Investec Bank Limited group and company annual financial statements 2013

Out of the Ordinary®

Corporate information

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Registration number

Reg. No. 1969/004763/06

Auditors

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Transfer secretaries

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Directorate

Refer to page 84

For contact details for Investec offices refer to page 176.

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About this report

For easy reading we have provided cross referencing tools, set out alongside.

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Audited information

Denotes information in the risk and remuneration reports that forms part of the group's audited annual financial statements

Reporting standard

Denotes our consideration of a reporting standard

Page references

Refers readers to information elsewhere in this report

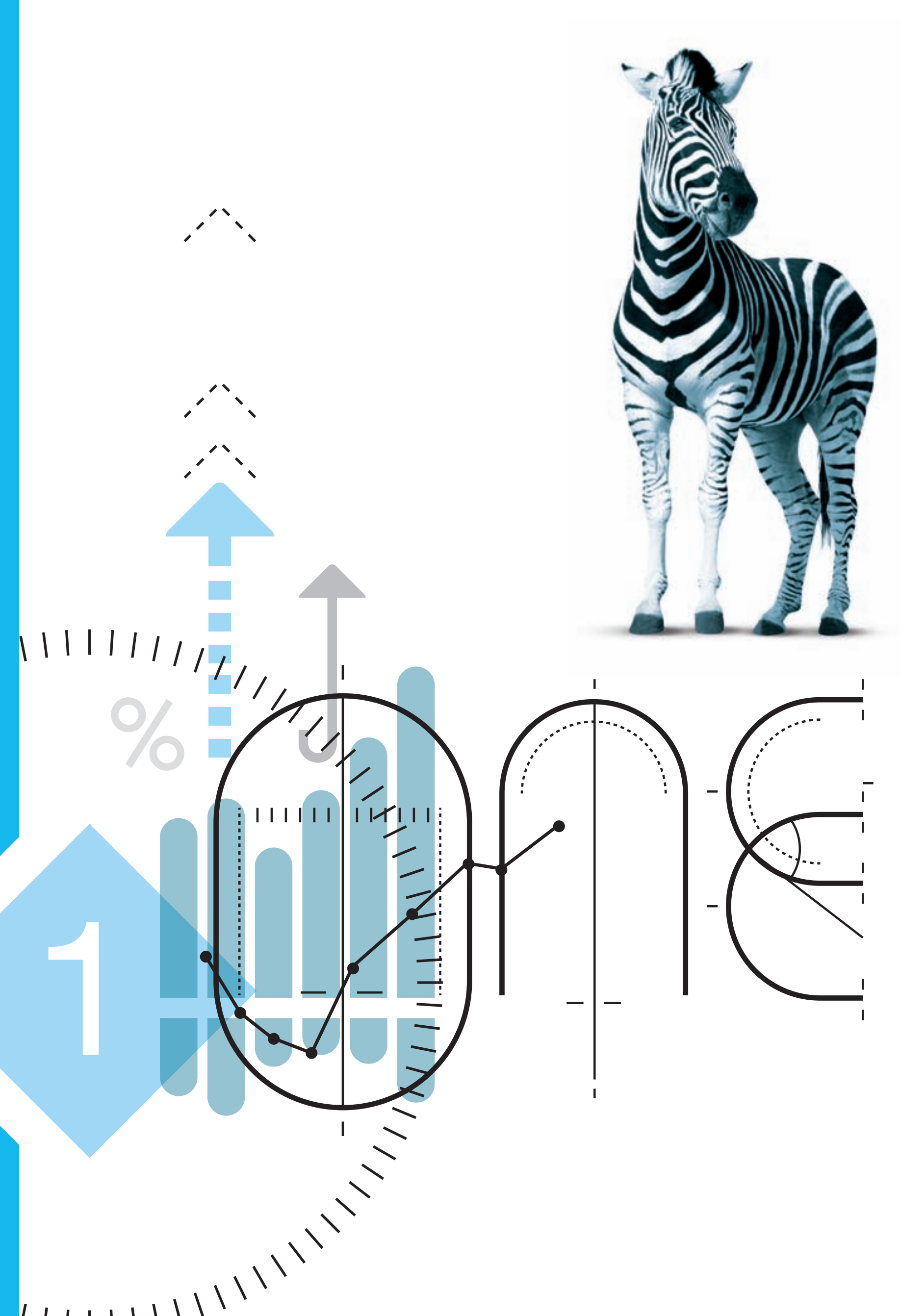
Sustainability

Refers readers to further information in our sustainability report available on our website: www.investec.com

