650	2 509 120	142 227	60 058	202 285	7 736 425
	2 135 431	274 353	2 409 784	159 557	30 962	190 519	7 868 100
	2 126 551	287 777	2 414 328	143 330	60 058	203 388	7 177 965
	22 819	4 303	27 122	15	–	15	230 053
	537	451	988	40	–	40	10 834
	84 294	2 809	87 103	509	–	509	481 911
	2 234 201	295 340	2 529 541	143 894	60 058	203 952	7 900 763
	2 126 551	287 777	2 414 328	143 330	60 058	203 388	7 177 965
	23 623	5 958	29 581	55	–	55	256 624
	84 027	1 605	85 632	509	–	509	466 174
	2 234 201	295 340	2 529 541	143 894	60 058	203 952	7 900 763
	(37 104)	4 787	(32 317)	803	(12)	791	(156 361)
	84 294	2 809	87 103	509	–	509	481 911
	(19 731)	(690)	(20 421)	–	–	–	(161 128)
	–	–	–	(1 667)	–	(1 667)	(3 210)
	64 563	2 119	66 682	(1 158)	–	(1 158)	317 573
	88 152	2 549	90 701	552	–	552	347 112
	–	–	–	–	–	–	–
	0.88%	0.23%	0.81%	1.16%	–	0.82%	2.08%
	23.41%	24.56%	23.44%	>100.0%	–	>100.0%	34.10%
	3.77%	0.95%	3.44%	0.35%	–	0.25%	6.10%
	2.92%	0.72%	2.66%	(0.81%)	–	(0.57%)	4.10%
	–	–	–	–	–	–	–
	1.13%	(1.74%)	0.90%	(0.50%)	0.04%	(0.41%)	1.65%

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	3 583 746	1 764 226	5 347 972
Current loans and advances to customers	2 971 055	1 589 649	4 560 704
Past due loans and advances to customers (1 – 60 days)	204 868	24 151	229 019
Special mention loans and advances to customers	12 673	12 628	25 301
Default loans and advances to customers	331 291	222 008	553 299
Gross core loans and advances to customers	3 519 887	1 848 436	5 368 323
Current loans and advances to customers	2 971 055	1 589 649	4 560 704
Gross core loans and advances to customers that are past due but not impaired	272 152	135 204	407 356
Gross core loans and advances to customers that are impaired	276 680	123 583	400 263
Gross core loans and advances to customers	3 519 887	1 848 436	5 368 323
Total income statement charge for impairments on core loans	(123 891)	(26 862)	(150 753)
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)	3.46%	1.52%	2.82%

* *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 70 and 71.*
^ *Exposures cannot be set-off against one another.*

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

An 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	356
1 – 60 days	233 545	292 717
61 – 90 days	11 252	26 894
91 – 180 days	11 469	352 580
181 – 365 days	30 341	62 287
>365 days	29 700	166 518
Past due and default core loans and advances to customers (actual capital exposure)	722 798	901 352
1 – 60 days	6 478	5 405
61 – 90 days	646	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)	42 192	247 213

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	–	231 012	9 875	6 727	4 187	4 823	256 624
Amount in arrears	–	5 389	272	193	3 499	4 388	13 741
Gross core loans and advances to customers that are impaired							
Total capital exposure	406 491	2 533	1 377	4 742	26 154	24 877	466 174
Amount in arrears	–	1 089	374	1 265	2 784	22 939	28 451
As at 31 March 2011							
Watchlist loans neither past due nor impaired							
Total capital exposure	–	–	–	–	–	–	–
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	258 682	25 388	48 498	44 281	64 363	441 212
Amount in arrears	–	4 500	10 503	8 530	33 712	48 718	105 963
Gross core loans and advances to customers that are impaired							
Total capital exposure	356	34 035	1 506	304 082	18 006	102 155	460 140
Amount in arrears	–	905	1 211	28 062	10 447	100 625	141 250

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)	–	230 053	–	–	–	–	230 053
Special mention	–	959	9 875	–	–	–	10 834
Special mention (1 – 90 days)	–	959	127	–	–	–	1 086
Special mention (61 – 90 days and item well secured)	–	–	9 748	–	–	–	9 748
Default	406 491	2 533	1 377	11 469	30 341	29 700	481 911
Sub-standard	184 398	–	–	8 627	22 073	6 365	221 463
Doubtful	78 313	2 533	1 377	2 842	8 268	23 335	116 668
Loss	143 780	–	–	–	–	–	143 780
Total	406 491	233 545	11 252	11 469	30 341	29 700	722 798

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)	–	5 362	–	–	–	–	5 362
Special mention	–	27	272	–	–	–	299
Special mention (1 – 90 days)	–	27	16	–	–	–	43
Special mention (61 – 90 days and item well secured)	–	–	256	–	–	–	256
Default	–	1 089	374	1 458	6 283	27 327	36 531
Sub-standard	–	–	–	205	4 443	4 595	9 243
Doubtful	–	1 089	374	1 253	1 840	22 732	27 288
Loss	–	–	–	–	–	–	–
Total	–	6 478	646	1 458	6 283	27 327	42 192

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

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

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

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

An 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	7 177 965	–	–	7 177 965	–	(1 542)	7 176 423	–
Past due (1 – 60 days)	–	230 053	–	230 053	–	–	230 053	5 362
Special mention	–	10 834	–	10 834	–	–	10 834	299
Special mention (1 – 90 days)	–	1 086	–	1 086		–	1 086	43
Special mention (61 – 90 days and item well secured)	–	9 748	–	9 748	–	–	9 748	256
Default	–	15 737	466 174	481 911	(161 128)	(1 668)	319 115	36 531
Sub-standard	–	15 737	205 726	221 463	(35 791)	–	185 672	9 243
Doubtful	–	–	116 668	116 668	(38 043)	–	78 625	27 288
Loss	–	–	143 780	143 780	(87 294)	(1 668)	54 818	–
Total	7 177 965	256 624	466 174	7 900 763	(161 128)	(3 210)	7 736 425	42 192
As at 31 March 2011								
Current core loans and advances	6 934 084	–	–	6 934 084	–	(1 518)	6 932 566	–
Past due (1 – 60 days)	–	257 018	–	257 018	–	–	257 018	4 414
Special mention	–	27 051	–	27 051	–	–	27 051	10 589
Special mention (1 – 90 days)	–	15 873	–	15 873	–	–	15 873	10 251
Special mention (61 – 90 days and item well secured)	–	11 178	–	11 178	–	–	11 178	338
Default	–	157 143	460 140	617 283	(182 225)	–	435 058	232 210
Sub-standard	–	157 143	133 988	291 131	(37 755)	–	253 376	93 769
Doubtful	–	–	147 837	147 837	(35 684)	–	112 153	133 850
Loss	–	–	178 315	178 315	(108 786)	–	69 529	4 591
Total	6 934 084	441 212	460 140	7 835 436	(182 225)	(1 518)	7 651 693	247 213

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

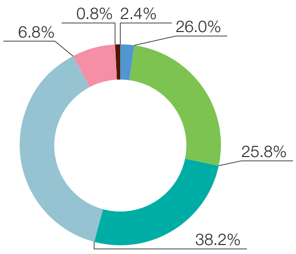
Audited £'000	Private Banking professional and HNW individuals	Corporate sector	Insurance, financial services (excluding sovereign)	Public and government sector (including central banks)	Trade finance and other	Total core loans and advances to customers
As at 31 March 2012						
Current core loans and advances	4 556 988	2 117 832	302 144	148 106	52 895	7 177 965
Past due (1 – 60 days)	202 916	25 334	1 788	–	15	230 053
Special mention	10 257	537	–	–	40	10 834
Special mention (1 – 90 days)	1 086	–	–	–	–	1 086
Special mention (61 – 90 days and item well secured)	9 171	537	–	–	40	9 748
Default	397 109	83 321	248	724	509	481 911
Sub-standard	203 311	18 152	–	–	–	221 463
Doubtful	50 018	65 169	248	724	509	116 668
Loss	143 780	–	–	–	–	143 780
Total gross core loans and advances to customers	5 167 270	2 227 024	304 180	148 830	53 459	7 900 763
Total impairments	(142 940)	(14 361)	(6 613)	(424)	–	(164 338)
Specific impairments	(140 707)	(15 051)	(4 946)	(424)	–	(161 128)
Portfolio Impairments	(1 543)	–	(1 667)	–	–	(3 210)
Net core loans and advances to customers	5 025 020	2 211 973	297 567	148 406	53 459	7 736 425
As at 31 March 2011						
Current core loans and advances	4 555 298	1 901 968	271 281	134 699	70 838	6 934 084
Past due (1 – 60 days)	229 019	27 760	–	–	239	257 018
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	17	617 283
Sub-standard	251 843	39 288	–	–	–	291 131
Doubtful	131 816	15 037	329	638	17	147 837
Loss	173 783	4 532	–	–	–	178 315
Total gross core loans and advances to customers	5 368 323	1 989 072	271 610	135 337	71 094	7 835 436
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	271 412	134 958	71 094	7 651 693

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	5 167 270	5 368 323
Corporate sector	2 227 024	1 989 072
Insurance, financial services (excluding sovereign)	304 180	271 610
Public and government sector (including central banks)	148 830	135 337
Trade finance and other	53 459	71 094
Total gross core loans and advances to customers	7 900 763	7 835 436

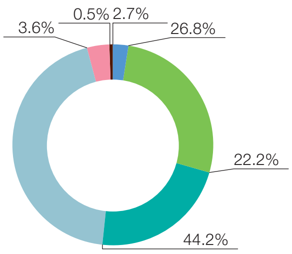
Additional information

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



31 March 2012

£7 901 million



31 March 2011

£7 835 million

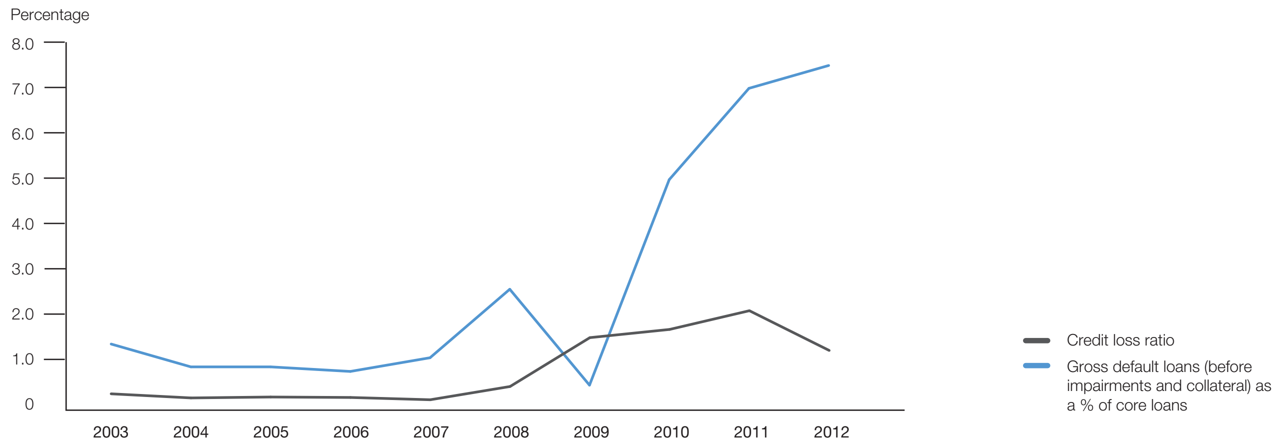
Asia
Australia
Europe (excluding UK)
United Kingdom
North America
Other

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	16	12	(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*	145	1	–	(1)
Total group	5 941	437	311	(152)

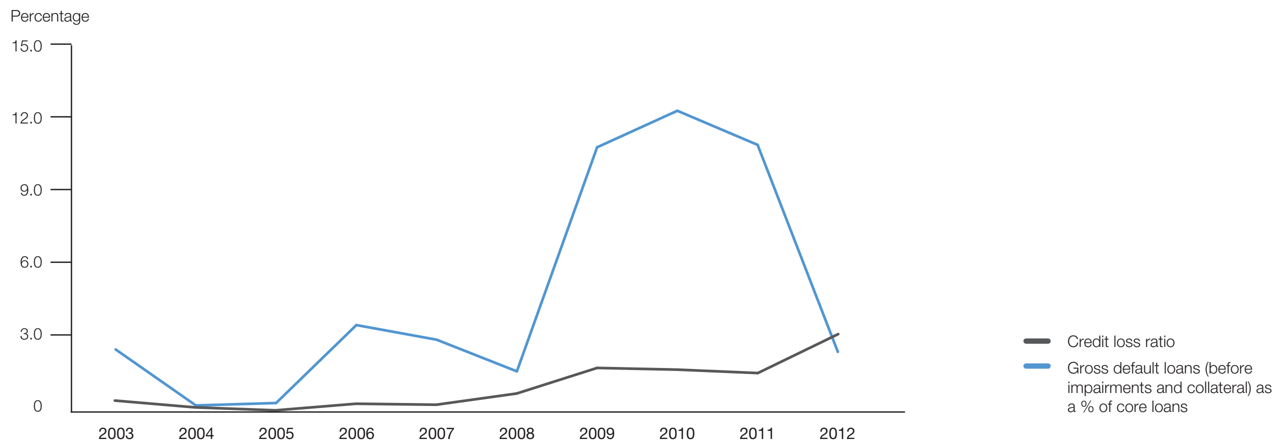
* *Largely includes lending activities within our central funding and international trade finance business.*

UK and Europe (excluding Kensington) 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	31	23	(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)
60	–	–	–	205	1	–	(1)
1 960	45	36	(12)	7 901	482	347	(164)

Australia asset quality ratios



Collateral

A summary of total collateral

£'000	Collateral held against: Core loans and advances	Collateral held against: 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	1 109 372	6 898 981
Residential mortgages	1 822 665	1 109 372	2 932 037
Residential development	868 833	–	868 833
Commercial property development	317 894	–	317 894
Commercial property investments	2 780 217	–	2 780 217
Other collateral	4 020 429	1 444	4 021 873
Unlisted shares	183 496	–	183 496
Bonds other than mortgage bonds	60 451	–	60 451
Debtors, stock and other corporate assets	2 790 217	–	2 790 217
Guarantees	155 533	1 444	156 977
Other	830 732	–	830 732
Total collateral	10 265 783	1 122 293	11 388 076
As at 31 March 2011			
Eligible financial collateral	297 783	75 936	373 719
Listed shares	152 080	47 164	199 244
Cash	145 703	28 772	174 475
Mortgage bonds	6 434 801	136 035	6 570 836
Residential mortgages	1 749 199	–	1 749 199
Residential development	1 283 378	–	1 283 378
Commercial property development	785 370	–	785 370
Commercial property investments	2 616 854	136 035	2 752 889
Other collateral	4 859 256	–	4 859 256
Unlisted shares	405 551	–	405 551
Bonds other than mortgage bonds	346 141	–	346 141
Debtors, stock and other corporate assets	2 755 265	–	2 755 265
Guarantees	522 877	–	522 877
Other	829 422	–	829 422
Total collateral	11 591 840	211 971	11 803 811

* *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
- 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 153 and 154 and pages 180 to 184 for factors taken into consideration in determining fair value. We have a low level of assets exposed to the volatility of IFRS fair value accounting with level 3 assets amounting to 1.9% of total assets (refer to page 180 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	18 003	25 880	1 458	45 342	1 690
UK and Europe	18 069	24 689	1 303	44 062	2 286
Australia	(66)	1 191	155	1 280	(596)
Listed equities	(3 140)	1 889	503	(748)	(1 858)
UK and Europe	(3 140)	1 541	587	(1 012)	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	14 852	20 189	4 388	39 430	(168)

Valuation and accounting methodologies (continued)

Audited £'000 Country/category	Income (pre funding costs)				Fair value through equity
	Unrealised	Realised	Dividends and other	Total	
For the year ended 31 March 2011					
Unlisted investments	9 473	24 965	(2 492)	31 946	(3 526)
UK and Europe	9 473	21 978	(2 696)	28 755	(2 608)
Australia	–	2 987	204	3 191	(918)
Listed equities	3 302	3 915	(18 990)	(11 773)	7 091
UK and Europe	3 302	42	(19 240)	(15 896)	5 606
Australia	–	3 873	250	4 123	1 485
Investment and trading properties	472	193	1 193	1 858	–
UK and Europe	472	193	614	1 279	–
Australia	–	–	579	579	–
Warrants, profit shares and other embedded derivatives	(936)	10 744	(26)	9 782	–
UK and Europe	(936)	10 744	(26)	9 782	–
Australia	–	–	–	–	–
Total	12 312	39 817	(20 315)	31 813	3 565

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 within Investec plc.

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	285 287	42 793	123 546	18 532
UK and Europe	280 183	42 027	116 994	17 549
Australia	5 104	766	6 552	983
Listed equities	34 824	8 706	70 278	17 569
UK and Europe	27 843	6 961	61 337	15 334
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	458 119	84 498	284 645	59 124

* *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 £85 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 113 for further detail.

Securitisation/credit investment and trading 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.

We retain residual net exposures amounting to £938 million to the assets originated, warehoused and securitised by Kensington. Further information is provided on pages 79 to 81.

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 150 to 161.

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*	619	615	Other debt securities and other loans and advances.		Risk-weighted or supervisory deductions against primary and secondary capital.
Rated	518	458			
Unrated	101	146			
Other	–	11			
Kensington – mortgage assets: Net exposures (after impairments) to the securitised book (i.e. those assets have been securitised)	12	65	Other securitised assets. We are required to fully consolidate assets acquired from Kensington. However, only those assets to which we are at risk are reflected in this analysis with the balance reflected under 'no credit exposures'.	Refer to pages 78 to 81	Risk-weighted or supervisory deductions against primary and secondary capital.
Kensington – mortgage assets: Net exposures (after impairments) to the warehouse book (i.e. those assets that have been originated and placed in special purpose vehicles awaiting securitisation)	926	535	We are required to fully consolidate assets acquired from Kensington. However, only those assets to which we are legally at risk are reflected in this analysis with the balance reflected under 'no credit exposures'.	Refer to pages 78 to 81	Risk-weighted
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 57	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 77.*

*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	319	88	–	407	298	131	–	429
European CMBS	56	5	–	61	65	5	–	70
European credit cards	–	–	–	–	6	–	–	6
European corporate loans	67	3	–	70	–	3	–	3
Australian RMBS	52	–	–	52	67	–	–	67
Other (credit default swaps)	–	–	–	–	–	–	11	11
Total	518	101	–	619	458	146	11	615

**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	24	24	4	23	22	319
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	52	47	27	23	28	518
Total as at 31 March 2011	211	73	70	26	20	28	30	458

Kensington group plc – salient features

As at 31 March 2012	Warehouse book	Securitised portfolio	Total	% of total
Assets and business activity statistics				
Mortgage assets under management (£'million)	1 432	1 938	3 370	
IFRS adjustments (£'million)	(77)	67	(10)	
Mortgage assets under management (£'million)	1 509	1 871	3 380	
First charge % of total mortgage assets under management	94.1%	93.6%	93.8%	
Second charge % of total mortgage assets under management	5.9%	6.4%	6.2%	
Fixed rate loans % of total mortgage assets under management	0.7%	0.1%	0.3%	
Number of accounts	13 633	21 738	35 371	
Average loan balance (first charge) (£)	141 597	106 907	120 083	
Largest loan balance (£)	1 091 675	1 174 323	1 174 323	
Weighted average loan mature margin (%)	4.1%	4.7%	4.5%	
Product mix (pre-IFRS adjustments) (£'million)	1 509	1 871	3 380	100.0%
Prime	6	–	6	0.2%
Near prime	504	380	884	26.2%
Prime buy to let	1	–	1	–
Adverse	349	1 383	1 732	51.2%
Adverse buy to let and right to buy	61	108	169	5.0%
Start – Irish operations	588	–	588	17.4%
Geographic distribution (£'million)	1 509	1 871	3 380	100.0%
UK – North	284	609	893	26.4%
UK – South West	69	132	201	5.9%
UK – South East	207	388	595	17.6%
Outer London	143	231	374	11.1%
Inner London	67	129	196	5.8%
Midlands	151	382	533	15.8%
Start – Irish operations	588	–	588	17.4%
Spread of value of properties (%)	100.0%	100.0%	100.0%	
>£500 000	3.5%	1.1%	1.9%	
>£250 000 – <=£500 000	23.5%	9.9%	15.2%	
>£200 000 – <=£250 000	16.5%	11.6%	13.5%	
>£150 000 – <=£200 000	20.6%	20.0%	20.2%	
>£100 000 – <=£150 000	23.2%	30.6%	27.7%	
>£70 000 – <=£100 000	11.2%	20.7%	17.1%	
>£50 000 – <=£70 000	1.4%	5.0%	3.7%	
<£50 000	0.1%	1.1%	0.7%	
Asset quality statistics				
Weighted average current LTV (adjusted for house price index movement*)	105.6%	79.8%	91.3%	

* *Bad debt provision is based on house price index assumptions of:*
UK: calendar year: house price growth of nil going forward, with an additional -20% haircut to the price to reflect forced sale discount.
Ireland: peak to trough decline of 53%, including calendar year: house price decline assumption of -9% for 2012, and house price growth assumption of 1%, 3%, 4%, 4% per annum respectively for the period 2013 – 2016, and an additional forced sale discount of 5% – 6%.

As at 31 March 2012	Warehouse book	Securitised portfolio	Total	% of total
LTV spread – % of book	100.0%	100.0%	100.0%	
<= 65%	11.5%	21.8%	17.6%	
>65% – <70%	3.4%	6.3%	5.1%	
>70% – <75%	3.7%	8.5%	6.5%	
>75% – <80%	4.5%	9.4%	7.4%	
>80% – <85%	5.5%	11.0%	8.7%	
>85% – <90%	7.3%	12.0%	10.1%	
>90% – <95%	8.6%	9.1%	8.9%	
>95% – <100%	8.6%	7.1%	7.7%	
> 100%	46.9%	14.8%	28.0%	
% of accounts > 90 days in arrears	33.2%	29.3%	30.8%	
Number of accounts > 90 days in arrears	4 515	6 368	10 883	
Total capital lent in arrears (£'million)	748	848	1 596	100.0%
Arrears 0 – 60 days	73	136	209	13.1%
Arrears 61 – 90 days	56	97	153	9.6%
Arrears >90 days	565	571	1 136	71.2%
Possession	54	44	98	6.1%
Debt to income ratio of clients (%)	20.2%	19.1%	19.6%	
Investec investment/exposure to assets reflected above (£'million)	1 053	36	1 089	
On-balance sheet provision (£'million)	(127)	(24)	(151)	
Investec net investment/exposure to assets reflected above (£'million)	926	12	938	

Kensington group plc – salient features (continued)

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

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

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

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).*

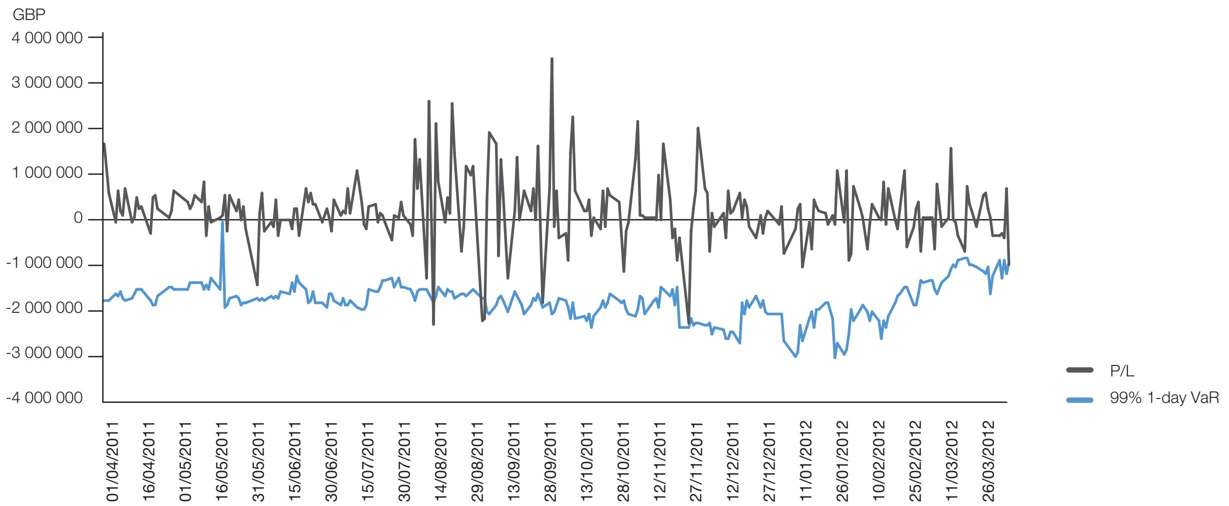
^ *The UK commodities desk was closed and all residual positions were unwound by April 2011.*

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.