Website

Indicates that additional information is available on our website: www.investec.com

Investec Bank Limited in perspective



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

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

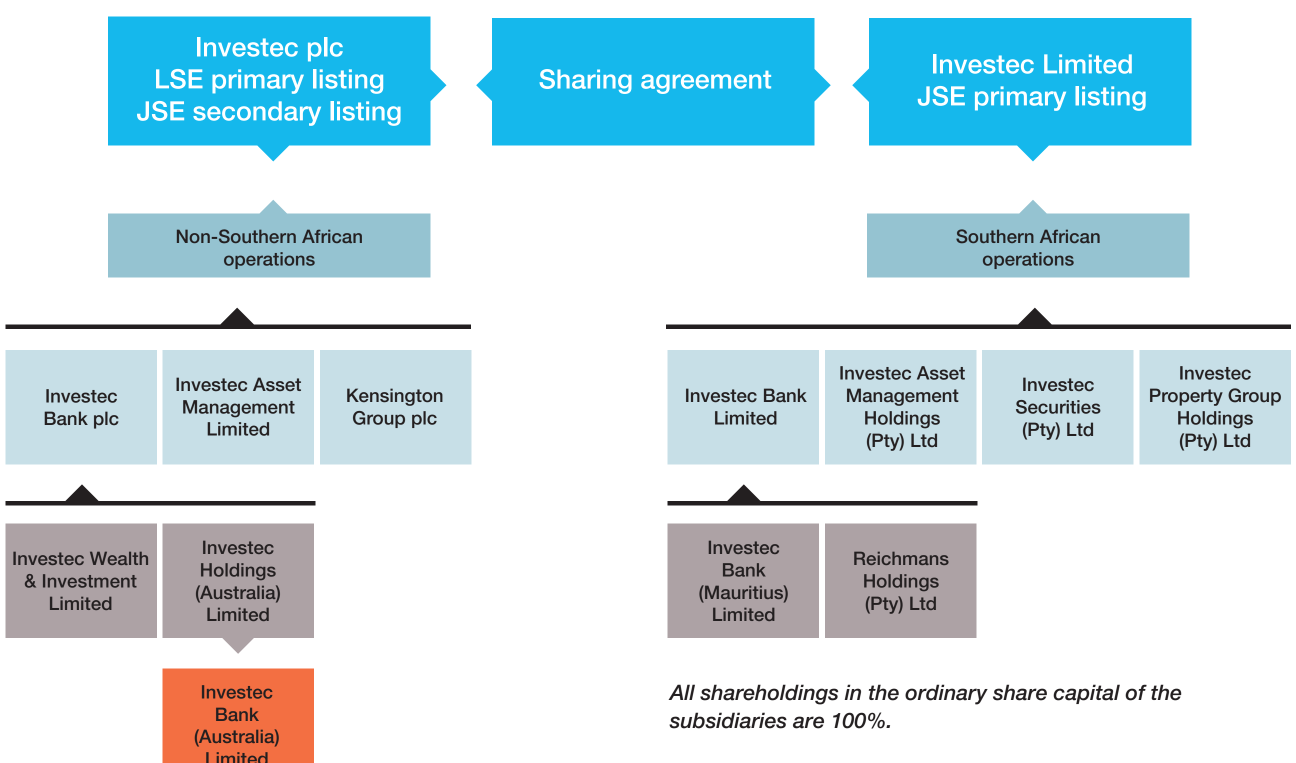
Operating structure

During July 2002 Investec Group Limited (since renamed Investec Limited) implemented a dual listed companies (DLC) structure and listed its offshore business on the London Stock Exchange.