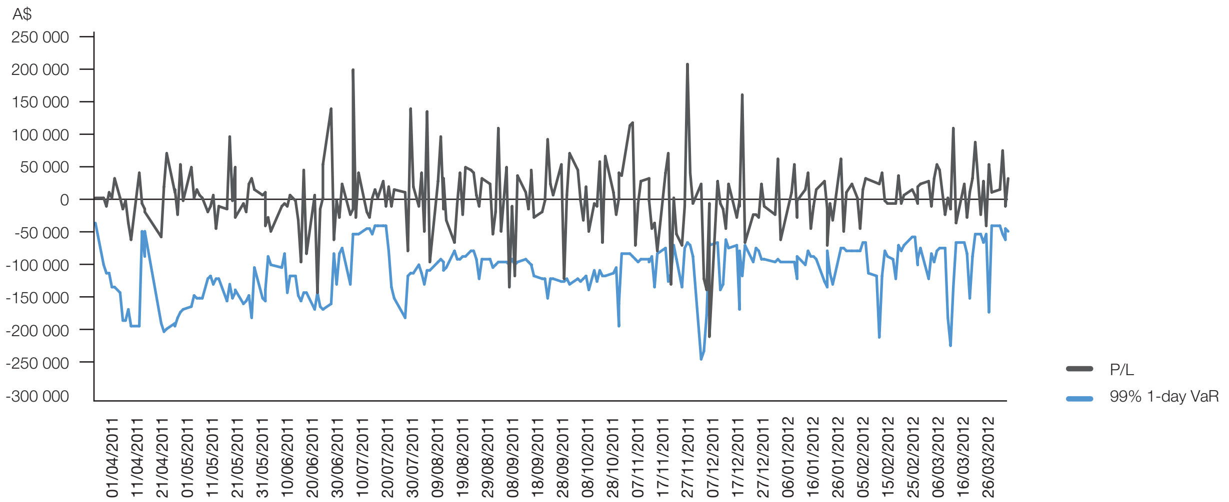
99% 1-day VaR backtesting



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		
Commodities	–	–
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

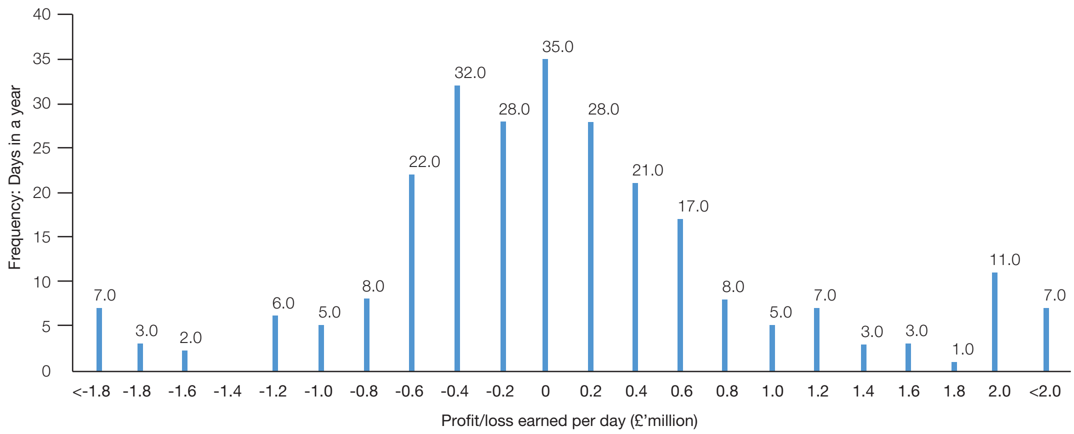
Audited	UK and Europe using VaR £'000	Australia using VaR A$'000
31 March 2011		
Commodities	266	–
Equity derivatives	3 782	–
Foreign exchange	33	15
Interest rates	2 087	121
Consolidated	3 915	273

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).

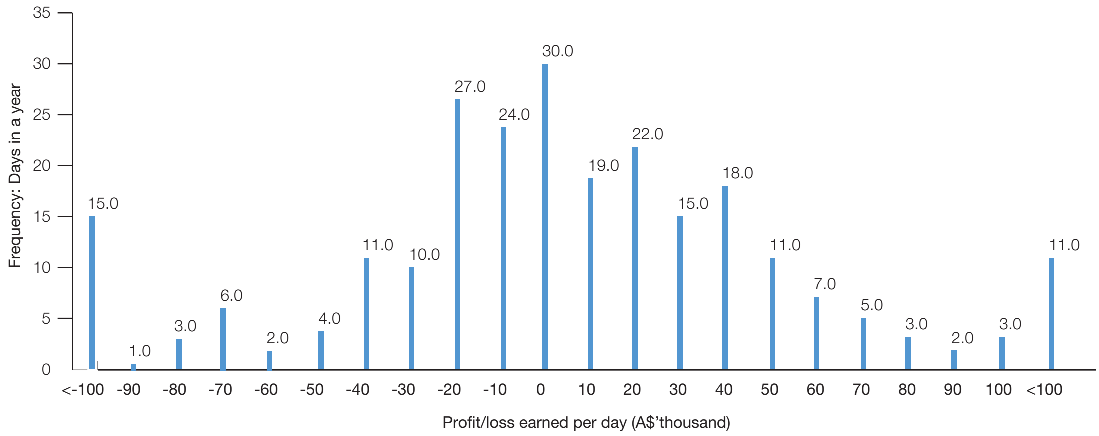
Profit and loss



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 189 and 190.

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 exposures 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. 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	2 465	–	17	1	–	158	2 641
Investment/trading assets	1 553	145	112	220	499	459	2 988
Securitised assets	2 638	–	–	–	–	324	2 962
Advances	7 644	190	199	534	9	–	8 576
Non-rate assets	–	–	–	180	–	1 825	2 005
Assets	14 300	335	328	935	508	2 766	19 172
Deposits – banks	(1 718)	(27)	(30)	(26)	–	(31)	(1 832)
Deposits – retail	(7 195)	(1 226)	(555)	(413)	–	(70)	(9 459)
Negotiable paper	(716)	(519)	–	(88)	–	–	(1 323)
Investment/trading liabilities	(803)	–	–	(170)	–	(157)	(1 130)
Securitised liabilities	(2 111)	–	–	–	–	(250)	(2 361)
Subordinated liabilities	(65)	–	–	(34)	(598)	–	(697)
Non-rate assets	(7)	–	–	–	–	(1 178)	(1 185)
Liabilities	(12 615)	(1 772)	(585)	(731)	(598)	(1 686)	(17 987)
Intercompany loans	(25)	–	–	255	352	(13)	569
Shareholders' funds	–	–	–	–	–	(1 848)	(1 848)
Balance sheet	1 660	(1 437)	(257)	459	262	(781)	(94)
Off-balance sheet	129	49	673	(147)	(449)	202	457
Repricing gap	1 789	(1 388)	416	312	(187)	(579)	363
Cumulative repricing gap	1 789	401	817	1 129	942	363	

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	(22.0)	0.5	0.9	0.2	(20.7)
200bp up	22.0	(0.5)	(0.9)	(0.2)	20.7

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 plc cash and near cash
up 2% to
£4 576 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 7.2% from 1 April 2011 to £7.8 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.

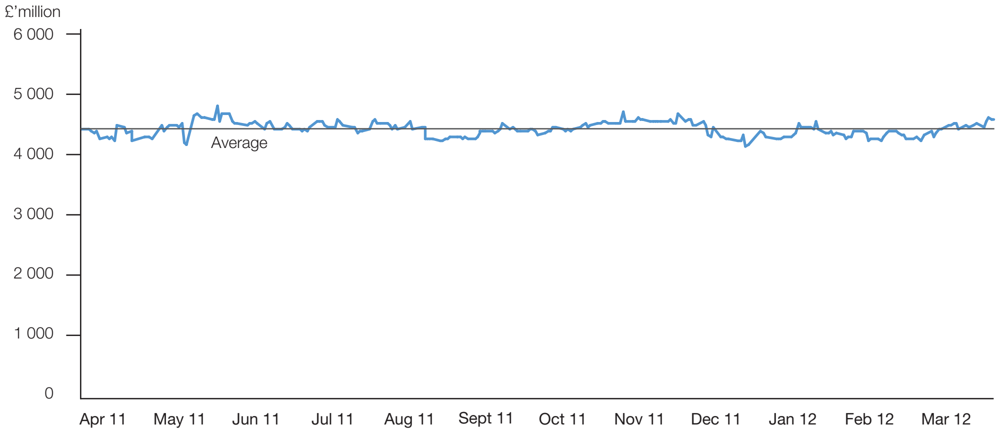
As mentioned above, we hold a liquidity buffer in the form of unencumbered readily available, high quality liquid assets, typically in the form of government or rated securities eligible for repurchase with the central bank, and near cash well in excess of the statutory requirements as protection against 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.

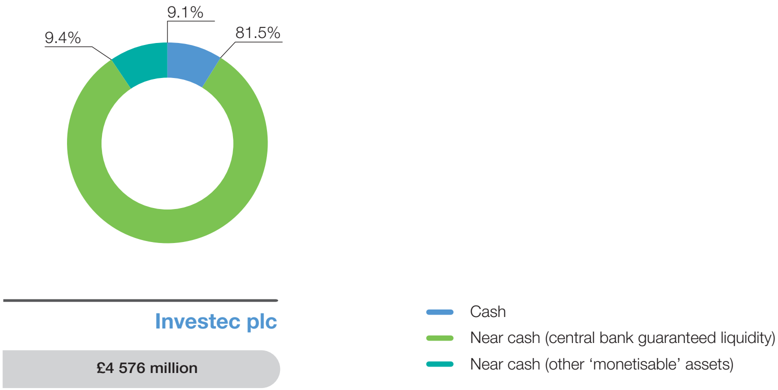
Each banking entity within the group maintains a contingency funding plan to, as far as possible, protect stakeholder interests and maintain market confidence in order to ensure a positive outcome in the event of a liquidity crisis. The liquidity contingency plans outline extensive early warning indicators 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.

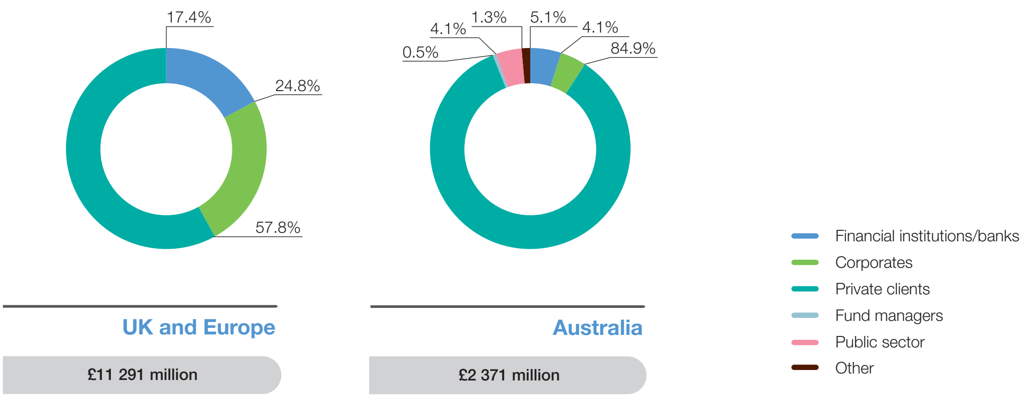
Investec plc cash and near cash trend



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.

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	2 317	314	10	–	2	–	–	2 643
Investment/trading assets	438	1 047	73	169	312	851	1 075	3 965
Securitised assets	429	1	1	1	2	29	2 499	2 962
Advances	6	305	456	732	871	2 936	3 270	8 576
Other assets	174	902	64	16	18	120	717	2 011
Assets	3 364	2 569	604	918	1 205	3 936	7 561	20 157
Deposits – banks	(259)	(132)	(351)	(159)	(30)	(656)	(245)	(1 832)
Deposits – non-banks	(849)^	(1 281)	(2 567)	(2 524)	(761)	(1 365)	(112)	(9 459)
Negotiable paper	(196)	(213)	(18)	(20)	(29)	(620)	(305)	(1 401)
Securitised liabilities	(258)	–	–	–	–	–	(2 103)	(2 361)
Investment/trading liabilities	(756)	(646)	(8)	(15)	(14)	(406)	(82)	(1 927)
Subordinated liabilities	–	–	–	–	–	(99)	(598)	(697)
Other liabilities	(213)	(687)	(74)	(33)	(94)	(76)	(92)	(1 269)
Liabilities	(2 531)	(2 959)	(3 018)	(2 751)	(928)	(3 222)	(3 537)	(18 946)
Intercompany loans	(30)	26	–	–	–	290	351	637
Shareholders' funds	–	–	–	–	–	–	(1 848)	(1 848)
Contractual liquidity gap	803	(364)	(2 414)	(1 833)	277	1 004	2 527	–
Cumulative liquidity gap	803	(439)	(3 808)	(3 808)	(3 531)	(2 527)	–	–

Behavioural liquidity (as discussed on page 95)

£'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	1 797	(520)	(1 042)	44	47	(2 459)	2133	
Cumulative	1 797	1 277	235	279	326	(2 133)	–	

^ *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
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 95)

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 95)

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.*

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 Euros 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 A$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 plc

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 plc:
  - We issued €75 million of senior bank debt with a term of 18 months.
- 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 A$215 million Professional Finance assets from the Impala securitisation vehicle
  - IBAL bought-back A$125 million of previously issued government guaranteed term debt.

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 on the ratios in 2012 and full implementation and compliance of the LCR and NSFR in 2015 and 2018 respectively.

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 guidelines for liquidity risk measurement. 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

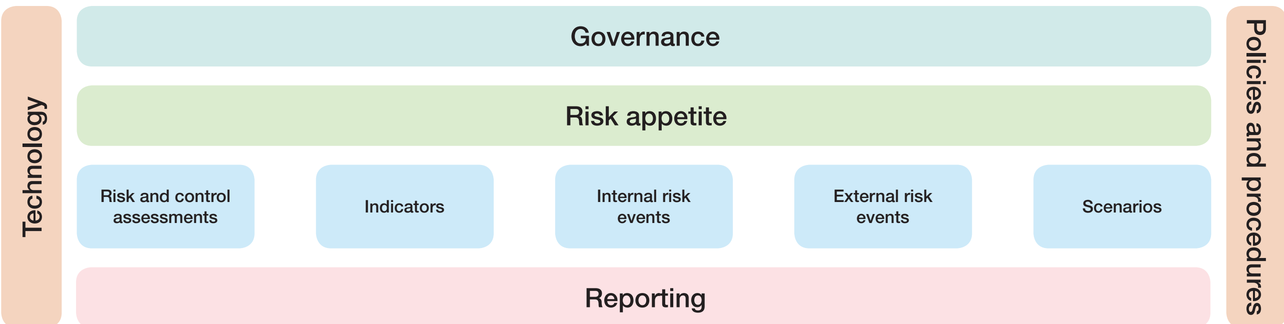
Operational risk is defined as the risk of loss or earnings volatility arising from inadequate or failed internal processes, people and systems, or from external events. Loss is not limited to financial consequences, but may affect business objectives, customer service and regulatory responsibilities.

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.

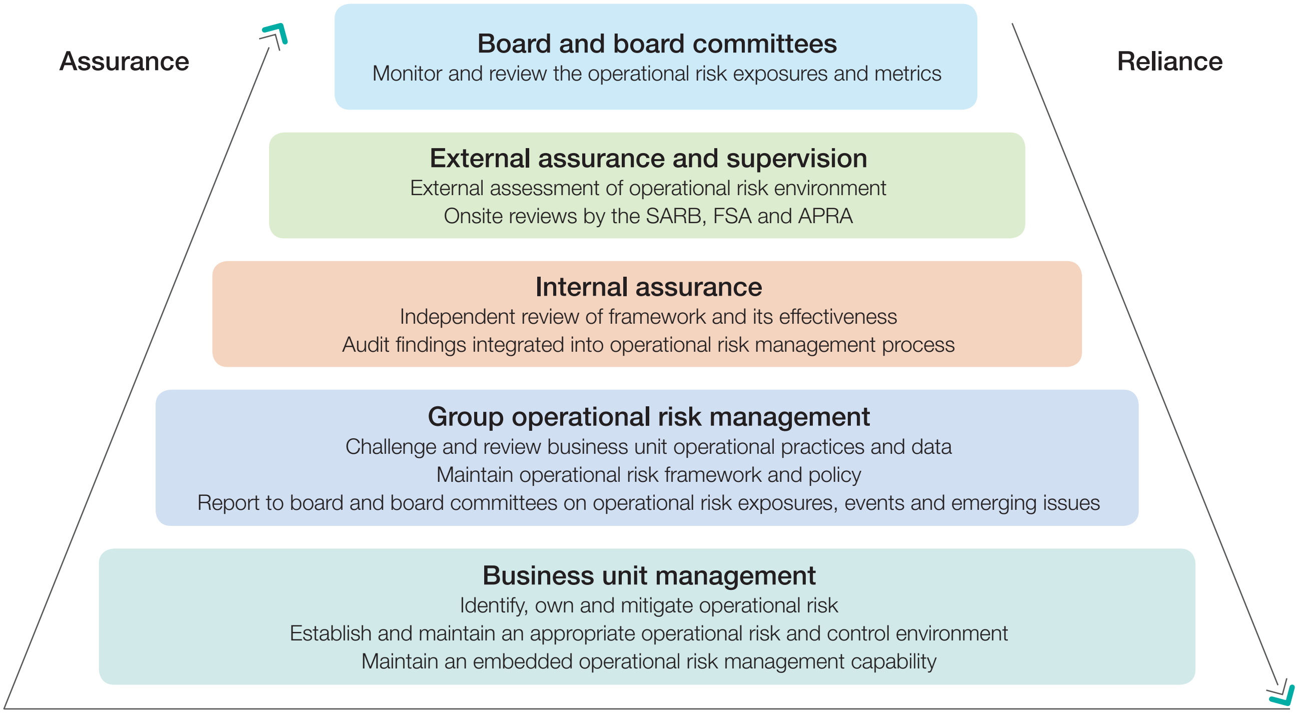
Operational risk management framework

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.

Group operational risk profile

There was an increase in value of execution, delivery and process management events primarily due to a small number of isolated events with a larger impact.

Employment practices and workplace safety represent losses associated with the resolution of employment issues. The increase in value is primarily due to changes in the external market conditions.

The controls in place to mitigate both of these risk events types are considered and continually improved.

External fraud includes credit card fraud. In line with market trends, the number of events relating to external fraud has increased within the group, consequently a continual focus on initiatives to improve, detect, prevent and mitigate credit card fraud has limited the financial loss.

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 plc is required to fund any deficit in the schemes.

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

Primary sources at risk include:

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

Investec plc monitors the position of the funds closely and regularly assesses potential adverse movements in the schemes in close conjunction with external, independent advisers. Further information is provided on pages 203 to 205.

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 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. Accordingly, the group maintains capital adequacy targets of a minimum tier 1 capital ratio of 11% and a total capital adequacy ratio range of 15% to 18%, on a consolidated basis, for Investec plc and Investec Limited.

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

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

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

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

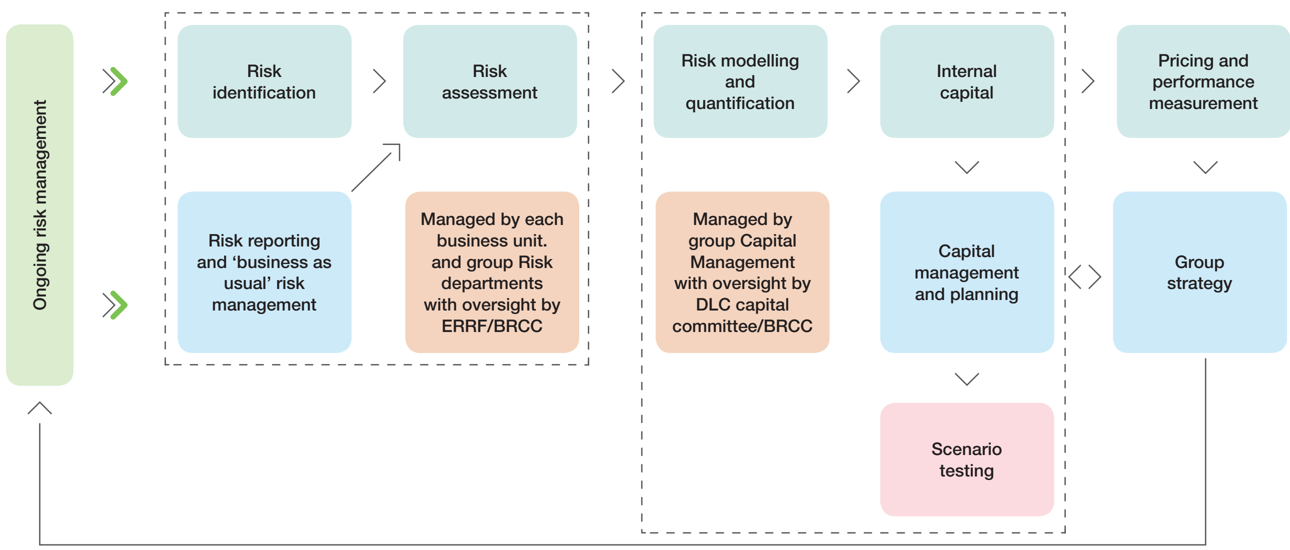
Internal capital performs a critical role in:

- Investment decision making and pricing that is commensurate with the risk being taken
- Allocating capital according to the greatest expected marginal risk-based return, and 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, management 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 by 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 identify, assess and quantify key operational risks arising from Investec's operations. Quantification is then used as the basis for the operational risk capital used held via the internal capital framework
  - Underpinning all risk management functions is their IT Support division, which ensures that all applications used to calculate and report risk are functioning properly and reconcile to underlying source systems
- Board and group executive:
  - The board has ultimate responsibility for the oversight of day-to-day risk management, capital management and ensuring that both risk and capital are managed commensurate with our strategy and risk appetite. This responsibility is mandated to BRCC
  - The BRCC has delegated management of capital to the DLC capital committee and risk management to ERRF.

Regulatory considerations – capital management

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

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

Capital disclosures in terms of Basel II

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

Accounting and regulatory treatment of group subsidiaries

The regulatory treatment of Investec plc's principal subsidiaries and associates is set out below:

Investec plc

Identity of investment/ interest held	Regulatory	% interest held	Regulatory treatment: Fully consolidated	Regulatory treatment: Entities that are given a deduction treatment	Country of operation	Restrictions and major impediments on the transfer of funds and regulatory capital within the Investec plc group
Bank controlling company Investec plc	Subject to consolidated supervision		Yes		UK	None
Investec 1 Limited	Subject to consolidated supervision	100%	Yes		UK	None
Regulated subsidiaries						
Banking and securities trading						
Investec Capital Asia Limited	Hong Kong Securities and Futures Commission	100%	Yes		Hong Kong	Subject to regulatory rules
Hero Nominees Limited	Guernsey Financial Services Commission	100%	Yes		Guernsey	Subject to regulatory rules
Investec Bank (Australia) Limited	Australian Prudential Regulation Authority ASIC AUSTRAC	100%	Yes		Australia	Subject to regulatory rules
Investec Bank plc	FSA	100%	Yes		UK	Subject to regulatory rules
Investec Bank (Channel Islands) Limited	Guernsey Financial Services Commission/ Jersey Financial Services Commission	100%	Yes		Guernsey and Jersey	Subject to regulatory rules
Investec Bank (Switzerland) AG	Swiss Financial Market Supervisory Authority	100%	Yes		Switzerland	Subject to regulatory rules
Investec Trust (Guernsey) Limited	Guernsey Financial Services Commission	100%	Yes		Guernsey	Subject to regulatory rules
Investec Trust (Jersey) Limited	Jersey Financial Services Commission	100%	Yes		Jersey	Subject to regulatory rules

Identity of investment/ interest held	Regulatory	% interest held	Regulatory treatment: Fully consolidated	Regulatory treatment: Entities that are given a deduction treatment	Country of operation	Restrictions and major impediments on the transfer of funds and regulatory capital within the Investec plc group
Regulated subsidiaries (continued)						
Investec Trust (Switzerland) S.A.	Association Roman des Intermediaries Financiers	100%	Yes		Switzerland	Subject to regulatory rules
Investec Securities (US) LLC	Securities and Exchange Commission and Financial Industry Regulatory Authority	100%	Yes		USA	Subject to regulatory rules
Kensington Mortgage Company Limited	FSA	100%	Yes		UK	Subject to regulatory rules
Kensington Personal Loans Limited	FSA	100%	Yes		UK	Subject to regulatory rules
NUA Homeloans Limited	The Financial Regulator of Ireland	100%	Yes		Ireland	Subject to regulatory rules
NUA Mortgages Limited	The Financial Regulator of Ireland	100%	Yes		Ireland	Subject to regulatory rules
Start Mortgages Limited	The Financial Regulator of Ireland	100%	Yes		Ireland	Subject to regulatory rules
Investec Wealth & Investment Limited	FSA	100%	Yes		UK	Subject to regulatory rules
Investec Wealth & Investment Trustees Limited	FSA	100%	Yes		UK	Subject to regulatory rules
Hargreave Hale Limited	FSA	35%	Proportionately consolidated		UK	Subject to regulatory rules
Evolution Securities Limited	FSA	100%	Yes		UK	Subject to regulatory rules
Darwin Strategic Limited	FSA	52%	Yes		UK	Subject to regulatory rules
Williams de Broë Limited	FSA	100%	Yes		UK	Subject to regulatory rules
WDB Asset Management Limited	FSA	100%	Yes		UK	Subject to regulatory rules
WDB Private Investment Management Limited	FSA	100%	Yes		UK	Subject to regulatory rules
Asset Management						
Investec Asset Management Limited	FSA, Australian Securities and Investment Commission, Securities and Exchange Commission	100%	Yes		UK	Subject to regulatory rules
Investec Asset Management US Limited	FSA,Securities and Exchange Commission	100%	Yes		UK	Subject to regulatory rules
Investec Fund Managers Limited	FSA	100%	Yes		UK	Subject to regulatory rules

Identity of investment/ interest held	Regulatory	% interest held	Regulatory treatment: Fully consolidated	Regulatory treatment: Entities that are given a deduction treatment	Country of operation	Restrictions and major impediments on the transfer of funds and regulatory capital within the Investec plc group
Asset Management (continued)						
Investec Asset Management Asia Limited	Hong Kong Securities and Futures Commission	100%	Yes		Hong Kong	Subject to regulatory rules
Investec Asset Management Guernsey Limited	Guernsey Financial Services Commission	100%	Yes		Guernsey	Subject to regulatory rules
Investec Asset Management Ireland Limited	The Financial Regulator of Ireland	100%	Yes		Ireland	Subject to regulatory rules
Investec Asset Management Taiwan Limited	Taiwan Financial Supervisory Commission	100%	Yes		Taiwan	Subject to regulatory rules
Investec Asset Management Australia Pty Limited	Australian Securities and Investment Commission	100%	Yes		Australia	Subject to regulatory rules
Investec Africa Frontier Private Equity fund GP Limited	Guernsey Financial Services Commission	100%	Yes		Guernsey	Subject to regulatory rules
Unregulated subsidiaries	Not regulated subject to consolidated supervision					
Investec Holding Company Limited		100%	Yes		UK	None
Investec Group (UK) plc		100%	Yes		UK	None
Investec Asset Finance plc		100%	Yes		UK	None
Leasedirect Finance Limited		75%	Yes		UK	None
Investec Finance plc		100%	Yes		UK	None
Investec Group Investments (UK) Limited		100%	Yes		UK	None
Investec Ireland Limited		100%	Yes		Ireland	None
Investec Trust Holdings AG		100%	Yes		Switzerland	None
Kensington Group plc		100%	Yes		UK	None
Kensington Mortgages Limited		100%	Yes		UK	None
Newbury Park Mortgage Funding Limited		100%	Yes		UK	None
St James's Park Mortgage Funding Limited		100%	Yes		UK	None
Investec Experien Pty Limited		100%	Yes		Australia	None
Guinness Mahon & Co Limited		100%	Yes		UK	None
Evolution Group plc		100%	Yes		UK	None

Capital management and allocation

Capital structure

Summary information on the terms and conditions of the main features of all capital instruments is provided on pages 207 and 208.

	Investec plc £'million	IBP* £'million	IBAL* A$'million
As at 31 March 2012			
Regulatory capital			
Tier 1			
Called up share capital	–	1 071	292
Share premium	1 108	129	–
Retained income	465	328	297
Treasury shares	(42)	–	–
Other reserves	426	194	(7)
Non-controlling interest in subsidiaries	164	(2)	–
Goodwill and intangible assets	(605)	(379)	(90)
Primary capital (tier 1)	1 516	1 341	492
Less: deductions	(23)	(22)	(58)
	1 493	1 319	434
Tier 2 capital			
Aggregate amount	809	649	98
Less: deductions	(23)	(22)	(7)
	786	627	91
Other deductions from tier 1 and tier 2	(31)	(26)	–
Total capital	2 248	1 920	525
As at 31 March 2011			
Regulatory capital			
Tier 1			
Called up share capital	–	1 026	292
Share premium	1 059	105	–
Retained income	491	314	364
Treasury shares	(11)	–	–
Other reserves	278	196	(5)
Minority interests in subsidiaries	170	(7)	–
Goodwill and intangible assets	(542)	(381)	(90)
Primary capital (tier 1)	1 445	1 253	561
Less: deductions	(24)	(22)	(63)
	1 421	1 231	498
Tier 2 capital			
Aggregate amount	702	577	104
Less: deductions	(24)	(22)	(6)
	678	555	98
Other deductions from tier 1 and tier 2	(31)	(27)	–
Total capital	2 068	1 759	596

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

Capital requirements

	Investec plc £'million	IBP* £'million	IBAL* A$'million
As at 31 March 2012			
Capital requirements	1 026	915	389
Credit risk – prescribed standardised exposure classes	792	731	328
Corporates	233	226	256
Secured on real estate property	247	239	4
Counterparty risk on trading positions	21	21	7
Short-term claims on institutions and corporates	24	28	2
Retail	76	76	9
Institutions	14	14	14
Other exposure classes	177	127	36
Securitisation exposures	22	22	–
Equity risk – standardised approach	26	26	9
Listed equities	2	2	2
Unlisted equities	24	24	7
Market risk – portfolios subject to internal models approach	56	53	2
Interest rate	16	16	2
Foreign exchange	16	13	–
Commodities	–	–	–
Equities	24	24	–
Operational risk – standardised approach	130	83	50
As at 31 March 2011			
Capital requirements	983	872	442
Credit risk – prescribed standardised exposure classes	769	707	385
Corporates	225	219	295
Secured on real estate property	268	259	6
Counterparty risk on trading positions	18	17	9
Short-term claims on institutions and corporates	20	19	3
Retail	53	53	11
Institutions	20	20	12
Other exposure classes	165	120	49
Securitisation exposures	23	23	–
Equity risk – standardised approach	21	21	8
Listed equities	2	2	3
Unlisted equities	19	19	5
Market risk – portfolios subject to internal models approach	52	50	2
Interest rate	14	14	1
Foreign exchange	20	20	–
Commodities	–	–	1
Equities	18	16	–
Operational risk – standardised approach	118	71	47

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

Capital management and allocation (continued)

Capital adequacy

As at 31 March 2012	Investec plc £'million	IBP* £'million	IBAL* A$'million
Primary capital (tier 1)	1 516	1 341	492
Less: deductions	(23)	(22)	(58)
	1 493	1 319	434
Tier 2 capital			
Aggregate amount	809	649	98
Less: deductions	(23)	(22)	(7)
	786	627	91
Other deductions from tier 1 and tier 2	(31)	(26)	–
Total capital	2 248	1 920	525
Risk-weighted assets (banking and trading)	12 827	11 421	2 983
Credit risk – prescribed standardised exposure classes	9 910	9 130	2 516
Corporates	2 909	2 819	1 971
Secured on real estate property	3 093	2 983	32
Counterparty risk on trading positions	268	264	43
Short-term claims on institutions and corporates	301	355	13
Retail	950	950	68
Institutions	176	176	109
Other exposure classes	2 213	1 583	280
Securitisation exposures	274	274	–
Equity risk – standardised approach	325	321	68
Listed equities	26	25	16
Unlisted equities	299	296	52
Market risk – portfolios subject to internal models approach	695	659	16
Interest rate	200	200	14
Foreign exchange	195	159	–
Commodities	1	1	2
Equities	299	299	–
Operational risk – standardised approach	1 623	1 037	383
Capital adequacy ratio	17.5%	16.8%	17.6%
Tier 1 ratio	11.6%	11.5%	14.6%

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

Capital adequacy

As at 31 March 2011	Investec plc £'million	IBP* £'million	IBAL* A$'million
Primary capital (tier 1)	1 445	1 253	561
Less: deductions	(24)	(22)	(63)
	1 421	1 231	498
Tier 2 capital			
Aggregate amount	702	577	104
Less: deductions	(24)	(22)	(6)
	678	555	98
Other deductions from tier 1 and tier 2	(31)	(27)	–
Total capital	2 068	1 759	596
Risk-weighted assets (banking and trading)	12 292	10 911	3 387
Credit risk – prescribed standardised exposure classes	9 623	8 851	2 957
Corporates	2 807	2 743	2 266
Secured on real estate property	3 354	3 232	44
Counterparty risk on trading positions	219	218	66
Short-term claims on institutions and corporates	256	236	23
Retail	668	668	88
Institutions	253	253	95
Other exposure classes	2 066	1 501	375
Securitisation exposures	284	284	–
Equity risk – standardised approach	266	264	57
Listed equities	31	30	20
Unlisted equities	235	234	37
Market risk – portfolios subject to internal models approach	649	626	14
Interest rate	174	174	8
Foreign exchange	256	246	1
Commodities	–	–	5
Equities	219	206	–
Operational risk – standardised approach	1 470	886	359
Capital adequacy ratio	16.8%	16.1%	17.6%
Tier 1 ratio	11.6%	11.3%	14.7%

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

Analysis of rated counterparties in each standardised credit exposure class

Investec plc

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

Credit quality step	Risk weight	31 March 2012 Exposure £'million	31 March 2012 Exposure after credit risk mitigation £'million	31 March 2011 Exposure £'million	31 March 2011 Exposure after credit risk mitigation £'million
Central banks and sovereigns					
1	0%	3 831	3 831	2 539	2 486
2	20%	–	–	–	–
3	50%	–	–	–	–
4	100%	–	–	–	–
5	100%	–	–	–	–
6	150%	–	–	–	–
Institutions original effective maturity of more than three months					
1	20%	196	196	804	804
2	50%	262	262	168	168
3	50%	3	3	5	4
4	100%	–	–	–	–
5	100%	–	–	–	–
6	150%	–	–	–	–
Short-term claims on institutions					
1	20%	167	167	546	467
2	20%	572	411	151	151
3	20%	13	13	392	276
4	50%	6	6	–	–
5	50%	–	–	–	–
6	150%	–	–	–	–
Counterparty credit risk – effective original maturity of more than three months					
1	20%	302	214	392	368
2	50%	132	106	77	51
3	50%	579	15	–	–
4	100%	1	1	1	1
5	100%	–	–	–	–
6	150%	–	–	–	–
Counterparty credit risk – effective original maturity of less than three months					
1	20%	874	183	1 072	69
2	50%	384	167	189	49
3	50%	72	19	159	12
4	100%	–	–	–	–
5	100%	–	–	–	–
6	150%	–	–	–	–
Corporates					
1	20%	92	92	128	128
2	50%	17	17	7	7
3	100%	16	16	171	171
4	100%	15	15	17	17
5	150%	14	14	14	14
6	150%				
Securitisation positions					
1	20%	163	163	196	196
2	50%	90	90	78	78
3	100%	36	36	41	41
4	350%	13	13	13	15
5	1 250%	29	29	47	47
Re-securitisation positions					
1	40%	165	165	–	–
2	100%	16	16	–	–
3	225%	11	11	–	–
4	650%	1	1	–	–
5	1 250%	16	16	–	–
Total rated counterparty exposure		8 297	6 497	7 207	5 620

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.

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.

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 (ICB)

One of the key UK developments, in the form of the proposals by the 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

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.

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

Governance framework

Investec Limited and Investec plc, together with their subsidiaries, are merged as a single economic enterprise as a result of the dual listed companies (DLC) structure.

The group has adopted a risk and governance structure which allows for the operation of the various committees and forums at group level. Investec's governance framework is depicted on page 40. This avoids the necessity of having to duplicate various committees and forums at group subsidiary level. Due to the DLC structure, we have combined board committees of Investec Limited and Investec plc. Full disclosure of the functioning and responsibilities of these board committees can be found in the Investec group's 2012 annual report.

Board statement

The board, management and employees of Investec are committed to complying with the disclosure and transparency rules and listing rules of the United Kingdom Listing Authority (UKLA), regulatory requirements in the countries in which we operate 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.

Governance requirements

UK Corporate Governance Code (2010)

The board is of the opinion that, based on the practices disclosed throughout this report, which were in operation during the year under review, Investec has complied with the relevant provisions set out in the UK Corporate Governance Code, save that Fani Titi, the joint chairman, was not considered independent upon appointment in view of his previous connection with Tiso Group Limited. Tiso had a material relationship with Investec Limited as a result of the empowerment transaction concluded in 2003 as a result of South Africa's Financial Sector Charter. Fani resigned as board member and chairman of Tiso during March 2008 however, the UK Corporate Governance Code requires a five year break in the relationship.

Hugh Herman, who retired as non-executive chairman on 17 November 2011, was not considered to be independent as at the time of his appointment and up to 2005, his duties included promoting the group and introducing clients, but excluded day-to-day executive decisions.

Financial reporting and going concern

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

- Budgeting and forecasts
- Profitability
- Capital
- Liquidity.

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

Our financial statements are prepared on a going concern basis.

The board is of the opinion, based on its knowledge of the group, key processes in operation and specific enquiries, that there are adequate resources to support the group as a going concern for the foreseeable future. Further information on our liquidity and capital position is provided on pages 91 to 100 and pages 104 to 115.

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

Board of directors

The composition of the board of Investec plc is set out on pages 127 to 129.

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

The combined boards of Investec Limited and Investec plc have adopted a board charter, which provides a framework of how the boards operate as well as the type of decisions to be taken by the board and which should be delegated to management.

For more information on the board's objectives, roles and responsibilities refer to the Investec group's 2012 annual report.

Composition, structure and process

Membership

At the end of the year under review, the board, excluding the joint chairmen, comprised four executive directors and 10 non-executive directors. Biographical details of the directors are set out on pages 127 to 129.

Refer to Investec group's 2012 annual report for disclosures on:

- Board changes during the year
- Independence of board members
- Terms of appointment
- Ongoing training and development
- The role of the chairman and the chief executive officer
- Board meetings
- Dealings in securities
- Directors' dealings.

Board committees

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

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

Investec plc 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.

Our global remuneration philosophy seeks to maintain an appropriate balance between the interests of stakeholders, and is closely aligned to our core values and philosophies.

Remuneration

The board believes that a properly constituted and effective remuneration committee is key to maintaining the link between pay and performance. Our remuneration 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.

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. Further information regarding our remuneration philosophy and processes and directors' remuneration is provided in the Investec group's 2012 annual report.

FSA Remuneration Code disclosures

In terms of the FSA's Chapter 11 Disclosure Requirements (BIPRU 11.5.18) the bank, as a tier one organisation, 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. These disclosures can be found in the Investec group's 2012 annual report.

Management and succession planning

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

Each strategic business unit has 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 and the South African Companies Act, as amended. In accordance with these Acts and the Articles of Association, the board may authorise any matter that otherwise may involve the directors breaching their duty to avoid conflicts of interest. The board has adopted a procedure, as set out in the Articles, that includes a requirement for directors to submit, in writing, disclosures detailing any actual or potential conflict for consideration and, if considered appropriate, approval.

Internal financial controls

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

External audit

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

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

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

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

Total audit fees paid to all auditors for the year ended were £9.7 million (2011: £7.8 million), of which £4.4 million (2011: £2.8 million) related to the provision of non-audit services.

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 group.

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

Values and code of conduct

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

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

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

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 top-down 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 plc

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

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

Committees: Board risk and capital, DLC capital, DLC social and ethics and global credit

Stephen joined Investec in 1980. He has had diverse experience within Investec as chief accounting officer and general manager of banking, treasury and merchant banking.

Current directorships: The Bidvest Group Limited, Investec Wealth & Investment and a number of Investec subsidiaries.

Bernard Kantor (62)
Managing director
CTA

Committees: Board risk and capital, DLC capital, DLC social and ethics and global credit

Bernard joined Investec in 1980. He has had varied experience within Investec as a manager of the Trading division, marketing manager and chief operating officer.

Current directorships: Phumelela Gaming and Leisure Limited, Investec Wealth & Investment and a number of Investec subsidiaries.

Glynn R Burger (55)
Group risk and finance director
BAcc, CA(SA), H Dip BDP, MBL

Committees: Board risk and capital, DLC capital and global credit

Glynn joined Investec in 1980. His positions within Investec have included chief accounting officer, group risk manager and joint managing director for South Africa.

Current directorships: Investec Bank Limited and a number of Investec subsidiaries.

Hendrik du Toit (50)
Investec Asset Management chief executive officer
BCom Law, BCom (Hons) (cum laude), (MCom) (cum laude), MPhil (Cambridge)

After lecturing economics at the University of Stellenbosch, Hendrik joined the Investment division of Old Mutual from where he moved to Investec in 1991 as portfolio manager and later chief executive officer of Investec Asset Management.

Current directorships: Investec Asset Management Holdings (Pty) Limited and Investec Asset Management Limited as well as their subsidiaries.

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

Sir David Prosser* (68)
Joint chairman
BSc (Hons), FIA

Committees: DLC remuneration, DLC nominations and directors' affairs and board risk and capital

Sir David was previously chief executive of Legal & General Group PLC, joining Legal & General in 1988 as group director (investments) becoming deputy chief executive in January 1991 and group chief executive in September 1991. Sir David was previously chairman of the Financial Services Skills Council.

Current directorships: Investec Bank plc (chairman) Pippbrook Limited, Epsom Downs Racecourse Limited and The Royal Automobile Club Limited.

Fani Titi* (50)
Joint chairman
BSc (Hons), MA, MBA

Committees: Board risk and capital, DLC nominations and directors' affairs and DLC social and ethics

Fani is chairman of Investec Bank Limited and formerly the chairman of Tiso Group Limited.

Current directorships: Investec Bank Limited (Chairman), Tsiya Group (Pty) Limited and a number of its investee companies, Investec Employee Benefits Limited and Investec Asset Management Holdings (Pty) Limited.

* *Joint chairmen with effect from 17 November 2011.*

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

Sam E Abrahams (73)

FCA, CA(SA)

Committees: DLC audit, Investec plc audit, Investec Limited audit, DLC nominations and directors' affairs, board risk and capital and DLC capital and global credit

Sam is a former international partner and South African managing partner of Arthur Andersen.

Current directorships: Investec Bank Limited, The Foschini Group Limited and a number of Investec subsidiaries.

George FO Alford (63)

Senior independent director

BSc (Econ), FCIS, FIPD, MSI

Committees: DLC audit, Investec plc audit, Investec Limited audit, DLC remuneration and board risk and capital

George is a former head of private banking and personnel at Kleinwort Benson Group and was a senior adviser to the UK Financial Services Authority.

Current directorships: Investec Bank plc.

Cheryl A Carolus (53)

BA (Law), BEd

Committees: DLC social and ethics

Cheryl acted as the South African high commissioner to London between 1998 and 2001 and was chief executive officer of South African Tourism. She is chairperson of South African Airways.

Current directorships: De Beers Consolidated Mines Limited, Gold Fields Limited, South African Airways (Pty) Limited, Mercedes-Benz South Africa (Pty) Limited, WWF South Africa and International, The IQ Business Group (Pty) Limited, Fenner Conveyor Belting South Africa (Pty) Limited, Ponahalo Capital (Pty) Limited, Investec Asset Management Holdings (Pty) Limited, executive chairperson of Peotona Group Holdings (Pty) Limited and director of a number of the Peotona group companies.

Peregrine KO Crosthwaite (63)

MA (Hons) in modern languages

Committees: DLC remuneration

Perry is a former chairman of Investec Investment Banking Securities Limited and director of Investec Bank plc.

Current directorships: Investec Bank plc, Jupiter Green Investment Trust, Melrose plc and Toluna plc.

Olivia C Dickson (51)

MA (Oxon), MSc (Lon), CDipAF

Committees: DLC audit, Investec plc audit, Investec Limited audit and DLC remuneration

Olivia is a non-executive director of Canada Life Limited, the senior independent director and chair of the audit committee of Invista Real Estate Investment Management Holdings plc and a trustee director and chair of the risk and assurance committee of the Mineworkers' Pension Scheme. Olivia is also a member of the Financial Reporting Council's board for actuarial standards, the Financial Services Authority's regulatory decisions committee and the Pensions Regulator's determinations panel. Most recently Olivia served as a non-executive director and chair of the risk and compliance committee of Aon Limited and prior to that as a senior adviser to the Financial Services Authority. Previously Olivia was a managing director at JP Morgan, where she served in a number of senior roles including head of European derivatives brokerage. While at JP Morgan, Olivia was a non-executive director and chair of the audit committee of the London International Financial Futures Exchange.

Current directorships: Canada Life Limited, Canada Life Group (UK) Limited, Canada Life Asset Management Limited, Invista Real Estate Investment Management Holdings plc, Invista Real Estate Investment Management Limited, Trustee of the Mineworkers' Pension Scheme Limited.

Bradley Fried (46)

BCom, CA(SA), MBA

Committees: Board risk and capital

Bradley joined Investec in 1999 and has held the positions of joint head of investment banking and chief executive of Investec Bank plc. He is on the audit committee of HM Treasury and is the chief executive in residence at Judge business school.

Current directorships: Investec Wealth & Investment Limited, Grovepoint Capital LLP and non-executive director of the Court of Bank of England.

Haruko Fukuda OBE (65)

MA (Cantab), DSc

Committees: Board risk and capital

Haruko was previously chief executive officer of the World Gold Council, and senior adviser at Lazard. She is former vice chairman of Nikko Europe plc and a partner of James Capel & Co and a former director of AB Volvo and of Foreign and Colonial Investment Trust plc.

Current directorships: Director of Aberdeen Asian Smaller Companies Investment Trust PLC. She is an adviser to Metro AG.

Ian R Kantor (65)

BSc (Eng), MBA

Current directorships: Insinger de Beaufort Holdings SA (in which Investec Limited indirectly holds an 8.6% interest), Investec Bank plc, Bank Insinger de Beaufort NV where he is chairman of the management board.

M Peter Malungani (54)

BCom, MAP, LDP

Committees: Board risk and capital

Peter is chairman and founder of Peu Group (Pty) Limited.

Current directorships: Phumelela Gaming and Leisure Limited (Chairman), Investec Bank Limited, Investec Asset Management Holdings (Pty) Limited, Peu Group (Pty) Limited and a number of Peu subsidiaries.

Peter RS Thomas (67)

CA(SA)

Committees: DLC audit, Investec plc audit, Investec Limited audit, board risk and capital, DLC nominations and directors' affairs, DLC social and ethics and global credit

Peter was the former managing director of The Unisec Group Limited.

Current directorships: Investec Bank Limited, various Investec companies, JCI Limited and various unlisted companies.

Shareholder analysis

Investec ordinary shares

As at 31 March 2012 Investec plc had 598.3 million ordinary shares in issue.

Spread of ordinary shareholders as at 31 March 2012

Investec plc ordinary shares in issue

Number of shareholders	Holdings	% of total shareholders	Number of shares in issue	% of issued share capital
14 011	1 to 500	50.7%	2 450 074	0.4%
4 758	501 – 1 000	17.2%	3 734 077	0.6%
5 872	1 001 – 5 000	21.2%	13 593 733	2.3%
1 008	5 001 – 10 000	3.6%	7 497 514	1.3%
1 103	10 001 – 50 000	4.0%	26 038 646	4.4%
292	50 001 – 100 000	1.1%	20 791 702	3.4%
618	100 001 and over	2.2%	524 233 866	87.6%
27 662		100.0%	598 339 612	100.0%

Shareholder classification as at 31 March 2012

	Investec plc number of shares	% holding
Public*	585 003 615	97.8%
Non-public	13 335 997	2.2%
Non-executive directors of Investec plc	3 863 253	0.6%
Executive directors of Investec plc	7 305 248	1.2%
Investec staff share schemes	2 167 496	0.4%
Total	598 339 612	100.0%

* *As per the JSE Listings Requirements.*

Largest ordinary shareholders as at 31 March 2012

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

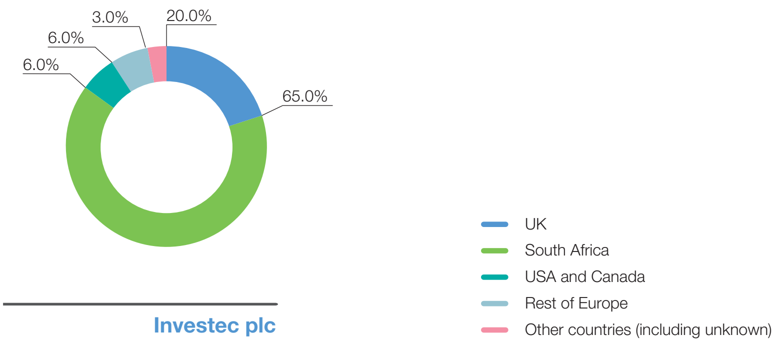
Investec plc

Shareholder analysis by manager group

		Number of shares	% holding
1.	Public Investment Corporation (ZA)	85 575 855	14.3%
2.	Coronation Fund Managers (ZA)	46 256 861	7.7%
3.	Allan Gray (ZA)	45 953 028	7.7%
4.	Old Mutual (ZA)	27 864 457	4.7%
5.	Sanlam Group (ZA)	25 170 696	4.2%
6.	BlackRock Inc (US and UK)	23 015 284	3.9%
7.	Legal & General Investment Management (UK)	21 586 169	3.6%
8.	Norges Bank Investment Management (Oslo)	16 158 059	2.7%
9.	Prudential Group (ZA)	15 735 602	2.6%
10.	Abax Investments (ZA)	14 141 267	2.4%
	Cumulative total	321 457 278	53.8%

The top 10 shareholders account for 53.8% of the total shareholding in Investec plc. This information is based on a threshold of 20 000 shares. Some major fund managers hold additional shares below this, which may cause the above figures to be marginally understated.

Geographical holding by beneficial ordinary share owner as at 31 March 2012



Investec plc

Share statistics

Investec plc ordinary shares in issue

For the year ended 31 March	2012	2011	2010	2009	2008	2007	2006
Closing market price per share (Pounds)							
Year end	3.82	4.78	5.39	2.92	3.39	6.58	5.88
Highest	5.22	5.50	5.62	4.21	7.65	6.76	6.07
Lowest	3.18	4.29	2.87	1.69	2.94	4.95	3.04
Number of ordinary shares in issue (million)[1]	598.3	537.2	471.1	444.9	423.3	381.6	373.0
Market capitalisation (£'million)[1]	2 286	2 568	2 539	1 299	1 435	2 511	2 194
Daily average volume of shares traded ('000)	1 683	1 634	1 932.6	2 604	3 926	2 832	1 489

1. *The LSE only include the shares in issue for Investec plc i.e. 598.3 million, in calculating market capitalisation, as Investec Limited is not incorporated in the UK.*

Investec perpetual preference shares

Investec plc issued perpetual preference shares, the details of which can be found on pages 208 and 209.