A circular on the establishment of our DLC structure was issued on 20 June 2002 and is available on our website.

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

Our DLC structure and main operating subsidiaries as at 31 March 2013



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

Salient features of the DLC structure

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

Overview of the activities of Investec Bank Limited

What we do

Investec Bank Limited operates as a specialist bank within Southern Africa. The bank is operationally managed as a single banking entity within Investec Limited.

Corporates/government/institutional clients

High income and high net worth private clients

Corporate Advisory and Investment Activities

Advisory
Principal investments

Corporate Advisory and Investment Activities 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 and principal investments. Our institutional stockbroking activities are conducted outside of the bank in Investec Securities (Pty) Ltd.

Our target market includes: corporates, government and institutional clients.

Corporate and Institutional Banking Activities

Treasury and trading services
Specialised finance

Corporate and Institutional Banking Activities 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

Transactional banking
Lending
Deposits
Investments

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, self-employed entrepreneurs, owner managers in mid-market companies and sophisticated investors.

Integrated systems and infrastructure

Our operational footprint

Specialist expertise delivered with dedication and energy

Business leaders
Stephen Koseff
Bernard Kantor
Glynn Burger

Further information on the Specialist Banking management structure is available on our website.

The specialist teams are well positioned to provide services for both personal and business needs right across Private Banking, Corporate and Institutional Banking and Corporate Advisory and Investment.

Our value proposition

- High quality specialist banking solution to corporate, institutional and private clients with leading positions in selected areas
- Provide high touch personalised service
- Ability to leverage international, cross-border platforms
- Well positioned to capture opportunities between the developed and the emerging world
- Balanced business model with good business depth and breadth
- Total corporate and other clients: c.144 000
- Total high income and high net worth clients: c.82 000

Where we operate

South Africa

Fifth largest bank

Full service Specialist Banking offering a high quality innovative solution with leading positions in selected areas

Total corporate and private clients c.226 000

Mauritius

Established 1997

One of the leading international banks in Mauritius

Highlights

A diversified business model continues to support a large recurring revenue base, totalling 81.9% of operating income

(2012: 74.8%)

We have a strong franchise that supports a solid revenue base

Total operating income before impairments increased 4.1% to R6 620 million

(2012: R6 357 million)

Our financial performance

Investec Bank Limited recorded a 3.9% decrease in headline earnings attributable to ordinary shareholders

2012	2013
R1 812mn	R1 741mn

Low cost to income ratios

2012	2013
52.7%	54.8%

Improving credit loss ratio

2012	2013
0.69%	0.65%

Cash and near cash balances up 5.6%

2012	2013
R69.1bn	R73.0bn

Core loans and advances increased 10.6%

2012 R124.9bn → 2013 R138.1bn

Customer deposits increased by 5.2%

2012 R176.1bn → 2013 R185.3bn

Ratio of loans and advances to deposits remains strong

2012 69.6% → 2013 73.2%

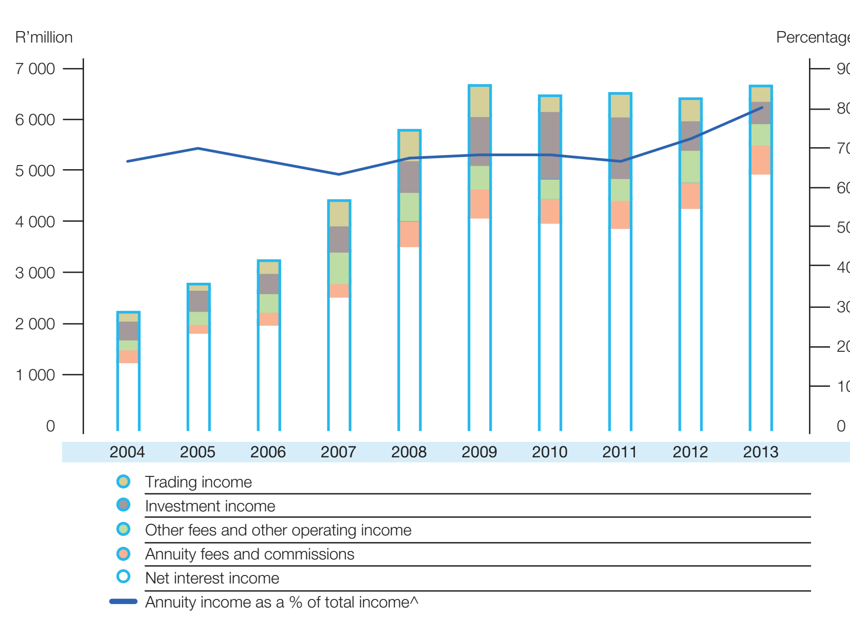
Low gearing ratios, core loans and advances to equity decreased

2012 6.0 times → 2013 5.9 times

Other financial features

	31 March 2013	31 March 2012	% change
Operating profit before taxation and headline adjustments (R'million)	2 123	2 173	(2.3%)
Total capital resources (including subordinated liabilities) (R'million)	36 005	29 642	21.5%
Total equity (R'million)	23 509	20 933	12.3%
Total assets (R'million)	279 274	255 952	9.1%
Capital adequacy ratio	16.2%	16.1%	
Tier 1 ratio	10.9%	11.4%	

Total operating and annuity income



^ *Where annuity income is net interest income and annuity fees.*

Credit quality on core loans and advances has improved

Core loans and advances increased by 10.6% to R138.1 billion

Default loans (net of impairments) as a percentage of core loans and advances decreased from 2.79% to 1.93%

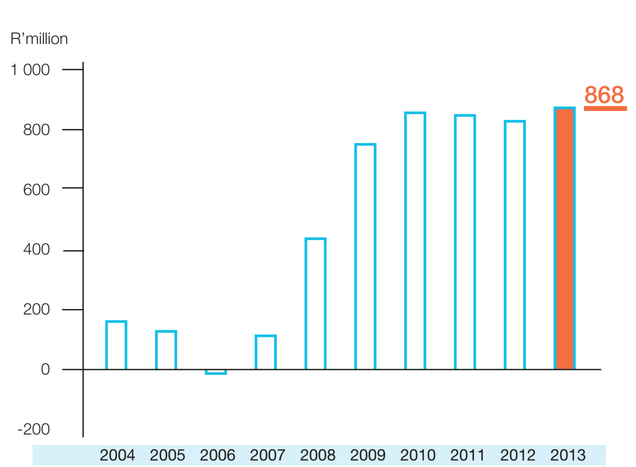
Default loans have decreased significantly since 31 March 2012, with an improvement reported in the Private Client business partially offset by some corporate loans defaulting in the period

The credit loss ratio improved from 0.69% to 0.65%

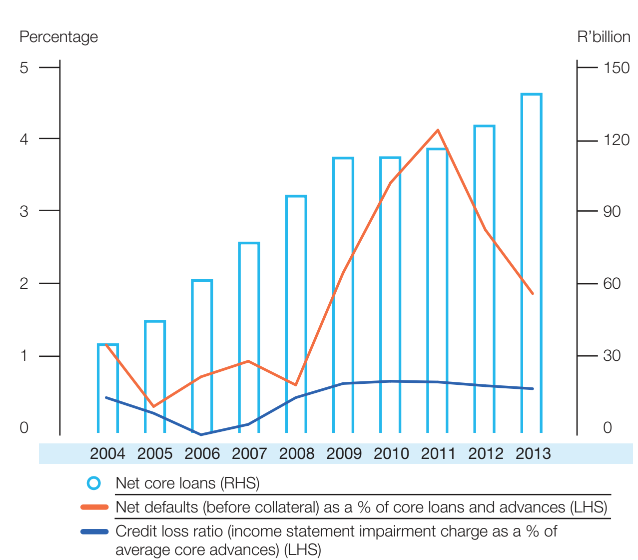
Net defaults (after impairments) remain adequately collateralised.