Spread of perpetual preference shareholders as at 31 March 2012

Investec plc perpetual preference shareholders

Number of shareholders	Holdings	% of total shareholders	Number of shares in issue	% of issued preference share capital
143	1 to 500	10.9%	39 110	0.3%
149	501 – 1 000	11.4%	120 692	0.8%
702	1 001 – 5 000	53.6%	1 454 937	9.6%
119	5 001 – 10 000	9.1%	897 719	6.0%
144	10 001 – 50 000	11.0%	3 084 555	20.4%
29	50 001 – 100 000	2.2%	2 113 350	14.0%
24	100 001 and over	1.8%	7 370 786	48.9%
1 310		100.0%	15 081 149	100.0%

Investec plc (Rand denominated) perpetual preference shareholders

Number of shareholders	Holdings	% of total shareholders	Number of shares in issue	% of issued preference share capital
48	1 to 500	14.4%	16 642	0.7%
89	501 – 1 000	26.7%	71 133	3.1%
152	1 001 – 5 000	45.7%	343 857	15.1%
19	5 001 – 10 000	5.7%	148 105	6.5%
16	10 001 – 50 000	4.8%	339 112	14.9%
1	50 001 – 100 000	0.3%	99 010	4.4%
8	100 001 and over	2.4%	1 258 081	55.3%
333		100.0%	2 275 940	100.0%

Largest perpetual preference shareholders as at 31 March 2012

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

Investec plc	
Steyn Capital EC Partnership	5.2%
Chase Nominees Limited (Artemis)	9.9%

Annual financial statements

Directors' report

Extended business review

We are an international specialist bank and asset manager that provides a diverse range of financial products and services to a niche client base in two principal markets, the United Kingdom 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.

The review of the operations for the year can be found on pages 9 to 35.

Authorised and issued share capital

Details of the share capital are set out in note 42 to the financial statements.

During the year the following shares were issued:

- 1 499 ordinary shares on 14 April 2011 at 185.88 pence per share
- 4 699 150 ordinary shares on 23 June 2011 at 476.00 pence per share
- 500 000 ordinary shares on 23 June 2011 at 478.00 pence per share
- 3 183 553 special converting shares on 23 June 2011 at par
- 1 859 900 Rand denominated non-redeemable, non-cumulative, non-participating perpetual preference shares on 24 June 2011 at R100.00 per share
- 17 556 ordinary shares on 6 July 2011 at 185.88 pence per share
- 12 540 ordinary shares on 8 July 2011 at 185.88 pence per share
- 4 180 ordinary shares on 11 July 2011 at 185.88 pence per share
- 6 688 ordinary shares on 13 July 2011 at 185.88 pence per share
- 4 180 ordinary shares on 27 July 2011 at 185.88 pence per share
- 2 161 ordinary shares on 2 August 2011 at 185.88 pence per share
- 416 040 Rand denominated non-redeemable, non-cumulative, non-participating perpetual preference shares on 24 June 2011 at R101.00 per share
- 565 010 ordinary shares on 25 November 2011 at 159.00 pence per share
- 53 800 540 ordinary shares on 22 December 2011 at 326.80 pence per share
- 1 550 019 ordinary shares on 1 February 2012 at 185.88 pence per share.

At 31 March 2012, Investec plc held 7.8 million (seven million eight hundred thousand) shares in treasury (2011: 2.2 million). The maximum number of shares held in treasury during the period under review was 7.8 million.

Financial results

The results of Investec plc are set out in the financial statements and accompanying notes for the year ended 31 March 2012.

Ordinary dividends

An interim dividend was declared to shareholders as follows:

- 8.0 pence per ordinary share to non-South African resident shareholders (2011: 8.0 pence) registered on 9 December 2011
- To South African resident shareholders registered on 9 December 2011, a dividend paid by Investec Limited on the SA DAS share, equivalent to 7.5 pence per ordinary share and 0.5 pence per ordinary share paid by Investec plc.

The dividends were paid on 20 December 2011.

The directors have proposed a final dividend to shareholders registered on 27 July 2012, which is subject to the approval of the members of Investec plc at the annual general meeting which is scheduled to take place on 2 August 2012 and, if approved, will be paid on 6 August 2012 as follows:

- 9.0 pence per ordinary share to non-South African resident shareholders (2011: 9.0 pence) registered on 27 July 2012
- To South African resident shareholders registered on 27 July 2012, through a dividend paid by Investec Limited on the SA DAS share, of 7.5 pence per ordinary share and 1.5 pence per ordinary share paid by Investec plc. Shareholders in Investec plc will receive a distribution of 9.0 pence (2011: 9.0 pence) per ordinary share.

Preference dividends

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

Preference dividend number 11 for the period 1 April 2011 to 30 September 2011, amounting to 7.52 pence per share, was declared to members holding preference shares registered on 2 December 2011 and was paid on 13 December 2011.

Preference dividend number 12 for the period 1 October 2011 to 31 March 2012, amounting to 7.52 pence per share, was declared to members holding preference shares registered on 15 June 2012 and will be paid on 26 June 2012.

Rand denominated non-redeemable, non-cumulative, non-participating preference shares

Preference dividend number 1 for the period 29 June 2011 to 30 September 2011, amounting to 220.19 cents per share, was declared to members holding Rand denominated non-redeemable, non-cumulative, non-participating preference shares registered on 2 December 2011 and was paid on 13 December 2011.

Preference dividend number 2 for the period 1 October 2011 to 31 March 2012, amounting to 428.67 cents per share, was declared to members holding preference shares registered on 15 June 2012 and will be paid on 26 June 2012.

Preferred securities

The fifth annual distribution, fixed at 7.075 per cent, on the €200 million fixed/floating rate, guaranteed, non-voting, non-cumulative perpetual preferred callable securities issued by Investec Tier 1 (UK) LP on 24 June 2005, is due and will be paid on 25 June 2012.

Directors and secretaries

Details of directors and secretaries of Investec plc are reflected on pages 127 to 129. In accordance with the UK Corporate Governance Code, the entire board will offer itself for re-election at the 2012 annual general meeting.

HS Herman retired on 17 November 2011.

Directors and their interests

Directors' shareholdings and options to acquire shares are set out in the Investec group's 2012 annual report. The register of directors' interests contains full details of directors' shareholdings and options to acquire shares.

Corporate governance

The group's corporate governance board statement and governance framework are set out on pages 121 to 126.

Share incentive trusts

Details regarding options granted during the year are set out in the Investec group's 2012 annual report.

Audit committee

The audit committee comprising non-executive directors meets regularly with senior management, the external auditors, Operational Risk, Internal Audit, Compliance and the Finance division, to consider the nature and scope of the audit reviews and the effectiveness of our risk and control systems. Further details on the role and responsibility of the audit committee are set out in the Investec group's 2012 annual report.

Auditors

Ernst & Young LLP have indicated their willingness to continue in office as auditors of Investec plc.

A resolution to re-appoint them as auditors will be proposed at the next annual general meeting scheduled to take place on 2 August 2012.

Contracts

Refer to the Investec group's 2012 annual report for details of contracts with directors.

Subsidiary and associated companies

Details of principal subsidiary and associated companies are reflected on pages 220 to 221.

Major shareholders

The largest shareholders of Investec plc are reflected on pages 130 to 132.

Special resolutions

At the annual general meeting held on 4 August 2011, special resolutions were passed in terms of which:

- A renewable authority was granted to Investec plc to acquire its own shares in terms of section 701 of the UK Companies Act, 2006.

Accounting policies and disclosure

Accounting policies are set having regard to commercial practice and comply with applicable United Kingdom law and International Financial Reporting Standards as adopted by the European Union. These policies are set out on pages 150 to 161.

Financial instruments

Detailed information on the group's risk management process and policy can be found in the risk management report on pages 37 to 117. Information on the group's hedge accounting policy and the use of derivatives and hedges can be found on page 156 and in notes 22 and 50.

Creditor payment policy

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

Employees

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

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

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

Donations

During the year, Investec plc made donations for charitable purposes, totalling £1.6 million.

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

Environment

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

Further information can be found in the Investec group's 2012 annual report.

Post balance sheet events

On 11 June 2012 Investec completed the acquisition of a majority interest in Neontar Limited (parent of NCB group). The consideration for the shares will be an amount equal to £4.35 million plus the net asset value of Neontar Limited at completion estimated at €28 million. There may also be deferred payments to sellers, dependent on the recovery of certain amounts by NCB group.

Additional information for shareholders

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

Sir David Prosser	Fani Titi	Stephen Koseff
Joint chairman	Joint chairman	Chief executive officer

28 June 2012

Directors' responsibility statement

The following statement, which should be read in conjunction with the auditor's report set out on pages 143 and 144, is made with a view to distinguishing for stakeholders the respective responsibilities of the directors and of the auditors in relation to the combined consolidated financial statements.

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

To enable the directors to meet these responsibilities:

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

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

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

The special purpose financial statements have been prepared in accordance with accounting policies set out on pages 150 and 161.

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

It is the responsibility of the independent auditors to report on the special purpose consolidated financial statements. Their report to the members of the company is set out on pages 143 and 144 of this report. As far as the directors are aware, there is no relevant audit information of which the company's 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 company's auditors are aware of that information.

Approval of financial statements

The directors' report and the financial statements of the company, which appear on pages 134 to 137 and pages 224 to 226, were approved by the board of directors on 13 June 2012. The special purpose financial statements of the group on pages 145 to 223 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

Stephen Koseff
Chief executive officer

Bernard Kantor
Managing director

28 June 2012

Schedule A to the directors' report

Additional information for shareholders

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

Share capital

The issued share capital of Investec plc at 31 March 2012 consists of 598 339 612 plc ordinary shares of £0.0002 each, 15 081 149 non-redeemable, non-cumulative, non-participating preference shares of £0.01 each, 2 275 940 ZAR non-redeemable, non-cumulative, non-participating preference shares of R0.001 each, 276 020 221 plc special converting shares of £0.0002 each, the special voting share of £0.001, the UK DAN share of £0.001 and the UK DAS share of £0.001 (each class as defined in the Articles).

Purchase of own shares

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

Dividends and distributions

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

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

Voting rights

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

Restrictions on voting

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

Deadlines for exercising voting rights

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

Variation of rights

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

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

Transfer of shares

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

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

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

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

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

plc preference shares

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

- To receive a non-cumulative preferential dividend out of the profits of Investec plc in priority to the plc ordinary shares but *pari passu* with the perpetual preference shares, on such dates in respect of such periods and on such other terms and conditions as may be determined by the directors prior to the allotment thereof
- The plc preference shares will rank as regards participation in profits *pari passu inter se* and with the most senior ranking preference shares of Investec plc in issue (if any) from time to time and with the perpetual preference shares
- On a return of capital, whether or not on a winding up (but not on a redemption or purchase of any shares by Investec plc) or otherwise, the plc preference shares will rank, *pari passu inter se* and with the most senior ranking preference shares of Investec plc in issue (if any) from time to time and with any other shares of Investec plc that are expressed to rank *pari passu* therewith as regards participation in the capital, and otherwise in priority to any other class of shares of Investec plc
- Investec plc may, at its option, redeem all or any of the plc preference shares for the time being issued and outstanding on the first call date or any dividend payment date thereafter
- Holders of plc preference shares will not be entitled to attend and vote at general meetings of Investec plc. Holders will be entitled to attend and vote at a class meeting of holders of plc preference shares.

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

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

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

Rand denominated non-redeemable, non-cumulative, non-participating perpetual preference shares (the 'ZAR perpetual preference shares')

Investec plc has 2 275 940 ZAR preference shares in issue. The ZAR perpetual preference shares are subject to substantially similar terms and conditions as the existing Sterling perpetual preference shares, as outlined above, save that they are denominated in South African Rand.

Shares required for the DLC structure

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

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

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

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

Appointment and replacement of directors

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

In accordance with the Articles of Association, one-third of the directors are required to retire by rotation. Furthermore, all those directors serving for longer than nine years are required to stand for annual re-election. In accordance with the UK Corporate Governance Code (the Code) all members of the board offer themselves for annual re-election.

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

Powers of directors

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

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

Significant agreements: change of control

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

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

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

Independent auditor's report to the board of Investec plc

We have audited the accompanying special purpose financial statements of Investec plc for the year ended 31 March 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated cash flow statement and notes 1 to 53. The financial statements have been prepared by the directors in accordance with the accounting policies set out on pages 150 to 161.

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

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

Directors' responsibility for the financial statements

Directors are responsible for the preparation of these financial statements in accordance with the accounting policies, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements of Investec plc for the year ended 31 March 2012 are prepared, in all material respects, in accordance with the accounting policies.

Basis of accounting and restriction on use

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

Other matter

Investec plc has prepared a separate set of financial statements for the year ended 31 March 2012 in accordance with both International Financial Reporting Standards as adopted by the European Union and International Financial Reporting Standards as issued by the International Accounting Standards Board on which we issued a separate auditor's report to the shareholders of Investec plc dated 13 June 2012.

Ernst & Young LLP

Ernst & Young LLP
London

28 June 2012

Notes

1. *The maintenance and integrity of the Investec 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.*

Investec plc excluding Investec Limited

Consolidated income statement

For the year ended 31 March £'000	Notes	2012	2011*
Interest income		945 837	880 797
Interest expense		(593 818)	(537 574)
Net interest income		**352 019**	**343 223**
Fee and commission income	2	643 581	563 263
Fee and commission expense	2	(118 182)	(103 362)
Investment income	3	134 125	143 039
Trading income			
– Arising from customer flow		54 291	48 753
– Arising from balance sheet management and other trading activities		15 305	62 163
Other operating income	4	60 949	48 793
Total operating income before impairment losses on loans and advances		**1 142 088**	**1 105 872**
Impairment losses on loans and advances	25	(255 791)	(240 692)
Operating income		**886 297**	**865 180**
Operating costs	5	(771 538)	(725 848)
Depreciation of operating leased assets	30	(28 544)	(16 447)
Operating profit before amortisation of acquired intangibles		**86 215**	**122 885**
Impairment of goodwill	32	(21 510)	–
Amortisation of acquired intangibles	33	(9 530)	(6 341)
Costs arising from integration of acquired subsidiaries	34	(17 117)	–
Operating profit		**38 058**	**116 544**
Non-operational costs arising from acquisition of subsidiary	34	(5 472)	–
Profit arising from associate converted to subsidiary		–	73 465
Net loss on sale of subsidiaries		–	(17 361)
Profit before taxation		**32 586**	**172 648**
Taxation on operating profit before goodwill and acquired intangibles	7	(20 882)	(29 717)
Taxation on acquired intangibles and acquisition/disposal/integration of subsidiaries	7	8 164	6 610
Profit after taxation		**19 868**	**149 541**
Operating losses attributable to non-controlling interests		8 018	11 452
Non-operating losses attributable to non-controlling interests		–	3 099
Earnings attributable to shareholders		**27 886**	**164 092**

* *As restated for reclassifications detailed in note 53.*

Investec plc excluding Investec Limited

Consolidated statement of comprehensive income

For the year ended 31 March £'000	2012	2011
Profit after taxation	19 868	149 541
Cash flow hedge movements taken directly to other comprehensive income	(4 412)	2 522
Gains on realisation of available-for-sale assets recycled through the income statement	(40 721)	(4 845)
Fair value movements on available-for-sale assets taken directly to other comprehensive income	25 936	24 689
Foreign currency adjustments on translating foreign operations	4 803	16 703
Pension fund actuarial gains	282	10 157
Total comprehensive income	**5 756**	**198 767**
Total comprehensive loss attributable to non-controlling interests	(8 130)	(14 188)
Total comprehensive (loss)/income attributable to ordinary shareholders	(1 323)	199 060
Total comprehensive income attributable to preferred securities and perpetual preference shareholders	15 209	13 895
Total comprehensive income	**5 756**	**198 767**

Consolidated balance sheet

At 31 March £'000	Notes	2012	2011*	2010*
Assets				
Cash and balances at central banks	16	1 835 849	1 142 565	2 008 762
Loans and advances to banks	17	1 060 122	916 671	1 493 967
Reverse repurchase agreements and cash collateral on securities borrowed	18	1 159 138	1 472 948	490 494
Sovereign debt securities	19	1 647 271	849 624	845 432
Bank debt securities	20	824 552	1 335 462	908 206
Other debt securities	21	207 116	183 715	118 945
Derivative financial instruments	22	1 051 365	746 710	887 295
Securities arising from trading activities	23	372 570	479 419	178 855
Investment portfolio	24	320 111	199 818	172 619
Loans and advances to customers	25	7 201 417	7 168 378	6 735 522
Own originated loans and advances to customers securitised	26	535 008	483 315	517 799
Other loans and advances	25	1 358 026	981 682	602 021
Warehoused assets – Kensington warehouse funding	25	1 431 712	1 612 181	1 776 525
Other securitised assets	26	2 961 969	3 679 051	3 916 666
Interests in associated undertakings	27	24 430	19 001	99 243
Deferred taxation assets	28	119 690	76 916	98 051
Other assets	29	1 326 907	916 933	611 753
Property and equipment	30	127 497	236 838	144 370
Investment property	31	11 500	–	–
Goodwill	32	454 623	437 953	249 270
Intangible assets	33	184 197	126 240	27 942
		24 215 070	23 065 420	21 883 737
Liabilities				
Deposits by banks		1 013 622	899 153	1 623 534
Deposits by banks – Kensington warehouse funding		834 912	975 542	1 213 042
Derivative financial instruments	22	732 601	529 039	553 452
Other trading liabilities	35	271 627	402 326	190 295
Repurchase agreements and cash collateral on securities lent	18	1 020 670	612 663	545 018
Customer accounts (deposits)		11 007 758	10 244 943	9 059 074
Debt securities in issue	36	2 179 452	1 982 827	1 815 034
Liabilities arising on securitisation of own originated loans and advances	26	526 945	472 109	515 360
Liabilities arising on securitisation of other assets	26	2 361 986	3 174 267	3 465 297
Current taxation liabilities		77 188	55 902	69 250
Deferred taxation liabilities	28	82 998	73 095	52 929
Other liabilities	37	1 161 483	912 124	528 972
Pension fund liabilities		–	–	1 285
		21 271 242	20 333 990	19 632 542
Subordinated liabilities	39	708 276	668 270	601 576
		21 979 518	21 002 260	20 234 118
Equity				
Ordinary share capital	40	175	162	148
Perpetual preference share capital	41	151	151	151
Share premium	42	1 107 651	1 058 993	931 924
Treasury shares	43	(41 941)	(10 536)	(3 099)
Other reserves		424 271	292 914	100 103
Retained income		580 833	568 353	439 304
Shareholders' equity excluding non-controlling interests		2 071 140	1 910 037	1 468 531
Non-controlling interests	44	164 412	153 123	181 088
– Perpetual preferred securities issued by subsidiaries		166 762	176 917	178 307
– Non-controlling interests in partially held subsidiaries		(2 350)	(23 794)	2 781
Total equity		2 235 552	2 063 160	1 649 619
Total liabilities and equity		24 215 070	23 065 420	21 883 737

* *As restated for reclassifications detailed in note 53.*

Consolidated cash flow statement

For the year ended 31 March £'000	Notes	2012	2011
Operating profit adjusted for non-cash items	46	394 904	426 238
Taxation paid		(26 044)	(35 453)
Increase in operating assets		(435 350)	(1 792 264)
Increase in operating liabilities		806 679	584 531
Net cash inflow/(outflow) from operating activities		740 189	(816 948)
Cash flow on acquisition of subsidiaries	34	55 685	56 994
Proceeds on disposal of subsidiaries	34	–	80 102
Cash flow on acquisition of property, equipment and intangible assets		(66 759)	(246 264)
Cash flow on disposal of property, equipment and intangible assets		70 014	15 477
Cash flow from (acquisition)/disposal of associated undertakings		(4 025)	1 763
Net cash inflow/(outflow) from investing activities		54 915	(91 928)
Dividends paid to ordinary shareholders		(38 491)	(45 557)
Dividends paid to other equity holders		(15 209)	(13 895)
Proceeds on issue of ordinary shares, net of issue costs		28 629	127 076
Proceeds on issue of preference shares, net of issue costs		20 031	–
Net outflow on treasury share purchases and disposals		(50 332)	(32 298)
Proceeds from subordinated debt raised		75 000	498 475
Reduction in subordinated debt		(14 797)	(438 246)
Net cash inflow/(outflow) from financing activities		4 831	95 555
Effects of exchange rates on cash and cash equivalents		53 932	71 522
Net increase/(decrease) in cash and cash equivalents		853 867	(741 799)
Cash and cash equivalents at the beginning of the year		1 944 949	2 686 748
Cash and cash equivalents at the end of the year		2 798 816	1 944 949
Cash and cash equivalents is defined as including:			
Cash and balances at central banks		1 835 849	1 142 565
On demand loans and advances to banks		962 967	802 384
Cash and cash equivalents at the end of the year		2 798 816	1 944 949

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	Perpetual preference share capital	Share premium	Treasury shares
At 31 March 2010	148	151	931 924	(3 099)
Movement in reserves 1 April 2010 – 31 March 2011				
Retained 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	–	–	–	–
Pension fund actuarial gains	–	–	–	–
Total comprehensive income for the year	–	–	–	–
Share-based payment adjustments	–	–	–	–
Dividends paid to ordinary shareholders	–	–	–	–
Dividends declared to perpetual preference shareholders	–	–	–	–
Dividends paid to perpetual preference shareholders included in non-controlling interests	–	–	–	–
Dividends paid to non-controlling interests	–	–	–	–
Issue of ordinary shares	14	–	130 700	–
Share issue expenses	–	–	(3 631)	–
Acquisition of non-controlling interests	–	–	–	–
Non-controlling interest relating to disposal of subsidiaries	–	–	–	–
Movement of treasury shares	–	–	–	(7 437)
Transfer from capital reserve	–	–	–	–
Transfer from regulatory general risk reserve	–	–	–	–
At 31 March 2011	162	151	1 058 993	(10 536)
Movement in reserves 1 April 2011 – 31 March 2012				
Retained 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	–	–	–	–
Pension fund actuarial gains	–	–	–	–
Total comprehensive income for the year	–	–	–	–
Share-based payment adjustments	–	–	–	–
Dividends paid to ordinary shareholders	–	–	–	–
Dividends declared to perpetual preference shareholders	–	–	–	–
Dividends paid to perpetual preference shareholders included in non-controlling interests	–	–	–	–
Dividends paid to non-controlling interests	–	–	–	–
Issue of ordinary shares	13	–	28 627	–
Issue of perpetual preference shares	–	–	20 638	–
Share issue expenses	–	–	(607)	–
Acquisition of non-controlling interests	–	–	–	–
Non-controlling interest relating to disposal of subsidiaries	–	–	–	–
Movement of treasury shares	–	–	–	(31 405)
Transfer to capital reserve account	–	–	–	–
Transfer from regulatory general risk reserve	–	–	–	–
At 31 March 2012	175	151	1 107 651	(41 941)

Other reserves								
Capital reserve account	Available-for-sale reserve	Regulatory general risk reserve	Cash flow hedge reserve	Foreign currency reserves	Retained income	Shareholder's excluding non-controlling interests	Non-controlling interests	Total equity
29 093	1 369	19 272	(7 510)	57 879	439 304	1 468 531	181 088	1 649 619
–	–	–	–	–	164 092	164 092	(14 551)	149 541
–	–	–	2 522	–	–	2 522	–	2 522
–	(4 845)	–	–	–	–	(4 845)	–	(4 845)
–	24 689	–	–	–	–	24 689	–	24 689
–	434	1 295	(439)	15 040	10	16 340	363	16 703
–	–	–	–	–	10 157	10 157	–	10 157
–	20 278	1 295	2 083	15 040	174 259	212 955	(14 188)	198 767
–	–	–	–	–	29 463	29 463	–	29 463
–	–	–	–	–	(45 557)	(45 557)	–	(45 557)
–	–	–	–	–	(2 262)	(2 262)	–	(2 262)
–	–	–	–	–	(11 633)	(11 633)	11 633	–
–	–	–	–	–	–	–	(11 633)	(11 633)
180 433	–	–	–	–	–	311 147	–	311 147
–	–	–	–	–	–	(3 631)	–	(3 631)
–	–	–	–	–	(4 292)	(4 292)	322	(3 970)
–	–	–	–	–	–	–	(14 099)	(14 099)
(24 861)	–	–	–	–	(12 386)	(44 684)	–	(44 684)
(653)	–	–	–	–	653	–	–	–
–	–	(804)	–	–	804	–	–	–
184 012	21 647	19 763	(5 427)	72 919	568 353	1 910 037	153 123	2 063 160
–	–	–	–	–	27 886	27 886	(8 018)	19 868
–	–	–	(4 412)	–	–	(4 412)	–	(4 412)
–	(40 721)	–		–	–	(40 721)	–	(40 721)
–	25 936	–		–	–	25 936	–	25 936
(27)	18	111	(27)	4 835	5	4 915	(112)	4 803
–	–	–	–	–	282	282	–	282
(27)	(14 767)	111	(4 439)	4 835	28 173	13 886	(8 130)	5 756
–	–	–	–	–	32 550	32 550	–	32 550
–	–	–	–	–	(38 491)	(38 491)	–	(38 491)
–	–	–	–	–	(2 652)	(2 652)	–	(2 652)
–	–	–	–	–	(12 557)	(12 557)	12 557	–
–	–	–	–	–	–	–	(12 557)	(12 557)
175 809	–	–	–	–	–	204 449	–	204 449
–	–	–	–	–	–	20 638	–	20 638
–	–	–	–	–	–	(607)	–	(607)
–	–	–	–	–	–	–	(483)	(483)
–	–	–	–	–	–	–	19 902	19 902
(24 708)	–	–	–	–	–	(56 113)	–	(56 113)
2	–	–	–	–	(2)	–	–	–
–	–	(5 459)	–	–	5 459	–	–	–
335 088	6 880	14 415	(9 866)	77 754	580 833	2 071 140	164 412	2 235 552

Investec plc excluding Investec Limited – significant accounting policies

Basis of presentation

The group financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU) which comply with the IFRSs as issued by the International Accounting Standards Board (IASB). At 31 March 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, liabilities for cash-settled share-based payments and pension fund surpluses and deficits 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 104 to 115.

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

Restatements and presentation of information

The group has revised its disclosure of business segments into three core (previously six) business lines, namely, Asset Management, Wealth & Investment and Specialist Banking. To align with information provided to the chief operating decision maker, the 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 53 on pages 221 to 223. The group believes that these refinements provide greater clarity on the key income and balance sheet drivers of its business.

Basis of consolidation

Investec consists of two separate legal entities, being Investec plc and Investec Limited that operate under a dual listed company (DLC) structure. The effect of the DLC structure is that Investec plc and its subsidiaries and Investec Limited and its subsidiaries operate together as a single economic entity, with neither assuming a dominant role and accordingly are reported as a single reporting entity under IFRS. Combined financial statements have been prepared on this basis.

These financial statements have been prepared to present the financial position and results of Investec plc and its directly owned subsidiaries as if the contractual arrangements which create the DLC structure did not exist and, with this exception and the exclusion of certain other disclosures, are prepared in accordance with IFRS. For an understanding of the financial position, results and cash flows of the Investec DLC structure, the user is referred to the Investec plc integrated annual report.

All subsidiaries and special purpose entities (SPEs) 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 SPEs for a variety of reasons. SPEs 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.

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.

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.

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 three principal business divisions, namely, Asset Management, 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 6 and 7 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.

Investec plc excluding Investec Limited – significant accounting policies (continued)

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

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

Share-based payments to employees

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

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

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

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

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

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

Foreign currency transactions and foreign operations

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

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

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

Fee and commission income includes fees earned from providing advisory services as well as portfolio management 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 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 group'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, 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
- If a contract contains one or more embedded derivatives (which significantly modifies the cash flows that would be required by the contract and is not clearly prohibited from separation from the host contract) and the group has designated the entire hybrid contract as a financial instrument at fair value through profit and loss.

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 (within the group services and other business segment) 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 of Investec plc are recorded as non-controlling interests on the balance sheet.

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

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

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

Sale and repurchase agreements (including securities borrowing and lending)

Where securities are sold subject to a commitment to repurchase them, at a fixed price or a selling price plus a lender 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.

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 two closed defined benefit schemes.

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

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

These amendments require additional disclosures which the group will be in a position to provide. The amendments are effective for the year commencing 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. Details of unlisted investments can be found in note 24 with further analysis contained in the risk management section on pages 73 to 75
- 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 57 to 72 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.

Notes to the annual financial statements

For the year ended 31 March £'000	Asset Management	Wealth & Investment	Specialist Banking	Total group
1. Segmental information				
Business analysis				
2012				
Net interest income	651	8 647	342 721	352 019
Fee and commission income	288 578	142 361	212 642	643 581
Fee and commission expense	(86 903)	(8 182)	(23 097)	(118 182)
Investment income	–	(392)	134 517	134 125
Trading income				
– Arising from customer flow	–	(386)	54 677	54 291
– Arising from balance sheet management and other trading activities	61	(7)	15 251	15 305
Other operating (loss)/income	(309)	406	60 852	60 949
Total operating income before impairment losses on loans and advances	202 078	142 447	797 563	1 142 088
Impairment losses on loans and advances	–	–	(255 791)	(255 791)
Operating income	202 078	142 447	541 772	886 297
Operating costs	(143 156)	(119 226)	(509 156)	(771 538)
Depreciation of operating leased assets	–	–	(28 544)	(28 544)
Operating profit before goodwill, acquired intangibles	58 922	23 221	4 072	86 215
Operating loss attributable to non-controlling interests	–	47	7 971	8 018
Operating profit before goodwill, acquired intangibles and after non-controlling interests	58 922	23 268	12 043	94 233
Core business	58 922	23 268	100 174	182 364
Property loan portfolio being run off*	–	–	(88 131)	(88 131)
Cost to income ratio	70.8%	83.7%	66.2%	69.3%
Total assets (£'million)	393	502	23 320	24 215
2011				
Net interest income	(305)	5 642	337 886	343 223
Fee and commission income arising from	251 789	105 377	206 097	563 263
Fee and commission expense	(72 828)	(9 682)	(20 852)	(103 362)
Investment income	–	701	142 338	143 039
Trading income arising from				
– customer flow	–	(1 932)	50 685	48 753
– balance sheet management and other trading activities	–	(528)	62 691	62 163
Other operating (loss)/income	356	2 654	45 783	48 793
Total operating income before impairment losses on loans and advances	179 012	102 232	824 628	1 105 872
Impairment losses on loans and advances	–	–	(240 692)	(240 692)
Operating income	179 012	102 232	583 936	865 180
Operating costs	(126 010)	(77 224)	(522 614)	(725 848)
Depreciation of operating leased assets	–	–	(16 447)	(16 447)
Operating profit before goodwill, acquired intangibles	53 002	25 008	44 875	122 885
Operating loss attributable to non-controlling interests	–	–	11 452	11 452
Operating profit before goodwill, acquired intangibles and after non-controlling interests	53 002	25 008	56 327	134 337
Core business	53 002	25 008	131 304	209 314
Property loan portfolio being run off*	–	–	(74 977)	(74 977)
Cost to income ratio	70.4%	75.5%	64.7%	66.6%
Total assets (£'million)	382	524	22 159	23 065

* *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. Segmental information (continued)			
Geographical analysis			
2012			
Net interest income	285 677	66 342	352 019
Fee and commission income	605 125	38 456	643 581
Fee and commission expense	(114 807)	(3 375)	(118 182)
Investment income	142 599	(8 474)	134 125
Trading income			
– Arising from customer flow	43 179	11 112	54 291
– Arising from balance sheet management and other trading activities	16 431	(1 126)	15 305
Other operating income/(loss)	62 128	(1 179)	60 949
Total operating income before impairment losses on loans and advances	1 040 332	101 756	1 142 088
Impairment losses on loans and advances	(187 919)	(67 872)	(255 791)
Operating income	852 413	33 884	886 297
Operating costs	(671 773)	(99 765)	(771 538)
Depreciation of operating lease assets	(28 544)	–	(28 544)
Operating profit before amortisation of acquired intangibles	152 096	(65 881)	86 215
Operating loss attributable to non-controlling interests	8 018	–	8 018
Operating profit/(loss) after non-controlling interests	160 114	(65 881)	94 233
Core business	164 964	17 400	182 364
Property loan portfolio being run off*	(4 850)	(83 281)	(88 131)
Cost to income ratio	66.4%	98.0%	69.3%
Total assets (£'million)	20 831	3 384	24 215
2011			
Net interest income	270 812	72 411	343 223
Fee and commission income	523 225	40 038	563 263
Fee and commission expense	(99 473)	(3 889)	(103 362)
Investment income	138 193	4 846	143 039
Trading income			
– Arising from customer flow	43 353	5 400	48 753
– Arising from balance sheet management and other trading activities	62 430	(267)	62 163
Other operating income/(loss)	51 122	(2 329)	48 793
Total operating income before impairment losses on loans and advances	989 662	116 210	1 105 872
Impairment losses on loans and advances	(210 485)	(30 207)	(240 692)
Operating income	779 177	86 003	865 180
Operating costs	(640 278)	(85 570)	(725 848)
Depreciation of operating leased assets	(16 447)	–	(16 447)
Operating profit before goodwill, acquired intangibles	122 452	433	122 885
Operating profit before goodwill, acquired intangibles and	11 179	273	11 452
after non-controlling interests	133 631	706	134 337
Core business	178 942	30 372	209 314
Property loan portfolio being run off*	(45 311)	(29 666)	(74 977)
Cost to income ratio	65.8%	73.6%	66.6%
Total assets (£'million)	19 625	3 440	23 065

* *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. Segmental information (continued)			
2012			
Segmental geographic and business analysis of operating profit before goodwill, acquired intangibles, non-operating items, taxation and after non-controlling interests			
Asset Management	58 922	–	58 922
Wealth & Investment	23 268	–	23 268
Specialist Banking	77 924	(65 881)	12 043
Private Banking activities	1 841	(73 679)	(71 838)
Core Private Bank	6 691	9 602	16 293
Property loan portfolio being run off*	(4 850)	(83 281)	(88 131)
Property activities	572	3 351	3 923
Corporate Advisory and Investment activities	7 893	(3 157)	4 736
Corporate and Institutional Banking activities	118 496	12 956	131 452
Group Services and Other activities	(50 878)	(5 352)	(56 230)
Total group	**160 114**	**(65 881)**	**94 233**
Core business	164 964	17 400	182 364
Property loan portfolio being run off*	(4 850)	(83 281)	(88 131)
Non-controlling interest – equity			(8 018)
Operating profit			**86 215**
2011			
Asset Management	53 002	–	53 002
Wealth & Investment	25 008	–	25 008
Specialist Banking	55 621	706	56 327
Private Banking activities	(84 036)	(10 390)	(94 426)
Core Private Bank	(38 725)	19 276	(19 449)
Property loan portfolio being run off*	(45 311)	(29 666)	(74 977)
Property activities	376	7 155	7 531
Corporate Advisory and Investment activities	8 888	(6 716)	2 172
Corporate and Institutional Banking activities	139 978	9 860	149 838
Group Services and Other activities	(9 585)	797	(8 788)
Total group	**133 631**	**706**	**134 337**
Core business	178 942	30 372	209 314
Property loan portfolio being run off*	(45 311)	(29 666)	(74 977)
Non-controlling interest – equity			(11 452)
Operating profit			**122 885**

* *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			2011		
	UK and Europe	Australia	Total group	UK and Europe	Australia	Total group
2. Fees and commissions						
Fund management fees/fees for assets under management	404 327	5 674	410 001	332 621	7 580	340 201
Private client transactional fees	62 486	9 251	71 737	53 763	12 761	66 524
Corporate and institutional transactional and advisory services	138 312	23 531	161 843	136 841	19 697	156 538
Fee and commission income	605 125	38 456	643 581	523 225	40 038	563 263
Fee and commission expense	(114 807)	(3 375)	(118 182)	(99 473)	(3 889)	(103 362)
Net fees and commissions	490 318	35 081	525 399	423 752	36 149	459 901

For the year ended 31 March 2012 £'000	UK and Europe	Australia	Total group
3. Investment income			
Realised	129 057	(8 929)	120 128
Unrealised	11 652	(66)	11 586
Dividend income	1 890	521	2 411
Investment income	142 599	(8 474)	134 125

For the year ended 31 March 2012 £'000	Investment portfolio* (listed and unlisted equities)	Debt securities (sovereign, bank and other)	Other asset categories	Total group
Realised	26 230	89 737	13 090	129 057
Unrealised	14 929	(3 226)	(51)	11 652
Dividend income	1 890	–	–	1 890
Investment income: UK & Europe	43 049	86 511	13 039	142 599
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
3. Investment income (continued)			
Realised	124 196	4 061	128 257
Unrealised	13 054	767	13 821
Dividend income	943	18	961
Investment income	138 193	4 846	143 039

For the year ended 31 March 2011 £'000	Investment portfolio* (listed and unlisted equities)	Debt securities (sovereign, bank and other)	Other asset categories	Total group
Realised	29 610	89 385	5 201	124 196
Unrealised	13 217	(163)	–	13 054
Dividend income	943	–	–	943
Investment income: UK & Europe	43 770	89 222	5 201	138 193
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).*

For the year ended 31 March £'000	2012	2011
4. Other operating income		
Rental income from properties	259	491
Operating income of non-core businesses*	120	7 884
Income from operating leases	58 892	36 421
Operating income from associates	1 678	3 997
	60 949	48 793

* *Other operating income for the year ended 31 March 2011 includes operating income of certain private equity investments that were consolidated until their disposal during that year. The net operating income includes gross income of £96.0 million net of all direct cost of sales. Their other direct costs are included in operating costs.*

For the year ended 31 March £'000	2012	2011
5. Operating costs		
Staff costs	526 797	483 088
– Salaries and wages (including directors' remuneration)	430 370	386 173
– Share-based payment expense	32 550	29 463
– Social security costs	45 048	50 818
– Pensions and provident fund contributions	18 829	16 634
Premises (excluding depreciation)	37 786	32 466
Equipment (excluding depreciation)	26 665	24 654
Business expenses*	130 404	134 557
Marketing expenses	34 110	31 258
Depreciation, amortisation and impairment of property, equipment and intangibles	15 776	19 825
	771 538	725 848
Depreciation on operating leased assets	28 544	16 447
	800 082	742 295
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	523	518
Fees payable to the company's auditors and its associates for other services:		
Audit of the company's subsidiaries pursuant to legislation	4 363	3 886
Other services pursuant to legislation	1 688	1 603
Tax services	668	622
Services relating to corporate finance transactions	157	–
All other services	546	262
	7 945	6 891
KMPG fees		
Fees payable to the company's auditors for the audit of the company's accounts	–	–
Fees payable to the company's auditors and its associates for other services:		
Audit of the company's subsidiaries pursuant to legislation	435	570
Other services pursuant to legislation	91	–
Tax services	639	85
All other services	620	222
	1 785	877
Total	9 730	7 768

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

6. Share-based payments

The group operates share option and share purchase schemes for employees the majority of which are on an equity-settled basis. The purpose of the staff share schemes is to promote an *'esprit de corps'* within the organisation, create an awareness of Investec's performance and provide an incentive to maximise individual and group performance by allowing all staff to share in the risks and rewards of the group. Further information on the group share options and long-term incentive plans are provided in the Investec group's 2012 annual report.

For the year ended 31 March £'000	Asset Management	Wealth & Investment	Specialist Banking	Total group
Share-based payments expense charged to the income statement (included in operating costs):				
2012				
Equity-settled	4 353	3 308	24 889	32 550
Cash-settled	–	–	–	–
Total income statement charge	4 353	3 308	24 889	32 550
2011				
Equity-settled	3 110	1 419	24 934	29 463
Cash-settled	–	–	–	–
Total income statement charge	3 110	1 419	24 934	29 463

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	26 569	59 299

	UK schemes			
	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	45 033 517	0.09	33 381 361	0.17
Granted during the year	8 776 990	0.16	20 237 627	0.04
Exercised during the year*	(5 733 448)	0.19	(6 687 293)	0.11
Expired during the year	(2 000 229)	0.61	(1 898 178)	0.87
Outstanding at the end of the year	46 076 830	0.06	45 033 517	0.09
Exercisable at the end of the year	704 523	0.04	160 236	0.74

* *Weighted average share price during the year was £4.15 (2011: £4.94).*

For the year ended 31 March	UK schemes 2012	UK schemes 2011
6. 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	£3.30
Long term incentive grants with no strike price		
Exercise price range	£nil	£nil
Weighted average remaining contractual life	3 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%
– 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
7. Taxation		
Income statement tax charge		
Current taxation		
UK		
Current tax on income for the year	41 505	(2 342)
Adjustments in respect of prior years	3 436	13 238
Corporation tax before double tax relief	44 941	10 896
– Double taxation relief	(614)	(597)
	44 327	10 299
Europe	4 503	1 926
Australia	432	0
Other	287	179
Total current taxation	49 549	12 404

For the year ended 31 March £'000	2012	2011
7. Taxation (continued)		
Deferred taxation		
UK	(16 842)	10 518
Europe	7	7
Australia	(19 996)	489
Other	–	(311)
Total deferred taxation	(36 831)	10 703
Total taxation charge for the year	12 718	23 107
Total taxation charge for the year comprises:		
Taxation on operating profit before goodwill	20 882	29 717
Taxation on intangibles and sale of subsidiaries	(8 164)	(6 610)
	12 718	23 107
Deferred taxation comprises:		
Origination and reversal of temporary differences	(38 932)	16 156
Changes in tax rates	2 838	1 210
Adjustment in respect of prior years	(737)	(6 663)
	(36 831)	10 703
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
USA	35	35
Profit on ordinary activities before taxation	32 586	172 648
Income statement tax charge		
Taxation on profit before taxation	12 718	23 107
Effective tax rate	39.0%	13.4%

For the year ended 31 March £'000	2012	2011
7. Taxation (continued)		
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%)	8 472	48 341
Tax adjustments relating to foreign earnings	(21 951)	(18 449)
Taxation relating to prior years	2 699	6 575
Share options accounting expense	20 530	14 749
Share options exercised during the year	(5 033)	(7 697)
Unexpired share options future tax deduction	(12 027)	(9 294)
Non-taxable income	(12 907)	(17 967)
Net other permanent differences	36 627	12 217
Unrealised capital losses	(6 530)	(5 109)
Utilisation of brought forward capital losses	–	(1 469)
Change in tax rate	2 838	1 210
Total taxation charge as per income statement	12 718	23 107
Other comprehensive income taxation effects		
Cash flow hedge movements taken directly to other comprehensive income	4 412	2 522
Pre-taxation	5 852	3 467
Taxation effect	(1 440)	(945)
Gains on realisation or impairment of available-for-sale assets recycled through the income statement	(40 721)	(4 845)
Pre-taxation	(53 747)	(5 445)
Income taxation effect	13 026	600
Fair value movements on available-for-sale assets taken directly to other comprehensive income	25 936	24 689
Pre-taxation	33 763	33 133
Income taxation effect	(7 827)	(8 444)

* *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.

Notes to the annual financial statements (continued)

For the year ended 31 March	2012 Pence per share	2012 Total £'000	2011 Pence per share	2011 Total £'000
8. Dividends				
Ordinary dividend				
Final dividend for prior year	9.0	21 641	8.0	21 706
Interim dividend for current year	8.0	16 850	8.0	23 851
Total dividend attributable to ordinary shareholder recognised in current financial year	17.0	38 491	16.0	45 557

The directors have proposed a final dividend in respect of the financial year ended 31 March 2012 of 9.0 pence per ordinary share (31 March 2011: 9.0 pence).

This will be paid as follows:

- For Investec plc non-South African shareholders, through a dividend paid by Investec plc of 9.0 pence per ordinary share
- For Investec plc South African resident shareholders, through a dividend payment by Investec plc of 1.5 pence per ordinary share and through a dividend payment on the SA DAS share of 7.5 pence per ordinary share.

The final dividend will be payable on 6 August 2012 to shareholders on the register at the close of business on 27 July 2012.

For the year ended 31 March	2012 Pence per share	2012 Cents per share	2012 Total £'000	2011 Pence per share	2011 Cents per share	2011 Total £'000
Perpetual preference dividend						
Non-redeemable non-cumulative non-participating preference shares						
Final dividend for prior year	7.52	–	1 128	7.48	–	1 128
Interim dividend for current year	7.52	220.19	1 524	7.52	–	1 134
Dividend attributable to perpetual preference shareholders recognised in current financial year	15.04	220.19	2 652	15.00	–	2 262

The directors have declared a final dividend in respect of the financial year ended 31 March 2012 of 7.52 pence (Investec plc shares traded on the JSE Limited), 7.52 pence (Investec plc shares traded on the Channel Island Stock Exchange) and 428.67 cents (Investec plc) per perpetual preference share. The final dividend will be payable to shareholders on the register at the close of business on 15 June 2012.

For the year ended 31 March £'000	2012	2011
Dividend attributable to perpetual preferred securities	12 557	11 633

The €200 000 000 (2011: €200 000 000) fixed/floating rate guaranteed, non-voting, non-cumulative perpetual preferred securities paid dividends of 7.075% in both years as set out in note 44.

For the year ended 31 March £'000	2012	2011*
9. Miscellaneous income statement items		
Operating lease expenses recognised in operating costs expenses split as follows:		
Minimum lease payments	14 645	17 880
Contingent rents	399	–
	15 044	17 880
Operating lease income recognised in income split as follows:		
Minimum lease payments	59 122	40 821
	59 122	40 821

* *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 lease of motor vehicles.

10. Analysis of income and impairments by category of financial instrument

For the year ended 31 March £'000	At fair value through profit or loss – Trading	At fair value through profit or loss – Designated at inception
2012		
Net interest income	3 918	10 254
Fee and commission income	49 559	9 495
Fee and commission expense	(1 559)	(452)
Investment income	–	(539)
Trading income		
– Arising from customer flow	56 575	(8 113)
– Arising from balance sheet management and other trading activities	8 306	330
Other operating income	–	–
Other income including net interest income	116 799	10 975
Impairment losses on loans and advances	–	–
Operating income	116 799	10 975
2011		
Net interest income	(8 874)	(45 347)
Fee and commission income	40 622	15 661
Fee and commission expense	–	(2 906)
Investment income	–	55 803
Trading income		
– Arising from customer flow	50 822	(5 202)
– Arising from balance sheet management and other trading activities	28 171	(5 934)
Other operating income	–	–
Other income including net interest income	110 741	12 075
Impairment losses on loans and advances	–	–
Operating income	110 741	12 075

	Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non -financial instruments	Other fee income	Total
	14 142	831 395	76 751	(593 808)	–	9 367	352 019
	–	44 405	331	2 643	9 267	527 881	643 581
	–	(5 725)	(431)	(3 077)	–	(106 938)	(118 182)
	(1 013)	21 758	46 090	(1 408)	60 779	8 458	134 125
	–	–	–	5 124	–	705	54 291
	–	(4 899)	98	(612)	57	12 025	15 305
	–	–	–	–	60 949	–	60 949
	13 129	886 934	122 839	(591 138)	131 052	451 498	1 142 088
	(10 495)	(244 959)	(337)	–	–	–	(255 791)
	2 634	641 975	122 502	(591 138)	131 052	451 498	886 297
	13 378	781 780	76 776	(479 115)	–	4 625	343 223
	–	42 942	(38)	177	9 247	454 652	563 263
	–	(2 407)	–	(2 369)	(1 299)	(94 381)	(103 362)
	–	70 316	8 359	(1 468)	2 019	8 010	143 039
							–
	–	–	–	3 133	–	–	48 753
	–	9 967	(2 914)	37 153	3 620	(7 900)	62 163
	–	–	–	–	40 418	8 375	48 793
	13 378	902 598	82 183	(442 489)	54 005	373 381	1 105 872
	(1 097)	(239 595)	–	–	–	–	(240 692)
	12 281	663 003	82 183	(442 489)	54 005	373 381	865 180

For the year ended 31 March 2012 £'000	At fair value through profit or loss Trading	 Designated at inception	Available-for-sale
11. Analysis of financial assets and liabilities by category of financial instrument			
Assets			
Cash and balances at central banks	–	–	–
Loans and advances to banks	7	114 484	–
Reverse repurchase agreements and cash collateral on securities borrowed	304 022	–	–
Sovereign debt securities	–	–	1 392 273
Bank debt securities	–	–	673 064
Other debt securities	20 578	53 619	125 966
Securities arising from trading activities	372 570	–	–
Derivative financial instruments*	1 051 365	–	–
Loans and advances to customers	–	17 760	–
Own originated loans and advances to customers securitised	–	–	–
Other loans and advances	–	175 523	–
Warehoused assets – Kensington warehouse funding	–	–	–
Other securitised assets	–	65 569	–
Investment portfolio	–	245 340	74 771
Interests in associated undertakings	–	–	–
Deferred taxation assets	–	–	–
Other assets	473 938	16 495	16 259
Property and equipment	–	–	–
Investment property	–	–	–
Goodwill	–	–	–
Intangible assets	–	–	–
	2 222 480	688 790	2 282 333
Liabilities			
Deposits by banks	–	–	–
Deposits by banks Kensington	–	–	–
Derivative financial instruments	732 601	–	–
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	16 495	–
	1 811 370	16 495	–
Subordinated liabilities	–	–	–
	1 811 370	16 495	–

* *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 50 on pages 216 and 217.*

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
–	–	1 835 849	–	1 835 849	–	1 835 849
114 491	–	945 631	–	945 631	–	1 060 122
304 022	–	855 116	–	855 116	–	1 159 138
1 392 273	254 998	–	–	254 998	–	1 647 271
673 064	–	151 488	–	151 488	–	824 552
200 163	6 953	–	–	6 953	–	207 116
372 570	–	–	–	–	–	372 570
1 051 365	–	–	–	–	–	1 051 365
17 760	219 528	6 964 129	–	7 183 657	–	7 201 417
–	–	535 008	–	535 008	–	535 008
175 523	–	1 182 503	–	1 182 503	–	1 358 026
–	–	1 431 712	–	1 431 712	–	1 431 712
65 569	–	2 896 400	–	2 896 400	–	2 961 969
320 111	–	–	–	–	–	320 111
–	–	–	–	–	24 430	24 430
–	–	–	–	–	119 690	119 690
506 692	–	576 164	–	576 164	244 051	1 326 907
–	–	–	–	–	127 497	127 497
–	–	–	–	–	11 500	11 500
–	–	–	–	–	454 623	454 623
–	–	–	–	–	184 197	184 197
5 193 603	481 479	17 374 000	–	17 855 479	1 165 988	24 215 070
–	–	–	1 013 622	1 013 622	–	1 013 622
–	–	–	834 912	834 912	–	834 912
732 601	–	–	–	–	–	732 601
271 627	–	–	–	–	–	271 627
271 721	–	–	748 949	748 949	–	1 020 670
–	–	–	11 007 758	11 007 758	–	11 007 758
–	–	–	2 179 452	2 179 452	–	2 179 452
–	–	–	526 945	526 945	–	526 945
–	–	–	2 361 986	2 361 986	–	2 361 986
–	–	–	–	–	77 188	77 188
–	–	–	–	–	82 998	82 998
551 916	–	–	226 678	226 678	382 889	1 161 483
1 827 865	–	–	18 900 302	18 900 302	543 075	21 271 242
–	–	–	708 276	708 276	–	708 276
1 827 865	–	–	19 608 578	19 608 578	543 075	21 979 518

For the year ended 31 March 2011 £'000	At fair value through profit or loss Trading	 Designated at inception	Available-for-sale
11. Analysis of financial assets and liabilities by category of financial instrument (continued)			
Assets			
Cash and balances at central banks	–	–	–
Loans and advances to banks	–	75 212	–
Reverse repurchase agreements and cash collateral on securities borrowed	455 380	–	–
Sovereign debt securities	–	–	619 632
Bank debt securities		710	1 178 990
Other debt securities	15 585	50 206	117 924
Securities arising from trading activities	479 419	–	–
Derivative financial instruments*	746 710	–	–
Loans and advances to customers	–	779	–
Own originated loans and advances to customers securitised	–	–	–
Other loans and advances	–	187 789	–
Warehoused assets – Kensington warehouse funding	–	–	–
Other securitised assets	–	72 206	–
Investment portfolio	–	115 306	84 512
Interests in associated undertakings	–	–	–
Deferred taxation assets	–	–	–
Other assets	212 737	6 015	–
Property and equipment	–	–	–
Goodwill	–	–	–
Intangible assets	–	–	–
	1 909 831	508 223	2 001 058
Liabilities			
Deposits by banks	–	–	–
Deposits by banks Kensington	–	–	–
Derivative financial instruments	529 039	–	–
Other trading liabilities	402 326	–	–
Repurchase agreements and cash collateral on securities lent	456 413	–	–
Customer accounts (deposits)	–	–	–
Debt securities in issue	–	–	–
Liabilities arising on securitisation of own originated loans and advances	–	–	–
Liabilities arising on securitisation of other assets	–	–	–
Current taxation liabilities	–	–	–
Deferred taxation liabilities	–	–	–
Other liabilities	217 262	5 646	–
	1 605 040	5 646	–
Subordinated liabilities	–		–
	1 605 040	5 646	–

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges. For more information on hedges, please refer to note 50 on pages 216 and 217.*

Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
–	–	1 142 565	–	1 142 565	–	1 142 565
75 212	–	841 459	–	841 459	–	916 671
455 380	–	1 017 568	–	1 017 568	–	1 472 948
619 632	229 992	–	–	229 992	–	849 624
1 179 700	–	155 762	–	155 762	–	1 335 462
183 715	–	–	–	–	–	183 715
479 419	–	–	–	–	–	479 419
746 710	–	–	–	–	–	746 710
779	408 043	6 759 556	–	7 167 599	–	7 168 378
–	–	483 315	–	483 315	–	483 315
187 789	–	793 893	–	793 893	–	981 682
–	–	1 612 181	–	1 612 181	–	1 612 181
72 206	–	3 606 845	–	3 606 845	–	3 679 051
199 818	–	–	–	–	–	199 818
–	–	–	–	–	19 001	19 001
–	–	–	–	–	76 916	76 916
218 752	–	387 893	–	387 893	310 288	916 933
–	–	–	–	–	236 838	236 838
–	–	–	–	–	437 953	437 953
–	–	–	–	–	126 240	126 240
4 419 112	638 035	16 801 037	–	17 439 072	1 207 236	23 065 420
–	–	–	899 153	899 153	–	899 153
–	–	–	975 542	975 542	–	975 542
529 039	–	–		–	–	529 039
402 326	–	–		–	–	402 326
456 413	–	–	156 250	156 250	–	612 663
–	–	–	10 244 943	10 244 943	–	10 244 943
–	–	–	1 982 827	1 982 827	–	1 982 827
–	–	–	472 109	472 109	–	472 109
–	–	–	3 174 267	3 174 267	–	3 174 267
–	–	–		–	55 902	55 902
–	–	–		–	73 095	73 095
222 908	–	–	260 359	260 359	428 857	912 124
1 610 686	–	–	18 165 450	18 165 450	557 854	20 333 990
–	–	–	668 270	668 270		668 270
1 610 686	–	–	18 833 720	18 833 720	557 854	21 002 260

12. 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	50 313	39 713	55 232	32 922
	50 313	39 713	55 232	32 922

If the reclassifications had not been made, the group's income before tax in 2012 would have increased by £11.7 million (2011: a reduction of £12.4 million).