Elevated level of impairments but defaults have improved…

Impairments/(recoveries)



Default and core loans



Sound capital and liquidity principles maintained

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 stable capital base

A well established liquidity management philosophy remains in place

Benefited from a growing retail deposit franchise and recorded an increase in customer deposits

Advances as a percentage of customer deposits is at 73.2% (2012: 69.6%)

Continue to focus on:

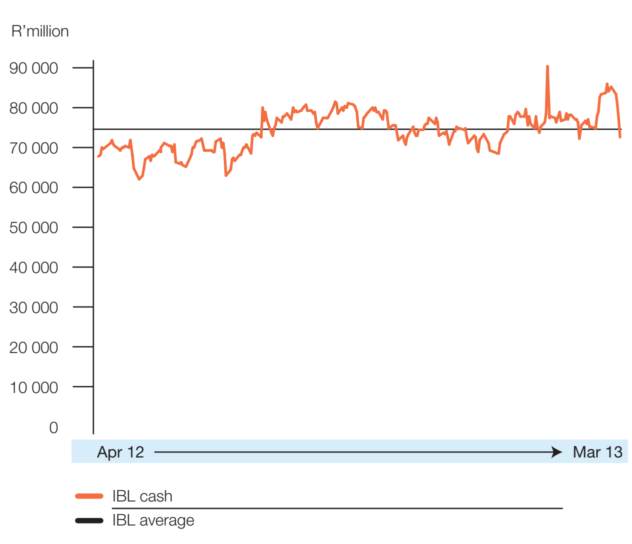
- Maintaining a high level of readily available, high quality liquid assets – approximately 33.0% of its liability base
- Diversifying funding sources
- Limiting concentration risk
- Reduced reliance on wholesale funding.

Capital adequacy and tier 1 ratios

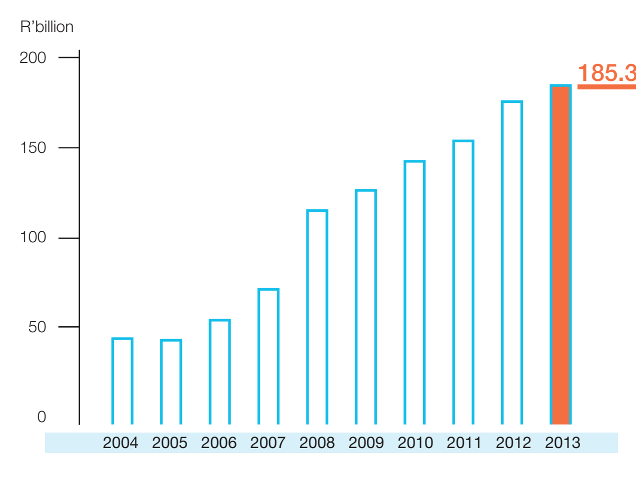
	31 March 2013 (Basel III)			31 March 2012 (Basel II)		
	Capital adequacy ratio	Tier 1 ratio	Common equity tier 1 ratio	Capital adequacy ratio	Tier 1 ratio	Common equity tier 1 ratio
Investec Bank Limited	16.2%	10.9%	10.3%	16.1%	11.4%	10.6%
Investec Limited	15.5%	10.8%	8.9%	16.1%	11.6%	9.3%

Benefiting from a growing retail deposit franchise...