In the current year the reclassified assets have contributed £0.198 million loss to profit and loss through the margin line and a loss of £1.4 million through impairments before taxation. In the prior year, after reclassification, the assets contributed £0.167 million loss to profit and loss through the margin line and a loss of £15.22 million through impairments before taxation.

13. 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 (i.e. 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

13. Fair value hierarchy (continued)

2012				
Assets				
Loans and advances to banks	114 491	114 241	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	200 163	22 772	121 178	56 213
Derivative financial instruments	1 051 365	203 825	809 298	38 242
Trading book securities arising from customer flows	372 570	365 686	6 884	–
Investment portfolio	320 111	78 324	111 956	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	506 692	498 314	8 378	–
	5 193 603	2 594 136	2 141 131	458 336
Liabilities				
Derivative financial instruments	732 601	257 858	474 743	–
Other trading liabilities	271 627	271 627	–	–
Repurchase agreements and cash collateral on securities lent	271 721	–	271 721	–
Other liabilities	551 916	468 162	83 754	–
	1 827 865	997 647	830 218	–

There were no transfers between level 1 and level 2.

At 31 March £'000	Total instruments at fair value	Valuation technique applied Level 1	Level 2	Level 3
13. Fair value hierarchy (continued)				
2011				
Assets				
Cash and balances at central banks	–	–	–	–
Loans and advances to banks	75 212	75 212	–	–
Non-sovereign and non-bank cash placements	–	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	455 380	–	455 380	–
Sovereign debt securities	619 632	393 424	226 208	–
Bank debt securities	1 179 700	650 251	529 449	–
Other debt securities	183 715	38 418	34 333	110 964
Settlement debtors	–			–
Derivative financial instruments	746 710	63 129	652 875	30 706
Trading book securities arising from customer flows	479 419	475 432	3 987	–
Investment portfolio	199 818	112 611	59 498	27 709
Loans and advances to customers	779	197	–	582
Own originated loans and advances to customers securitised	–	–	–	–
Other loans and advances	187 789	–	–	187 789
Warehoused assets – Kensington warehouse funding	–	–	–	–
Other securitised assets	72 206	9 378	–	62 828
Interests in associated undertakings	–	–	–	–
Deferred taxation assets	–	–	–	–
Other assets	218 752	218 752	–	–
	4 419 112	2 036 804	1 961 730	420 578
Liabilities				
Derivative financial instruments	529 039	34 619	494 420	–
Other trading liabilities	402 326	402 326	–	–
Repurchase agreements and cash collateral on securities lent	456 413	–	456 413	–
Other liabilities	222 908	222 908	–	–
	1 610 686	659 853	950 833	–

There were no transfers between level 1 and level 2.

At 31 March £'000	Total level 3 financial instruments	Fair value movements through income statement	Fair value movements through compre-hensive income

13. 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 1 April 2010	336 897	316 556	20 341
Total gains or losses	19 399	13 936	5 463
In the income statement	16 682	13 936	2 746
In the statement of comprehensive income	2 717	–	2 717
Purchases	201 311	157 510	43 801
Sales	(124 184)	(116 388)	(7 796)
Issues	128	128	–
Settlements	(21 875)	(21 875)	–
Transfers into level 3	9 337	3 676	5 661
Transfers out of level 3	(562)	–	(562)
Foreign exchange adjustments	127	(984)	1 111
Balance as at 31 March 2011	420 578	352 559	68 019
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	(43 674)	(34 398)	(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	445 677	12 659

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 significant inputs to model valuations were no longer observable.

The following table quantifies the gains or losses included in the income statement 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)	7 086
Trading income arising from balance sheet management and other trading activities	7 740	–
	(34 930)	16 682

13. 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:

	Reflected in income statement		Reflected in other comprehensive income	
At 31 March £'000	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
2012				
Assets				
Other debt securities	2 041	2 138	2 306	2 467
Investment portfolio	62 109	23 558	1 569	1 659
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	3 875	4 126
2011				
Assets				
Other debt securities	2 036	6 157	1 445	2 018
Investment portfolio	6 234	1 247	2 208	2 924
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	–	–
	50 642	26 884	3 653	4 942

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
14. Fair value of financial instruments at amortised cost				
Assets				
Cash and balances at central banks	1 835 849	1 835 849	1 142 565	1 142 565
Loans and advances to banks	945 631	945 631	841 459	841 459
Reverse repurchase agreements and cash collateral on securities borrowed	855 116	855 116	1 017 568	1 017 568
Sovereign debt securities	254 998	254 998	229 795	229 795
Bank debt securities	151 488	146 861	155 762	155 762
Other debt securities	6 953	6 953	–	–
Loans and advances to customers	7 183 657	7 144 669	7 167 599	7 117 789
Own originated loans and advances to customers securitised	535 008	535 108	483 315	469 635
Other loans and advances	1 182 503	1 070 987	794 090	787 875
Warehoused assets – Kensington warehouse funding	1 431 712	1 431 712	1 612 181	1 612 181
Other securitised assets	2 896 400	2 896 400	3 606 845	3 602 070
Other assets	576 164	592 472	387 893	387 893
	17 855 479	17 716 756	17 439 072	17 364 592
Liabilities				
Deposits by banks	1 013 622	997 353	899 153	899 929
Deposits by banks – Kensington warehouse funding	834 912	834 912	975 542	975 542
Repurchase agreements and cash collateral on securities lent	748 949	748 949	156 250	156 250
Customer accounts (deposits)	11 007 758	10 995 495	10 244 943	10 243 766
Debt securities in issue	2 179 452	2 183 299	1 982 827	1 979 333
Liabilities arising on securitisation of own originated loans and advances	526 945	526 945	472 109	472 109
Liabilities arising on securitisation of other assets	2 361 986	2 361 986	3 174 267	3 059 585
Other liabilities	226 678	225 675	260 359	260 359
Subordinated liabilities	708 276	674 494	668 270	637 205
	19 608 578	19 549 108	18 833 720	18 684 078

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 £'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	
15. Designated at fair value: loans and receivables and financial liabilities						
2012						
Loans and receivables designated at fair value through profit or loss						
Loans and advances to banks	114 484	–	–	–	–	114 484
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
	330 136	15 066	49 639	(10 507)	(21 913)	330 136
2011						
Loans and advances to banks	75 212	389	242	–	–	75 212
Loans and advances to customers	188 371	(1 667)	10 926	(1 582)	11 032	188 371
Other securitised assets	27 258	(1 894)	27 258	(1 894)	27 258	27 258
	290 841	(3 172)	38 426	(3 476)	38 290	290 841

Financial liabilities designated at fair value through profit or loss

At 31 March £'000	Carrying value	Remaining contractual amount to be repaid at maturity	Fair value adjustment	
			Year to date	Cumulative
2012				
Other liabilities	18 015	16 495	1 520	1 520
	18 015	16 495	1 520	1 520
2011				
Other liabilities	5 646	5 290	356	356
	5 646	5 290	356	356

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

Year to date and cumulative changes in fair value of financial liabilities attributable to credit risk were £nil (2011: £nil).

At 31 March £'000	2012	2011
16. 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	1 640 388	945 810
Europe (excluding UK)	15 436	41 454
Australia	180 025	155 301
Total	1 835 849	1 142 565

At 31 March £'000	2012	2011
17. Loans and advances to banks		
An analysis of loans and advances to banks based on the country where the risk of the asset lies		
South Africa	6 798	12 802
United Kingdom	715 577	579 350
Europe (excluding UK)	203 674	145 202
Australia	72 197	113 410
United States of America	33 312	43 419
Other	28 564	22 488
Total	1 060 122	916 671

At 31 March £'000	2012	2011
18. 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

At 31 March £'000	2012	2011
19. Sovereign debt securities		
Bonds	145 618	189 092
Liquid asset bills	557 471	557 994
Commercial paper	218 292	38 411
Treasury bills	725 890	64 127
	1 647 271	849 624
The risk of the above assets lies in the following geographies:		
United Kingdom	611 405	580 782
Europe (excluding UK)*	522 698	44 379
Australia	231 824	224 463
United states of America	281 344	–
Total	1 647 271	849 624

* *Where Europe (excluding UK) includes securities held in Germany and France.*

At 31 March £'000	2012	2011
20. Bank debt securities		
Bonds	203 098	640 556
Listed equities	–	710
Floating rate notes	621 453	694 196
	824 551	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	462 453	490 911
United States of America	28 637	–
Other	12 671	–
Total	824 551	1 335 462

At 31 March £'000	2012	2011
21. Other debt securities		
Bonds	58 083	45 081
Floating rate notes	131 511	122 998
Unlisted equities	629	–
Other investments	16 893	15 636
	207 116	183 715
The risk of the above assets lies in the following geographies:		
United Kingdom	60 614	57 727
Europe (excluding UK)	50 319	30 898
Australia	81 860	79 490
United States of America	13 607	15 600
Other	716	–
Total	207 116	183 715

22. 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	16 264	(10 500)	5 586 644	39 458	(84 915)
Currency swaps	7 185 941	334 649	(60 843)	3 204 169	225 417	(69 102)
OTC options bought and sold	2 931 182	23 493	(19 831)	1 998 874	26 093	(12 024)
Other foreign exchange contracts	696 932	484	(2 333)	126 677	2 775	–
OTC derivatives	13 864 225	374 890	(93 507)	10 916 364	293 743	(166 041)
Exchange traded futures	–	–	–	–	–	–
Exchange traded options	–	–	–	–	–	–
	13 864 225	374 890	(93 507)	10 916 364	293 743	(166 041)

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. Derivative financial instruments (continued)						
Interest rate derivatives						
Caps and floors	1 032 076	3 284	(4 460)	1 009 813	3 889	(3 695)
Swaps	15 406 117	263 515	(178 693)	14 641 127	175 131	(94 168)
Forward rate agreements	206 367	–	(40)	438 875	103	(52)
OTC options bought and sold	250 000	419	–	–	–	–
OTC derivatives	786 433	–	(208)	1 123 157	–	(303)
	17 680 993	267 218	(183 401)	17 212 972	179 123	(98 218)
Exchange traded futures	398 138	–	(494)	457 954	–	(113)
Exchange traded options	–	–	–	–	–	–
	18 079 131	267 218	(183 895)	17 670 926	179 123	(98 331)
Equity and stock index derivatives						
OTC options bought and sold	1 805 348	9 892	(43 368)	2 036 849	15 622	(9 809)
Equity swaps and forwards	61 902	694	(725)	228 471	4 110	(2 626)
OTC derivatives	1 867 250	10 586	(44 093)	2 265 320	19 732	(12 435)
Exchange traded futures	1 340 564	20 869	(26 210)	178 333	1 471	(1 024)
Exchange traded options	3 578 941	154 447	(211 481)	161	35 722	(17 890)
Warrants	3 759	2 245	–	–	660	–
	6 790 514	188 147	(281 784)	2 443 814	57 585	(31 349)
Commodity derivatives						
OTC options bought and sold	23 413	1 485	(101)	31 845	3 101	(1 060)
Commodity swaps and forwards	118 261	170 389	(169 325)	366 611	174 920	(228 712)
OTC derivatives	141 674	171 874	(169 426)	398 456	178 021	(229 772)
Exchange traded futures	–	–	–	–	–	–
Exchange traded options	–	–	–	–	–	–
	141 674	171 874	(169 426)	398 456	178 021	(229 772)
Credit derivatives						
Credit linked notes	–	–	–	–	–	–
Credit swaps	489 635	13 257	(3 989)	56 917	7 430	(3 546)
	489 635	13 257	(3 989)	56 917	7 430	(3 546)
Embedded derivatives*	–	35 979	–	–	30 808	–
Total derivatives		1 051 365	(732 601)		746 710	(529 039)
Effect of on balance sheet netting		–	–		–	–
Derivatives per balance sheet		1 051 365	(732 601)		746 710	(529 039)

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

At 31 March £'000	2012	2011
23. Securities arising from trading activities		
Listed equities	122 562	86 784
Bonds	47 450	23 157
Government securities	202 558	369 166
Other investments	–	312
	372 570	479 419

At 31 March £'000	2012	2011
24. Investment portfolio		
Listed equities	34 824	69 696
Unlisted equities*	285 287	130 122
	320 111	199 818

* *Unlisted equities includes loan instruments that are convertible into equity.*

At 31 March £'000	2012	2011
25. Loans and advances to customers, Kensington warehouse loans and other loans and advances		
Gross loans and advances to customers	7 364 466	7 352 151
Impairments of loans and advances to customers	(163 049)	(183 773)
Net loans and advances to customers	7 201 417	7 168 378
Gross Kensington warehouse loans	1 559 041	1 695 954
Impairments of Kensington warehouse loans	(127 329)	(83 773)
Net Kensington warehouse loans	1 431 712	1 612 181
Gross other loans and advances to customers	1 392 473	1 012 712
Impairments of other loans and advances to customers	(34 447)	(31 030)
Net other loans and advances to customers	1 358 026	981 682
For further analysis on loans and advances refer to pages 57 to 72 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	114 569
Charge to the income statement	148 027	168 248
Disposals	(83 596)	–
Utilised	(80 812)	(105 016)
Exchange adjustment	(5 608)	4 454
Balance at end of year	160 236	182 255
Portfolio impairment		
Balance at beginning of year	1 518	17 529
Charge to the income statement	(380)	(13 948)
Exchange adjustment	1 675	(2 063)
Balance at end of year	2 813	1 518

At 31 March £'000	2012	2011
25. Loans and advances to customers, Kensington warehouse loans and other loans and advances (continued)		
Kensington warehouse loans		
Specific impairment		
Balance at beginning of year	20 235	37 215
Charge to the income statement	36 834	4 619
Utilised	(17 792)	(21 707)
Exchange adjustment	(2 192)	108
Balance at end of year	37 085	20 235
Portfolio impairment		
Balance at beginning of year	63 538	31 953
Charge to the income statement	29 394	30 793
Exchange adjustment	(2 688)	782
Balance at end of year	90 244	63 528
Other loans and advances		
Specific impairment		
Balance at beginning of year	25 990	11 932
Charge to the income statement	4 926	14 419
Utilised	(1 127)	(215)
Exchange adjustment	(512)	(146)
Balance at end of year	29 277	25 990
Portfolio impairment		
Balance at beginning of year	5 040	1 714
Charge to the income statement	2 911	1 277
Exchange adjustment	(2 781)	2 049
Balance at end of year	5 170	5 040
Total specific impairments	226 598	228 480
Total portfolio impairments	98 227	70 096
Total impairments	324 825	298 576
Interest income recognised on loans that have been impaired	38 263	12 641
Reconciliation of income statement charge:		
Loans and advances	147 647	154 300
Specific impairment charged to income statement	148 027	168 248
Portfolio impairment charged to income statement	(380)	(13 948)
Securitised assets (refer to note 26)	34 079	35 284
Specific impairment charged to income statement	23 538	26 833
Portfolio impairment charged to income statement	10 541	8 451
Kensington warehouse loans	66 228	35 412
Specific impairment charged to income statement	36 834	4 619
Portfolio impairment charged to income statement	29 394	30 793
Other loans and advances	7 837	15 696
Specific impairment charged to income statement	4 926	14 419
Portfolio impairment charged to income statement	2 911	1 277
Total income statement charge	255 791	240 692

At 31 March £'000	2012	2011
26. Securitised assets and liabilities arising on securitisation		
Gross own originated loans and advances to customers securitised	536 297	484 163
Impairments of own originated loans and advances to customers securitised	(1 289)	(848)
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:		
Cash and cash equivalents	30 068	15 267
Loans and advances to customers	610 188	640 036
Kensington securitised assets	2 321 713	3 023 748
Total other securitised assets	2 961 969	3 679 051
The associated liabilities are recorded on balance sheet in the following line items:		
Liabilities arising on securitisation of own originated loans and advances	(526 945)	(472 109)
Liabilities arising on securitisation of other assets	(2 361 986)	(3 174 267)
Carrying value at 31 March	(2 888 931)	(3 646 376)
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	15 625	20 064
Charge to the income statement	23 538	26 833
Utilised	(28 809)	(30 678)
Disposals	(13 031)	–
Exchange adjustment	250	(594)
Balance at end of year	(2 427)	15 625
Own originated loans and advances to customers securitised	892	210
Kensington loans and advances securitised	(3 319)	15 415
Portfolio impairment		
Balance at beginning of year	33 224	24 420
Charge to the income statement	10 541	8 451
Disposal	(16 843)	–
Exchange adjustment	357	353
Balance at end of year	27 279	33 224
Own originated loans and advances to customers securitised	397	638
Kensington loans and advances securitised	26 882	32 586
Total impairments	24 852	48 849
Total income statement charge	34 079	35 284

Notes to the annual financial statements (continued)

At 31 March £'000	2012	2011
27. Interests in associated undertakings		
Interests in associated undertakings consist of:		
Net asset value	17 375	12 284
Goodwill	7 055	6 717
Investment in associated undertakings	24 430	19 001
Analysis of the movement in our share of net assets:		
At beginning of year	12 284	35 570
Exchange adjustments	22	(157)
Disposals	(267)	(1 814)
Acquisitions	3 953	51
Acquisition of controlling interest	–	(23 775)
Operating income from associates	1 678	3 997
Dividends received	(295)	(923)
Gains recognised in other comprehensive income	–	(665)
At end of year	17 375	12 284
Analysis of the movement in goodwill:		
At beginning of year	6 717	63 673
Exchange adjustments	(1)	21
Acquisitions	339	–
Acquisition of controlling interest	–	(56 977)
At end of year	7 055	6 717
Associated undertakings:		
Unlisted	24 430	19 001
	24 430	19 001

At 31 March £'000	2012	2011

28. Deferred taxation

	2012	2011
Deferred taxation assets	119 690	76 916
Deferred taxation liabilities	(82 998)	(73 095)
Net deferred taxation assets	36 692	3 821
The net deferred taxation asset arises from:		
Deferred capital allowances	20 240	22 307
Income and expenditure accruals	13 209	20 226
Asset in respect of unexpired options	17 330	17 153
Unrealised fair value adjustments on financial instruments	3 673	2 259
Losses carried forward	43 875	5 617
Liability in respect of pensions surplus	(6 150)	(5 245)
Deferred taxation on acquired intangibles	(40 656)	(28 921)
Other temporary differences	(14 829)	(29 575)
Net deferred taxation assets	36 692	3 821
Reconciliation of net deferred taxation assets:		
At beginning of year	3 821	45 122
Charge to income statement – current year taxation	36 831	(10 703)
Credit directly in other comprehensive income	2 179	(7 049)
Acquisitions	(3 173)	(33 856)
Disposals	–	6 385
Other	(2 966)	2 579
Exchange adjustments	–	1 343
At year end	36 692	3 821
Deferred tax on available-for-sale instruments recognised directly in equity	–	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

29. Other assets

	2012	2011
Settlement debtors	955 497	659 256
Dealing properties	90 529	58 434
Accruals and prepayments	78 486	65 217
Pension assets (refer to note 38)	25 625	20 215
Trading initial margin	57 952	25 080
Other debtors	118 818	88 731
	1 326 907	916 933

At 31 March £'000	Freehold properties	Leasehold improvements	Furniture and vehicles	Equipment	Operating leases	Total
30. Property and equipment						
2012						
Cost						
At beginning of year	7 058	43 668	16 480	27 691	210 342	305 239
Exchange adjustments	12	(75)	113	(153)	–	(103)
Acquisition of subsidiary undertakings	–	–	1 246	1 888	–	3 134
Additions	–	18 724	2 435	2 479	38 852	62 490
Disposals	(3 754)	(6 553)	(4 485)	(1 706)	(144 519)*	(161 017)
At end of year	3 316	55 764	15 789	30 199	104 675	209 743
Accumulated depreciation						
At beginning of year	(36)	(21 253)	(9 765)	(21 532)	(15 815)	(68 401)
Exchange adjustments	–	57	(11)	147	–	193
Disposals	–	5 603	3 152	3 746	11 770*	24 271
Depreciation charge for year	(138)	(3 895)	(2 347)	(3 385)	(28 544)	(38 309)
At end of year	(174)	(19 488)	(8 971)	(21 024)	(32 589)	(82 246)
Net carrying value	3 142	36 276	6 818	9 175	72 086	127 497
2011						
Cost						
At beginning of year	32 894	40 373	14 984	145 903	–	234 154
Exchange adjustments	(1 157)	182	562	(4 077)	–	(4 490)
Disposal of subsidiary undertakings	(30 633)	–	–	(119 500)	–	(150 133)
Acquisition of subsidiary undertakings	2 724	–	–	1 655	–	4 379
Additions	3 230	3 307	1 978	4 506	226 097	239 118
Disposals	–	(194)	(1 044)	(796)	(15 755)	(17 789)
At end of year	7 058	43 668	16 480	27 691	210 342	305 239
Accumulated depreciation						
At beginning of year	(7 089)	(18 136)	(8 109)	(56 450)	–	(89 784)
Exchange adjustments	281	(221)	(126)	1 251	–	1 185
Disposal of subsidiary undertakings	7 393	–	–	39 370	–	46 763
Disposals	–	172	760	748	632	2 312
Depreciation charge for year	(621)	(3 068)	(2 290)	(6 451)	(16 447)	(28 877)
At end of year	(36)	(21 253)	(9 765)	(21 532)	(15 815)	(68 401)
Net carrying value	7 022	22 415	6 715	6 159	194 527	236 838

* *Included in the disposals of operating leases are operating leases that have been converted to financing 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 3) 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
31. Investment properties		
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
32. Goodwill		
Cost		
At beginning of year	543 564	354 553
Acquisition of subsidiaries	38 287	198 520
Disposals	–	(12 621)
Exchange adjustments	(38)	3 112
At end of year	581 813	543 564
Accumulated impairments		
At beginning of year	(105 611)	(105 283)
Income statement amount	(21 510)	–
Exchange adjustments	(69)	(328)
At end of year	(127 190)	(105 611)
Net carrying value	454 623	437 953
Analysis of goodwill by line of business and geography		
UK and Europe		
Asset Management	88 045	88 045
Wealth & Investment	233 120	197 119
Specialist Banking	88 671	108 253
	409 836	393 417
Australia		
Specialist Banking	44 787	44 536
	44 787	44 536
Total group	454 623	437 953

32. Goodwill (continued)

Goodwill is tested annually for impairment, or more frequently if evidence exists that goodwill might be impaired, by comparing the carrying value to its recoverable amount. The recoverable amount of goodwill is determined based on expected cash flows within the cash-generating units of the group to which the goodwill is allocated. Key assumptions within the calculation include discount rates, growth rates in revenue and related expenditure.

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

UK and Europe

Excluding Evolution Group plc which was acquired during the year, the three most significant cash-generating units giving rise to goodwill are Investec Wealth & Investment, Investec Asset Management and Kensington.

For Investec Asset Management, the recoverability of goodwill of £88.0 million has been tested with reference to both the underlying profitability (taking into account 2012 profits before taxation of £58.9 million (2011: £53 million) and budgets and plans for the next three years) and the value of the business as represented by funds under management of £36.2 billion (2011: £30.8 billion). These factors support the carrying value of goodwill.

For Investec Wealth & Investment , goodwill of £197.1 million arising on the acquisition of Rensburg Sheppards plc in June 2010 has been tested for impairment on the basis of cash flow projections for the next three years discounted at 11.5%.

Goodwill of £121.1 million arising on the acquisition of Kensington on 7 August 2008 was written down by £60.0 million at 31 March 2008 and has been written down by a further £21.5 million in the current year to £39.7 million. The remaining goodwill has been tested for impairment on the basis of the existing book, assuming no new mortgage origination and no recovery in securitisation markets. Cash flows have been projected for a five year period using the latest available information on debts and expected repayments discounted at 14.9%. On this basis the value of goodwill is supported. Future impairment of this goodwill will largely be dependent on the timing of future repayments, the level of future business generated and impairments.

In respect of the £36 million of goodwill arising on EVG, we have assessed the post-acquisition performance of EVG and concluded that the goodwill is not impaired.

At 31 March £'000	Acquired software	Core technology	Intellectual property	Client relationships	Total
33. Intangible assets					
2012					
Cost					
At beginning of year	49,866	–	1,245	113,100	164,211
Exchange adjustments	30	–	5	23	58
Acquisition of a subsidiary undertaking	242	–	–	68 688	68 930
Additions	2 127	–	2 126	16	4 269
At end of year	52 265	–	3 376	181 827	237 468
Accumulated amortisation and impairments					
At beginning of year	(31 743)	–	(296)	(5 932)	(37 971)
Exchange adjustments	234	–	(2)	9	241
Amortisation	(6 011)	–		(9 530)	(15 541)
At end of year	(37 520)	–	(298)	(15 453)	(53 271)
Net carrying value	14 745	–	3 078	166 374	184 197

At 31 March £'000	Acquired software	Core technology	Intellectual property	Client relationships	Total
33. Intangible assets (continued)					
2011					
Cost					
At beginning of year	39 388	6 927	14 917	–	61 232
Exchange adjustments	(26)	53	(521)	–	(494)
Reclassifications	1 462	–	(1 951)	–	(489)
Acquisition of a subsidiary undertaking	5 856	–	–	127 500	133 356
Disposal of a subsidiary undertaking	–	–	(15 100)	(14 400)	(29 500)
Additions	3 246	–	3 900	–	7 146
Disposals	(60)	(6 980)	–	–	(7 040)
At end of year	49 866	–	1 245	113 100	164 211
Accumulated amortisation and impairments					
At beginning of year	(25 085)	(1 072)	(7 133)	–	(33 290)
Exchange adjustments	65	5	369	–	439
Reclassifications	–	–	–	409	409
Disposal of a subsidiary undertaking	–	–	7 080	–	7 080
Disposals	60	1 067	–	–	1 127
Amortisation	(6 783)	–	(612)	(6 341)	(13 736)
At end of year	(31 743)	–	(296)	(5 932)	(37 971)
Net carrying value	18 123	–	949	107 168	126 240

Client relationships mainly relate to the acquisition of Rensburg Sheppards plc in June 2010 and Evolution Group in December 2011.

34. Acquisitions and disposals

2012

Acquisitions

Acquisition of Evolution Group plc

On 22 December 2011 Investec plc issued 53 800 540 ordinary shares at a value of 326.8 pence each as consideration for the acquisition of the entire issued ordinary share capital of Evolution Group plc (EVG).

The acquisition was carried out by way of a scheme of arrangement under section 425 of the UK Companies Act under which each EVG shareholder received 0.23124 new Investec ordinary shares for each EVG scheme share held.

On 18 April 2011 Investec Bank plc 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 assets and liabilities at the date of acquisition, goodwill arising on these transactions and total consideration paid are disclosed in the table below:

	Book value of assets and liabilities			Fair value of assets and liabilities		
£'000	EVG	ICAL	Total	EVG	ICAL	Total
Loans and advances to banks	59 248	535	59 783	59 248	535	59 783
Trading securities	11 578	–	11 578	11 578	–	11 578
Investment securities	2 068	–	2 068	1 973	–	1 973
Interests in associated undertakings	77	–	77	–	–	–
Derivatives	133	–	133	133	–	133
Deferred taxation assets	17 317	–	17 317	13 807	–	13 807
Other assets	37 214	354	37 568	36 479	354	36 833
Property and equipment	3 121	13	3 134	3 121	13	3 134
Intangible assets	16 426	930	17 356	68 000	930	68 930
Goodwill*	10 661	2 286	12 947	36 001	2 286	38 287
Assets	157 843	4 118	161 961	230 340	4 118	234 458
Current taxation liabilities	19	–	19	19	–	19
Deferred taxation liabilities	2 990	–	2 990	16 980	–	16 980
Other trading liabilities	2 481	–	2 481	2 481	–	2 481
Other liabilities	40 719	20	40 739	40 979	20	40 999
Non-controlling interests	(158)	–	(158)	(158)	–	(158)
Liabilities	46 051	20	46 071	60 301	20	60 321
Net assets/fair value of net assets acquired	111 792	4 098	115 890	170 039	4 098	174 137
Issue of shares				175 820	–	175 820
Less: treasury shares acquired				(5 781)	–	(5 781)
Fair value of cash consideration				–	4 098	4 098
				170 039	4 098	174 137
Loans and advances to banks at acquisition						59 783
Fair value of cash consideration						(4 098)
Net cash inflow						55 685

* *The goodwill arising from the acquisition of EVG consists largely of the benefits expected to arise from the enhancement of the group's wealth and investment offering through the combination of EVG's subsidiary, Williams de Broë, with the group's existing wealth and investment business. In the case of ICAL, the goodwill 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.*

For the post-acquisition period 23 December 2011 to 31 March 2012, the operating income of EVG totalled £20.732 million and losses before taxation, including integration costs, totalled £21.916 million. The operating income before impairment losses on loans and advances of Investec would have been £1 210 633 million and operating profit would have totalled £25.470 million, if the acquisition of EVG had been on 1 April 2011 as opposed to 22 December 2011.

Costs arising from the integration of acquired subsidiaries of £17 117 million (2011: nil) and non-operational costs arising from the acquisition of subsidiary of £5 472 million (2011: nil) have been expensed.

34. Acquisitions and disposals (continued)

2012

Disposals

There were no significant disposals of subsidiaries during the year ended 31 March 2012.

2011

Acquisition

Rensburg Sheppards plc (RS) became a wholly owned subsidiary of the Investec group on 25 June 2010. Prior to this date, Investec owned 47.1% of RS and it was accounted for as an associate. At acquisition that RS was made up of two principal trading subsidiaries, Rensburg Sheppards Investment Management Limited (RSIM) and Rensburg Fund Management Limited (RFM). RFM was subsequently sold on 18 January 2011 (see below).

As a result of requirements of the new accounting rules of IFRS 3, the group is required to fair value its 47.1% holding in RS at the date it acquired the remaining 52.9%. This has resulted in an exceptional gain of £73.5 million (net of acquisition costs) as set out below.

Investec plc issued 37 907 652 ordinary shares at a value of 476 pence each as consideration for the acquisition of RS. The acquisition was carried out by way of a scheme of arrangement under section 425 of the UK Companies Act under which each RS shareholder received 1.63 new Investec ordinary shares for each Rensburg scheme share.

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

£'000	Book value	Fair value
Loans and advances to banks	65 449	65 449
Investment securities	2 193	1 320
Deferred taxation assets	2 095	2 095
Other assets	97 865	97 865
Property plant and equipment	4 921	4 378
Intangible assets	34 764	133 356
Total assets	207 287	304 463
Deposits by banks	534	534
Current taxation liabilities	8 823	6 915
Deferred taxation liabilities	9 996	35 951
Other liabilities	93 931	100 746
Subordinated liabilities	18 125	18 125
Liabilities	131 409	162 271
Net assets/fair value of net assets	75 878	142 192
Goodwill*		198 520
Fair value of consideration		340 712
Acquisition of 52.9% holding (i.e. 23.3 million shares) on 25 June 2010**		180 440
Fair value of 47.1% holding (i.e. 20.7 million shares)**		160 272
Carrying value of 47.1% holding at 25 June 2010		80 752
Fair value gain arising on acquisition		79 520
Investec costs of acquisition of 53% holding		(6 055)
Net gain in income statement		73 465

* *The goodwill arising from the acquisition consists largely of the benefits expected to arise from the enhancement of the group's wealth and investment offering through the combination of RS with the group's existing Wealth and Investment business. None of the goodwill is expected to be deductible for corporation tax purposes.*

** *As calculated in relation to the 37.9 million Investec plc shares issued for the remaining 53% shares in Rensburg Sheppards plc at £4.76; which valued Rensburg Sheppards at approximately £7.76 per share, Rensburg Sheppards plc had 43.9 million shares in issue.*

34. Acquisitions and disposals (continued)

2011 (continued)

Acquisition (continued)

For the post-acquisition period 26 June to 31 March 2011, the operating income of Rensburg Sheppards plc totalled £88 846 000 and profits before taxation and amortisation of client relationships totalled £25 551 000. The operating income of Investec would have been £890.5 million and profits before taxation and amortisation of client relationships would have totalled £122.5 million if the acquisition of RS had been on 1 April 2010 as apposed to 25 June 2010.

On October 2010 the group completed the purchase of the 33.6% non-controlling interest in Start Mortgages Holding Limited (Start) bringing the group's interest in Start to 100%.

The net cash flow on these acquisitions, inclusive of related acquisition costs and net of cash within subsidiaries acquired amounted to £56 994 million.

Disposal

The net loss on sale of subsidiaries of £17 361 000 comprises a loss of £35 581 000 on the sale and deconsolidation of investments previously consolidated as subsidiaries, partially offset by a gain of £18 220 000 on the sale of Rensburg Fund Management Limited.

At 31 March £'000	2012	2011
35. 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
36. Debt securities in issue		
Bonds and medium-term notes repayable:		
Up to one year	–	15 590
Other unlisted debt securities in issue repayable:		
Not more than three months	557 453	146 003
Over three months but not more than one year	64 592	205 793
Over one year but not more than five years	1 250 399	1 234 963
Greater than five years	307 008	380 478
	2 179 452	1 967 237
	2 179 452	1 982 827

At 31 March £'000	2012	2011
37. Other liabilities		
Settlement liabilities	768 887	568 575
Other creditors and accruals	254 909	227 051
Other non-interest bearing liabilities	137 687	116 498
	1 161 483	912 124

At 31 March £'000	2012	2011
38. Pension commitments		
Income statement charge		
Defined benefit obligations net income included in net interest income	(685)	(505)
Cost of defined contribution schemes included in staff costs	18 829	16 634
Net income statement charge in respect of pensions	18 144	16 129

The group operates pension schemes throughout its areas of operation. The majority of the schemes are defined contribution schemes with the exception of two schemes in the United Kingdom being the Guinness Mahon Pension Fund scheme ('GM scheme') and the Investec Asset Management Pension scheme ('IAM scheme'). Both schemes are final salary pension plans with assets held in separate trustee administered funds. The schemes are closed to new members and the accrual of service ceased on 31 March 2002. The schemes have been valued at 31 March 2012 by qualified independent actuaries in accordance with IAS 19. There were no unpaid contributions in relation to the defined contribution schemes outstanding at the year end.

The major assumptions used were:	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%

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:

At 31 March	Value at 2012 £'000	Long-term rate of return expected	Value at 2011 £'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	
IAM scheme				
Equities	10 138	7.20%	9 648	7.70%
Gilts	3 422	3.20%	3 336	4.20%
Cash	767	3.20%	503	4.20%
Total market value of assets	14 327		13 487	

At 31 March £'000	2012 GM	2012 IAM	2012 Total	2011 GM	2011 IAM	2011 Total
38. Pension commitments (continued)						
Recognised in the balance sheet						
Fair value of fund assets	126 365	14 327	140 692	110 559	13 487	124 046
Present value of obligations	(100 743)	(14 324)	(115 067)	(91 552)	(12 279)	(103 831)
Net asset	25 622	3	25 625	19 007	1 208	20 215
Amounts in balance sheet						
Assets	25 622	3	25 625	19 007	1 208	20 215
Liability	–	–	–	–	–	–
Net asset	25 622	3	25 625	19 007	1 208	20 215
Recognised in the income statement						
Past service cost	–	–	–	–	–	–
Expected return on pension scheme assets	5 338	928	6 266	5 858	835	6 693
Interest on pension obligations	(4 910)	(671)	(5 581)	(5 484)	(704)	(6 188)
Net return	428	257	685	374	131	505
Recognised in the statement of comprehensive income						
Actuarial gain/(loss)on plan assets	11 478	(801)	10 677	1 178	341	1 519
Actuarial (loss)/gain	(8 843)	(1 537)	(10 380)	11 334	1 145	12 479
Actuarial gain/(loss)	2 635	(2 338)	297	12 512	1 486	13 998
Deferred tax	(548)	533	(15)	(3 420)	(421)	(3 841)
Actuarial gain/(loss) in statement of comprehensive income	2 087	(1 805)	282	9 092	1 065	10 157
Actual return on plan assets	16 816	127	16 943	7 036	1 176	8 212

The cumulative amount of net actuarial losses recognised in the statement of comprehensive income is £10.8 million (£7.2 million net of deferred tax) (2012: £13.4 million (£9.3 million net of deferred tax)).

At 31 March £'000	GM	IAM	Total
38. Pension commitments (continued)			
Changes in the fair value of defined benefit obligations			
Opening defined benefit obligation at 1 April 2010	102 018	12 881	114 899
Interest cost	5 484	704	6 188
Actuarial losses	(11 334)	(1 145)	(12 479)
Benefits paid	(4 616)	(161)	(4 777)
Opening defined benefit obligation at 1 April 2011	91 552	12 279	103 831
Interest cost	4 910	671	5 581
Actuarial losses	8 843	1 537	10 380
Benefits paid	(4 562)	(163)	(4 725)
Closing defined benefit obligation at 31 March 2012	100 743	14 324	115 067
Changes in the fair value of plan assets			
Opening defined benefit obligation at 1 April 2010	104 587	11 596	116 183
Expected return	5 858	835	6 693
Actuarial gains	1 178	341	1 519
Contributions by the employer	3 552	876	4 428
Benefits paid	(4 616)	(161)	(4 777)
Opening defined benefit obligation at 1 April 2011	110 559	13 487	124 046
Expected return	5 338	928	6 266
Actuarial gain/(loss)	11 478	(801)	10 677
Contributions by the employer	3 552	876	4 428
Benefits paid	(4 562)	(163)	(4 725)
Closing fair value of plan assets at 31 March 2012	126 365	14 327	140 692

The group expects to make £4.1 million of contributions to the defined benefit schemes in the 2012 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)
IAM scheme					
Defined benefit obligation	14 327	13 487	(12 881)	(8 907)	(9 144)
Plan assets	(14 324)	(12 279)	11 596	7 695	9 769
Surplus/(deficit)	3	1 208	(1 285)	(1 212)	625
Experience adjustments on plan liabilities	(1 537)	1 145	(3 574)	518	2 399
Experience adjustments on plan assets	(801)	341	3 004	(2 953)	(950)

At 31 March £'000	2012	2011
39. Subordinated liabilities		
Issued by Investec Finance plc		
– A wholly owned subsidiary of Investec Bank plc which is a wholly owned subsidiary of Investec plc		
Guaranteed subordinated step-up notes	33 979	33 979
Guaranteed undated subordinated callable step-up notes	19 230	19 471
Issued by investec Bank plc		
Subordinated fixed rate medium-term notes	576 826	502 126
Issued by Investec Australia Limited		
Subordinated floating rate medium-term notes	7 057	7 016
Issued by Global Ethanol Holdings Limited		
Subordinated loan notes	–	34 505
Issued by Kensington Group plc		
Callable subordinated notes	71 184	71 173
	708 276	668 270
Remaining maturity:		
In one year or less, or on demand	–	34 505
In more than two years, but not more than five years	124 393	105 152
In more than five years	583 883	528 613
	708 276	668 270

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

Guaranteed subordinated step-up notes

As at 31 March 2012 Investec Finance plc had in issue £33 793 000 of guaranteed subordinated step-up notes due in 2016 (2016 notes). Interest is paid annually. The notes are guaranteed by Investec Bank plc and are listed on the Luxembourg Stock Exchange. The step-up notes may be redeemed by the issuer, at par, at any time after 1 March 2011, subject to the prior consent of the Financial Services Authority. On 1 March 2011 the interest rate was reset to 6.482%, the aggregate of 3.5% and the gross redemption yield of the relevant benchmark gilt.

Guaranteed undated subordinated callable step-up notes

As 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.

Medium-term notes

Subordinated fixed rate medium-term notes (denominated in Sterling)

On 17 February 2011 Investec Bank plc issued £500 000 000 of 9.625% subordinated notes due 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 (2022 notes) (to be consolidated and form a single series, and to be fungible, with the £500 000 000 2022 notes issued on 17 February 2011).

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

A$10 750 000 of floating rate medium-term notes (MTN) issued on 12 February 2010 at three-month bank bills swap rate (BBSW) plus 5%. The maturity date is 12 February 2020. Interest is payable quarterly up to and excluding the early redemption date 12 February 2015. After this date, if the issuer's call is not exercised, the interest will be the aggregate of three-month BBSW plus 7.5% payable quarterly in arrears.

39. Subordinated liabilities (continued)

Callable subordinated notes

Kensington Group plc has in issue £69 767 000 callable subordinated notes due 2015. As from the reset date of 21 December 2010, interest is payable at the rate of 7.285%, annually in arrears. The issuer may, at its option, redeem all, but not only some of the notes at any time at par plus accrued interest, in the event of certain tax changes. The notes mature on 21 December 2015.

Subordinated loan notes

The group disposed of its interest in Global Ethanol Holdings on 28 March 2012. At that date the £19.9 million of loan notes due to parties outside of 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
40. Ordinary share capital		
Investec plc		
Issued, allotted and fully paid		
Number of ordinary shares	Number	Number
At beginning of year	537 176 089	471 113 064
Issued during the year	61 163 523	66 063 025
At end of year	598 339 612	537 176 089
Nominal value of ordinary shares	£'000	£'000
At beginning of year	108	94
Issued during the year	12	14
At end of year	120	108
Number of special converting shares	Number	Number
At beginning of year	272 836 668	269 766 932
Issued during the year	3 183 553	3 069 736
At end of year	276 020 221	272 836 668
Nominal value of special converting shares	£'000	£'000
At beginning of year	54	54
Issued during the year	1	*
At end of year	55	54
Number of UK DAN shares	Number	Number
At beginning and end of year	1	1
Nominal value of UK DAN share	£'000	£'000
At beginning and end of year	*	*
Number of UK DAS shares	Number	Number
At beginning and end of year	1	1
Nominal value of UK DAS share	£'000	£'000
At beginning and end of year	*	*
Number of special voting shares	Number	Number
At beginning and end of year	1	1
Nominal value of special voting share	£'000	£'000
At beginning and end of year	*	*

* *Less than £1 000.*

40. Ordinary share capital (continued)

Staff share scheme

The group operates a share option and a share purchase scheme for employees. The number of ordinary shares conditionally allocated to employees are disclosed in note 6.

Movements in the number of share options issued to (each option is in respect of one share) employees are as follows:

At 31 March	Number 2012	Number 2011
Opening balance	45 033 517	33 381 361
Issued during the year	8 776 990	20 237 627
Exercised	(5 733 448)	(6 687 293)
Lapsed	(2 000 229)	(1 898 178)
Closing balance	46 076 830	45 033 517

The purpose of the staff share scheme is to promote an *esprit de corps* within the organisation, create an awareness of Investec's performance and provide an incentive to maximise individual and group performance by allowing all staff to share in the risks and rewards of the group.

The group makes awards available to staff members via the underlying share trusts. The particular instrument used varies from time to time depending on taxation legislation and factors affecting the group structure. Nevertheless, whatever the instrument chosen, its underlying value depends solely on the performance of the group's share price.

At present, the practice of the group is to give all permanent staff members a share allocation based on their annual package after completing six months of employment. In line with the objective of providing a long-term incentive for staff these share awards vest over periods varying from five to eight years.

After the initial allocation referred to above, additional allocations are made to staff members at the discretion of group management and depending on the individual performance and contribution made by the respective staff members. The extent of the directors' and staff interest in the incentive schemes is detailed in the Investec group's 2012 annual report.

At 31 March £'000	2012	2011
41. Perpetual preference shares of holding company		
Perpetual preference share capital	151	151
Perpetual preference share premium (refer to note 42)	149 449	129 407
	149 600	129 558
Issued by Investec plc – Sterling denominated		
9 381 149 (2011: 9 381 149) non-redeemable, non-cumulative, non-participating perpetual preference shares of £0.01 each, issued at a premium of £8.58 per share		
– Preference share capital	94	94
– Preference share premium	79 490	79 490
5 700 000 (2011: 5 700 000) non-redeemable, non-cumulative, non-participating perpetual preference shares of £0.01 each, issued at a premium of £8.86 per share		
– Preference share capital	57	57
– Preference share premium	49 917	49 917

Sterling denominated preference shareholders will receive a dividend if declared based on the coupon rate (being equivalent to the UK base rate plus 1%) multiplied by the deemed value on a daily basis and payable in two semi-annual instalments. An ordinary dividend will not be declared by Investec plc unless the Sterling preference dividend has been declared.

If declared, preference dividends are payable semi-annually at least seven business days prior to the date on which Investec plc pays its ordinary dividends, if any, but shall be payable no later than 120 business days after 31 March and 30 September respectively.

At 31 March £'000	2012	2011
41. Perpetual preference shares of holding company (continued)		
Issued by Investec plc – Rand denominated		
1 859 900 (2011: nil) non-redeemable, non-cumulative, non-participating perpetual preference shares of ZAR 0.001 each, issued at a premium of ZAR 99.999 per share on 29 June 2011		
– Preference share capital	–	–
– Preference share premium	16 601	–
416 040 (2011: nil) non-redeemable, non-cumulative, non-participating perpetual preference shares of ZAR 0.001 each, issued at a premium of ZAR 99.999 per share on 11 August 2011		
– Preference share capital	–	–
– Preference share premium	3 441	–
Rand denominated preference shareholders will receive a dividend if declared based on the coupon rate (being equivalent to South African prime rate multiplied by 95%) multiplied by the deemed value on a daily basis and payable in two semi-annual instalments.		
An ordinary dividend will not be declared by Investec plc unless the Rand preference dividend has been declared.		
If declared, Rand preference dividends are payable semi-annually at least seven business days prior to the date on which Investec plc pays its ordinary dividends, if any, but shall be payable no later than 120 business days after 31 March and 30 September respectively.		
	149 600	129 558

At 31 March £'000	2012	2011
42. Share premium		
Share premium account Investec plc	958 202	929 586
Perpetual preference share premium	149 449	129 407
	1 107 651	1 058 993

At 31 March	2012	2011
43. Treasury shares	£'000	£'000
Investec plc ordinary shares	27 854	10 536
Premium paid on options to acquire Investec plc shares	14 087	–
Treasury shares held by subsidiaries of Investec plc	41 941	10 536
Reconciliation of treasury shares	Number	Number
At beginning of year	2 214 134	1 375 533
Purchase of own shares by subsidiary companies	13 834 740	8 162 679
Shares disposed of by subsidiaries	(8 237 942)	(7 324 078)
At end of year	7 810 932	2 214 134
Market value of treasury shares:	£'000	£'000
Investec plc	29 838	12 965

At 31 March £'000	2012	2011
44. Non-controlling interests		
Non-controlling interests in partially held subsidiaries	(2 350)	(23 794)
Perpetual preferred securities issued by subsidiaries	166 762	176 917
	164 412	153 123
Perpetual preferred securities issued by subsidiaries		
Issued by Investec plc subsidiaries	166 762	176 917
€200 000 000 (2011: €200 000 000) fixed/floating rate guaranteed non-voting non-cumulative perpetual preferred securities (preferred securities) were issued by Investec Tier 1 (UK) LP (a limited partnership organised under the laws of England and Wales) on 24 June 2005. The preferred securities which are guaranteed by Investec plc are callable at the option of the issuer subject to the approval of the Financial Services Authority on the tenth anniversary of the issue and if not called are subject to a step-up in coupon of one and a half times the initial credit spread above the three-month Eurozone interbank offered rate. Until the tenth anniversary of the issue the dividend on the preferred securities will be at 7.075%.		
The issuer has the option not to pay a distribution when it falls due but this would then prevent the payment of ordinary dividends by the company.		
Under the terms of the issue there are provisions for the preferred securities to be substituted for preference shares issued by the company if Investec plc's capital ratios fall below the minimum level permitted by the regulator.		
	166 762	176 917

At 31 March £'000	2012 Total future minimum payments	2012 Present value	2011* Total future minimum payments	2011* Present value
45. 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	442 038	358 614
Unearned finance Income	76 217	–	63 424	–

* *Restated from 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

46. Notes to cash flow statement

Reconciliation of profit before tax to net operating cash flows

	2012	2011
Profit before taxation	32 586	172 648
Adjustment for non-cash items included in profit before taxation:		
Impairment of goodwill	21 510	–
Amortisation of acquired intangibles	9 530	6 341
Profit arising from associated company converted to subsidiary	–	(73 465)
Net loss on sale of subsidiaries	–	17 361
Depreciation of operating lease assets	28 544	16 447
Depreciation and impairment of property, equipment and intangibles	15 776	19 825
Impairment of loans and advances	255 791	240 692
Operating income from associates	(1 678)	(3 997)
Dividends received from associates	295	923
Share-based payment charges	32 550	29 463
Profit before tax adjusted for non-cash items	394 904	426 238
Increase in operating assets		
Loans and advances to banks	17 132	690 210
Reverse repurchase agreements and cash collateral on securities borrowed	313 810	(982 454)
Sovereign debt securities	(797 647)	(4 192)
Bank debt securities	510 910	(427 256)
Other debt securities	(23 401)	(64 770)
Derivative financial instruments	(304 522)	140 369
Securities arising from trading activities	118 427	(297 904)
Investment portfolio	(141 750)	(3 653)
Loans and advances to customers	(383 894)	(818 297)
Securitised assets	631 310	201 531
Other assets	(364 225)	(225 848)
Investment properties	(11 500)	–
	(435 350)	(1 792 264)
Increase in operating liabilities		
Deposits by banks	(26 161)	(897 207)
Derivative financial instruments	197 710	(24 413)
Other trading liabilities	(133 180)	212 031
Repurchase agreements and cash collateral on securities lent	408 007	67 645
Customer accounts	762 815	1 185 869
Debt securities in issue	196 625	165 790
Securities liabilities	(757 445)	(334 281)
Other liabilities	158 308	209 097
	806 679	584 531

Notes to the annual financial statements (continued)

At 31 March £'000	2012	2011
47. Commitments		
Undrawn facilities	673 367	3 002 404
Other commitments	5	72 665
	673 372	3 075 069
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	20 117	45 398
1 – 5 years	76 369	165 461
Later than 5 years	31 670	260 067
	128 156	470 926
At 31 March 2011, Investec was obligated under a number of operating leases for properties, computer equipment and office equipment for which the future minimum lease payments extend over a number of years.		
The majority of the leases have renewal options.		
Operating lease receivables		
Future minimum lease payments under non-cancellable operating leases:		
Less than 1 year	27 922	134 491
1 – 5 years	15 416	124 544
Later than 5 years	–	1 519
	43 338	260 554

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		Related liability	
	2012	2011	2012	2011
47. Commitments (continued)				
Pledged assets				
Loans and advances to customers	14 868	8 250	14 026	8 250
Other loans and advances to customers	292	–	292	–
Loans and advances to banks	226 870	227 576	226 870	227 576
Sovereign debt securities	317 776	22 232	317 776	22 232
Bank debt securities	56 601	47 811	56 601	47 811
Other debt securities	12 520	51 142	12 520	51 142
Securities arising from trading activities	328 654	414 586	328 654	414 586
Investment portfolio	690	–	690	–
Reverse repurchase agreements and cash collateral on securities borrowed	966 714	20 965	1 002 384	11 143
Derivatives financial instruments	255 716	–	–	–
	2 180 701	792 562	1 959 813	782 740

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

Notes to the annual financial statements (continued)

At 31 March £'000	2012	2011
48. Contingent liabilities		
Guarantees and assets pledged as collateral security:		
– Guarantees and irrevocable letters of credit	70 331	61 404
	70 331	61 404

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 plc and Investec Limited 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 (Keydata) 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 2012. 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 and quantify the risk or extent of such further levies until more information regarding the losses and the likely number of eligible claiments 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

49. 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:

	2012	2011
Directors, key management and connected persons and companies controlled by them		
Loans		
At beginning of year	21 451	16 323
Increase in loans	26 110	15 466
Repayment of loans	(13 469)	(10 338)
At end of year	**34 092**	**21 451**
Guarantees		
At beginning of year	–	–
Additional guarantees granted	367	–
Guarantees cancelled	–	–
At end of year	**367**	**–**
Deposits		
At beginning of year	(49 606)	(40 000)
Increase in deposits	(24 615)	(30 198)
Decrease in deposits	27 564	20 592
At end of year	**(46 657)**	**(49 606)**

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 the remuneration report in the combined consolidated financial statements of Investec plc and Investec Limited for the year ended 31 March 2012 for details of the remuneration of key management personnel.

At 31 March £'000	Investec Limited and subsidiaries	Associates	Total
2012			
Transactions with other related parties			
Assets			
Loans and advances to banks	5 928	–	5 928
Loans and advances to customers	2 241	11 595	13 836
Reverse repurchase agreements and cash collateral on securities borrowed	636 958	–	636 958
Derivative financial instruments	602	–	602
Other assets	13 348	–	13 348
Liabilities			
Deposits from banks	(16 354)	–	(16 354)
Customer accounts – deposits	(11 600)	–	(11 600)
Debt securities in Issue	(286 299)	–	(286 299)
Derivative financial instruments	(9 714)	–	(9 714)
Other liabilities	(16 520)	–	(16 520)

For the year ended 31 March £'000	Investec Limited and subsidiaries	Associates	Total
49. Related party transactions (continued)			
2011			
Assets			
Loans and advances to banks	11 792	–	11 792
Loans and advances to customers	936	8 830	9 766
Reverse repurchase agreements and cash collateral on securities borrowed	73 215	–	73 215
Derivative financial instruments	3 514	–	3 514
Other assets	10 121	–	10 121
Liabilities			
Deposits from banks	(47 736)	–	(47 736)
Customer accounts – deposits	(10 901)	–	(10 901)
Debt securities in issue	(313 968)	–	(313 968)
Derivative financial instruments	(7 698)	–	(7 698)
Subordinated liabilities	(16 102)	–	(16 102)

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

During the year to March 2012, interest of £11.2 million (2011: £9.3 million) was paid to entitles in the Investec Limited Group. Interest of £2.3 million (2011: £1.2 million) was received from Investec Limited group.

In the normal course of business, services are rendered between Investec plc and Investec Limited entities. In the year to 31 March 2012, this resulted in a net payment to Investec Limited of £9.0 million (2011: £6.8 million). Specific transactions of an advisory nature between group entities have resulted in a net fee payment to Investec Limited of £nil (2011: £0.9 million).

Investec plc provides certain banking and financial services to associates and joint ventures, including loans, overdrafts, interest and non-interest bearing deposits and current accounts. All of these transactions 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.

50. Hedges

The group uses derivatives for the management of financial risks relating to its asset and liability portfolios, mainly associated with non-trading interest rate risks and exposures to foreign currency risk. Most non-trading interest rate risk is transferred from the originating business to the Central Treasury in the Capital Markets business 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.

50. Hedges (continued)

Fair value hedges

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

At 31 March £'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	144 205	238 005	(120 106)	(238 005)	120 106
Liabilities	Interest rate swap	(7 920)	(28 321)	289	28 387	(5 958)
		148 473	222 056	(115 801)	(222 509)	109 597
2011						
Assets	Interest rate swap	12 124	12 319	5 131	(11 890)	(4 342)
	Calendar swap	133	(927)	10	927	(10)
	Cross currency swap	264 313	358 113	(61 607)	(358 013)	61 607
Liabilities	Interest rate swap	(7 324)	(29 621)	35 363	35 267	(35 081)
	Fx currency swap	(1 471)	(1 471)	(1 244)	1 471	1 545
		267 775	338 413	(22 347)	(332 238)	23 719

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
	Cross currency swap	(1 654)	3 months to 5 years
Liabilities	Interest rate swap	–	
		(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 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

The ineffective portion recognised in the income statement was £780 743 (2011: £nil).

At 31 March £'000	Demand	Up to one month
51. Liquidity analysis of financial liabilities based on undiscounted cash flows		
2012		
Liabilities		
Deposits by banks	298 736	286 354
Deposits by banks – Kensington warehouse funding	–	10 982
Derivative financial instruments	503 139	1 885
Derivative financial instruments – held for trading	500 338	833
Derivative financial instruments – held for hedging risk	2 801	1 052
Repurchase agreements and cash collateral on securities lent	323 104	212 129
Customer accounts	1 639 983	1 318 485
Debt securities in issue	–	230 913
Liabilities arising on securitisation of own originated loans and advances	1 667	23 617
Liabilities arising on securitisation of other assets	–	7 623
Other liabilities	905 646	240 857
Subordinated liabilities	–	(1 306)
Total on balance sheet liabilities	3 672 275	2 331 539
Contingent liabilities	137 712	5 675
Total liabilities	3 809 987	2 337 214
2011		
Liabilities		
Deposits by banks	281 782	158 583
Deposits by banks – Kensington warehouse funding	–	9 386
Derivative financial instruments	377 026	(49)
Derivative financial instruments – held for trading	262 570	–
Derivative financial instruments – held for hedging risk	114 456	(49)
Repurchase agreements and cash collateral on securities lent	555 474	–
Customer accounts	1 544 064	1 750 789
Debt securities in issue	1 289	67 850
Liabilities arising on securitisation of own originated loans and advances	2 000	19 174
Liabilities arising on securitisation of other assets	–	365
Other liabilities	916 271	213 435
	3 677 906	2 219 533
Subordinated liabilities	–	–
Total on balance sheet liabilities	3 677 906	2 219 533
Contingent liabilities	344 895	74 362
Total liabilities	4 022 801	2 293 895

The balances in the above table will not agree directly to the balances in the consolidated balance sheet as the table incorporates all cash flow on an undiscounted basis relating to both principal and those associated with all future coupon payments (except for trading liabilities and trading derivatives). Furthermore loan commitments are generally not recognised on the balance sheet. Trading liabilities and trading derivatives have been included in the 'Demand' time bucket and not by contractual maturity because trading liabilities are typically held for short periods of time. For an unaudited analysis based on discounted cash flows please refer to pages 96 and 97.

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
66 077	162 302	57 452	161 925	16 749	1 049 595
299 402	10 681	20 353	451 633	75 310	868 361
13 921	6 838	22 473	189 772	70 090	808 118
1 972	2 751	3 156	14 255	25 873	549 178
11 949	4 087	19 317	175 517	44 217	258 940
–	5 012	–	494 841	–	1 035 086
2 776 258	2 881 055	837 923	1 673 467	117 866	11 245 037
147 212	51 009	53 219	1 584 641	530 276	2 597 270
56 163	62 835	284 752	236 736	96 738	762 508
95 296	61 776	118 074	882 269	1 555 493	2 720 531
161 835	71 360	83 726	61 531	617	1 525 572
669	900	13 310	167 944	630 978	812 495
3 616 833	3 313 768	1 491 282	5 904 759	3 094 117	23 424 573
54 131	23 484	25 360	257 503	84 482	588 347
3 670 964	3 337 252	1 516 642	6 162 262	3 178 599	24 012 920
65 889	31 889	117 548	250 769	–	906 460
51 504	25 499	78 124	749 176	121 078	1 034 767
10 573	10 354	26 861	159 095	5 674	589 534
–	–	–	–	–	262 570
10 573	10 354	26 861	159 095	5 674	326 964
57 334	–	–	–	–	612 808
2 538 861	3 176 564	756 069	636 647	223 268	10 626 262
130 171	143 917	272 411	1 309 733	364 993	2 290 364
50 444	294 469	54 486	104 291	9 045	533 909
92 737	91 278	173 764	1 307 533	1 831 694	3 497 371
113 346	44 857	57 974	42 812	2 069	1 390 764
3 110 859	3 818 827	1 537 237	4 560 056	2 557 821	21 482 239
637	1 247	105 843	348 644	807 728	1 264 099
3 111 496	3 820 074	1 643 080	4 908 700	3 365 549	22 746 338
38 104	53 952	150 312	176 861	38 797	877 283
3 149 600	3 874 026	1 793 392	5 085 561	3 404 346	23 623 621

At 31 March	Principal activity	Country of incorporation	Interest 2012 %	Interest 2011 %
52. Principal subsidiaries and associated companies – Investec plc				
Direct subsidiaries of Investec plc				
Investec 1 Limited	Investment holding	England and Wales	100.0%	100.0%
Investec Holding Company Limited	Investment holding	England and Wales	100.0%	100.0%
Indirect subsidiaries of Investec plc				
Investec Bank (Australia) Limited	Banking Institution	Australia	100.0%	100.0%
Investec Holdings (UK) Limited	Holding company	England and Wales	100.0%	100.0%
Investec Bank plc	Banking institution	England and Wales	100.0%	100.0%
Investec Group (UK) PLC	Holding company	England and Wales	100.0%	100.0%
Investec Asset Finance PLC	Leasing company	England and Wales	100.0%	100.0%
Leasedirect Finance plc	Finance broker	England and Wales	81.3%	75.0%
Investec Finance plc	Debt issuer	England and Wales	100.0%	100.0%
Investec Group Investments (UK) Limited	Investment holding	England and Wales	100.0%	100.0%
Investec Bank (Channel Islands) Limited	Banking institution	Guernsey	100.0%	100.0%
Investec Bank (Switzerland) AG	Banking institution	Switzerland	100.0%	100.0%
Investec Trust Holdings AG	Investment holding	Switzerland	100.0%	100.0%
Investec Trust (Switzerland) S.A.	Trust company	Switzerland	100.0%	100.0%
Investec Trust (Jersey) Limited	Trust company	Jersey	100.0%	100.0%
Investec Asset Management Limited	Asset management	England and Wales	100.0%	100.0%
Investec Ireland Limited	Financial services	Ireland	100.0%	100.0%
Investec Securities (US) LLC	Financial services	USA	100.0%	100.0%
Kensington Group plc	Financial services	England and Wales	100.0%	100.0%
Kensington Mortgages Limited	Financial services	England and Wales	100.0%	100.0%
Newbury Park Mortgage Funding Limited	Financial services	England and Wales	100.0%	100.0%
Rensburg Sheppards plc	Holding company	England and Wales	100.0%	100.0%
Investec Wealth & Investment Limited	Stockbroking and portfolio management	England and Wales	100.0%	100.0%
St James's Park Mortgage Funding Limited	Financial services	England and Wales	100.0%	100.0%
Start Mortgages Limited	Financial services	Ireland	100.0%	100.0%
Investec Experien Pty Limited	Financial services	Australia	100.0%	100.0%
Guinness Mahon & Co Limited	Investment holding	England and Wales	100.0%	100.0%
Evolution Group plc	Investment holding	England and Wales	100.0%	–
Evolution Securities Limited	Investment banking	England and Wales	100.0%	–
Williams de Broë Limited	Stockbroking and portfolio management	England and Wales	100.0%	–
Investec Capital Asia Limited	Investment banking	Hong Kong	100.0%	–

All of the above subsidiary undertakings are included in the consolidated accounts.

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

At 31 March	Principal activity	Country of incorporation	Interest 2012 %	Interest 2011 %
52. Principal subsidiaries and associated companies – Investec plc (continued)				
Principal associated companies				
Hargreave Hale Limited	Stockbroking and portfolio management	England and Wales	35.0%	33.18%
Investec plc has no equity interest in the following special purpose vehicles which are consolidated on the basis of the group sharing in the risks and rewards associated with the entities:				
Residential Mortgage Securities 19 plc				
Residential Mortgage Securities 20 plc				
Residential Mortgage Securities 21 plc				
Residential Mortgage Securities 22 plc				
Kensington Mortgage Securities plc				
Gemgato 2012 – 1 plc				
Glacier Securities Limited (series 2010 – 2)				
Money Partners Securities 1 plc				
Money Partners Securities 2 plc				
Money Partners Securities 3 plc				
Money Partners Securities 4 plc				
Landmark Mortgage Securities No 1 plc				
Landmark Mortgage Securities No 2 plc				
Tamarin Securities Limited				
Zebra Capital II Limited				

53. Reclassifications

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	Reclassifications
Interest income	880 797	880 797	–
Interest expense	(537 574)	(537 574)	–
Net interest income	**343 223**	**343 223**	**–**
Fee and commission income	563 263	563 263	–
Fee and commission expense	(103 362)	(103 362)	–
Principal transactions	–	253 955	(253 955)
Investment income	143 039	–	143 039
Trading income			
– From customer flow	48 753	–	48 753
– From balance sheet management and other trading activities	62 163	–	62 163
Other operating income	48 793	48 793	–
Total operating income before impairment losses on loans and advances	**1 105 872**	**1 105 872**	**–**

53. Reclassifications (continued)

Commentary on balance sheet reclassifications

The main driver behind the revision to the balance sheet is to enable a better read 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 and equity.

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 has 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 securities' 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	Total reclassi-fication	Loans and securitisation	Securities reclassi-fication
Total assets reclassified					
Sovereign debt securities	849 624	–	849 624	–	849 624
Bank debt securities	1 335 462	–	1 335 462	–	1 335 462
Other debt securities	183 715	–	183 715	–	183 715
Trading securities	–	667 028	(667 028)	–	(667 028)
Securities arising from trading activities	479 419	–	479 419	–	479 419
Investment securities	–	2 386 656	(2 386 656)	–	(2 386 656)
Loans and advances to customers	7 168 378	8 150 060	(981 682)	(981 682)	–
Securitised assets	–	4 162 366	(4 162 366)	(4 162 366)	–
Own originated loans and advances to customers securitised	483 315	–	483 315	483 315	–
Other loans and advances	981 632	–	981 682	981 682	–
Other securitised assets	3 679 051	–	3 679 051	3 679 051	–
Investment portfolio	199 818	–	199 818	–	199 818
Other assets	916 933	911 287	5 646	–	5 646
	16 277 397	16 277 397	–	–	–
Total liabilities reclassified					
Liabilities arising on securitisation	–	3 646 376	(3 646 376)	(3 646 376)	
Liabilities arising on securitisation of own originated loans and advances	472 109	–	472 109	472 109	
Liabilities arising on securitisation of other assets	3 174 267	–	3 174 267	3 174 267	
	3 646 376	3 646 376	–	–	

At 31 March 2010 £'000	New format	As previously reported	Total reclassi-fication	Loans and securitisation	Securities reclassi-fication
53. Reclassifications (continued)					
Total assets reclassified					
Sovereign debt securities	845 432	–	845 432	–	845 432
Bank debt securities	908 206	–	908 206	–	908 206
Other debt securities	118 945	–	118 945	–	118 945
Trading securities	–	349 217	(349 217)	–	(349 217)
Securities arising from trading activities	178 855	–	178 855	–	178 855
Investment securities	–	1 874 840	(1 874 840)	–	(1 874 840)
Loans and advances to customers	6 735 522	7 337 543	(602 021)	(602 021)	–
Securitised assets	–	4 434 465	(4 434 465)	(4 434 465)	–
Own originated loans and advances to customers securitised	517 799	–	517 799	517 799	–
Other loans and advances	602 021	–	602 021	602 021	–
Other securitised assets	3 916 666	–	3 916 666	3 916 666	–
Investment portfolio	172 619	–	172 619	–	172 619
	13 996 065	13 996 065	–	–	–
Total liabilities reclassified					
Liabilities arising on securitisation	–	3 980 657	(3 980 657)	(3 980 657)	–
Liabilities arising on securitisation of own originated loans and advances	515 360	–	515 360	515 360	–
Liabilities arising on securitisation of other assets	3 465 297	–	3 465 297	3 465 297	–
	3 980 657	3 980 657	–	–	–

Balance sheet

At 31 March £'000	Notes	2012	2011
Assets			
Fixed assets			
Investments in subsidiary undertakings	b	1 790 348	1 584 528
Current assets			
Amounts owed by group undertakings		559 549	535 564
Tax		23 753	26 597
Other debtors		21	21
Prepayments and accrued income		199	116
Cash at bank and in hand:			
– balances with subsidiary undertaking		–	9 093
– balances with other banks		833	968
		584 355	572 359
		2 374 703	2 156 887
Current liabilities			
Bank loans	c		
– with subsidiary undertaking		1 502	–
– with other banks		130 532	–
Amounts owed to group undertakings		769 033	779 709
Other liabilities		1 063	1 025
Accruals and deferred income		3 680	6 585
		905 810	787 319
Non-current liabilities			
Bank loans			
– with other banks	c	–	132 943
		–	132 943
Capital and reserves			
Called up share capital	d	175	162
Perpetual preference shares	d	151	151
Share premium account	d	1 107 651	1 058 993
Capital reserve	d	356 292	180 483
Retained income	d	4 624	(3 164)
Total equity		1 468 893	1 236 625
Total equity and liabilities		2 374 703	2 156 887

Approved and authorised for issue by the board of directors on 13 June 2012 and signed on its behalf by:

Stephen Koseff
Chief executive officer

Notes to Investec plc parent company accounts

a. Accounting policies

Basis of preparation

The parent accounts of Investec plc are prepared under the historical cost convention and in accordance with UK accounting standards

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into Sterling at exchange rates at the balance sheet date. All foreign currency transactions are translated into Sterling at the exchange rate ruling at the time of the transaction. Forward foreign exchange contracts are revalued at the market rates ruling at the date applicable to their respective maturities. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the income statement.

Investments

Investments are stated at cost less any impairment in value.

Income

Dividends from subsidiaries are recognised when paid. Interest is recognised on an accrual basis.

Taxation

Corporate tax is provided on taxable profits at the current rate.

Company's own profit and loss account

The company has taken advantage of the exemption in section 408 of the Companies Act 2006 to not present its own profit and loss account.

Cash flow statement

The company has taken advantage of the exemption in Financial Reporting Standard 1 to not present its own cash flow statement. A cash flow statement, prepared under International Financial Reporting Standards, is included in the consolidated financial statements of the group.

Financial Instruments: Disclosures

The company has taken advantage of the exemption in Financial Reporting Standard 29 to not present its own disclosures in respect of financial instruments as disclosures prepared in accordance with International Reporting Standards are included in the consolidated financial statements of the group.

Related party transactions

Transactions, arrangements and agreements involving directors and others are disclosed in note 49 to the group financial statements.

b. Investments in subsidiary undertakings

£'000	2012	2011
At beginning of year	1 584 528	1 302 646
Additions	381 640	548 122
Disposals	(175 820)	(266 240)
At end of year	1 790 348	1 584 528

Details of the principal subsidiaries and associated companies are set out in note 52 of the group financial statements.

On 30 June 2011, the company subscribed to 3 000 000 ordinary shares at £10 each of Investec 1 Limited at a cost of £30 million.

On 22 December 2011, the company issued 53 800 540 shares at £3.268 each in consideration for the purchase of Evolution Group plc (EVG) at a cost of £175.8 million. EVG made a loss after taxation and non-controlling interests of £8.9 million in the period 1 April 2011 to 22 December 2011 and a loss after taxation and non-controlling interests of £2.0 million in the year ended 31 December 2010.

On 4 January 2012, Evolution Group plc was sold to Investec 1 Limited for £175.8 million settled with an issue of 17 582 000 Investec 1 Limited's ordinary shares of 0.1 pence each at a cost of £10 per share.

Notes to Investec plc parent company accounts (continued)

c. Bank loans

The company drew down Euro denominated loans of €105 million on 7 March 2011. These loans bear interest at fixed margins above three-month EURIBOR and are repayable on 14 August 2012. The company drew down US Dollar denominated loans of $70 million on 7 March 2011. These two loans of $35 million bear interest at fixed margins above three-month UK LIBOR and are repayable on 25 August 2012 and 3 September 2012.

d. Statement of changes in shareholder's equity

£'000	Ordinary share capital	Perpetual preference share capital	Share premium	Capital reserve	Profit and loss account	Total reserves
At 1 April 2011	162	151	1 058 993	180 483	(3 164)	1 236 625
Issue of ordinary shares	13	–	28 627	175 809	–	204 449
Issue expenses	–	–	(607)	–	–	(607)
Issue of preference shares	–	–	20 638	–	–	20 638
Share-based payment adjustment	–	–	–	–	(286)	(286)
Profit for the year	–	–	–	–	49 217	49 217
Dividends paid to preference shareholders	–	–	–	–	(2 652)	(2 652)
Dividends paid to ordinary shareholders	–	–	–	–	(38 491)	(38 491)
At 31 March 2012	175	151	1 107 651	356 292	4 624	1 468 893

Parent company profit and loss account

No profit and loss account is presented for the company as permitted by section 408 of the Companies Act 2006.

The company's profit for the year, determined in accordance with the Act, was £49 217 000 (2011: £42 706 000).

Treasury shares

	2012	2011
Treasury shares held by Investec plc		
Number of Investec plc ordinary shares held by Investec plc	Number	Number
At 1 April	–	500 000
Purchase of own shares by Investec plc	–	75 000
Sale of own shares by Investec plc	–	(575 000)
At 31 March	–	–
	£'000	£'000
Market value of treasury shares	–	–

Treasury shares are being held in an employee benefit trust in relation to the Investec Share Matching Plan 2005.

Dividends on treasury shares have not been included in the profit and loss account.

Audit fees

Details of the company's audit fees are set out in note 5 of the group financial statements.

Dividends

Details of the company's dividends are set out in note 8 of the group financial statements.

Share capital

Details of the company's ordinary share capital are set out in note 40 of the group financial statements. Details of the perpetual preference shares are set out in note 41 of the group financial statements.

e. Audit opinion

The audit opinion on the financial statements of the Investec plc parent company is included in the combined consolidated financial statements of Investec plc and Investec Limited for the year ended 31 March 2012.

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Notes

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