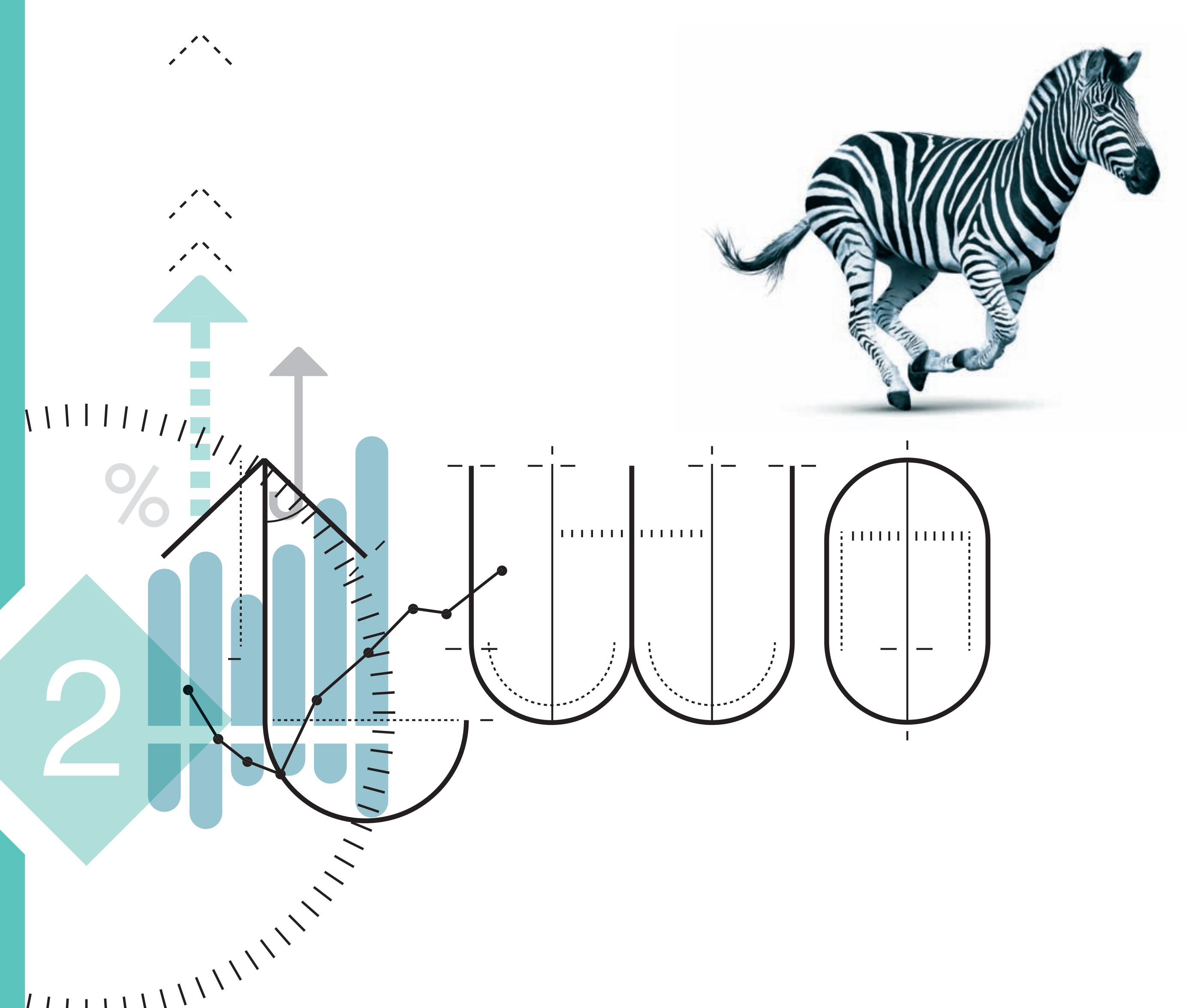
Cash and near cash trend



Customer accounts (deposits)



Financial
review



An overview of the operating environment impacting our business

South Africa

The commentary and analysis of the bank's results for the year ended 31 March 2013 provides an overview of our financial performance relative to the bank's results for the year ended 31 March 2012. 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.

Our views

South Africa has seen many considerable successes in the past two decades on the significant rise in economic freedom resulting from the abolition of apartheid. As the entire population obtained the right to self determination, from where to live, work and invest, to what to consume, trade and own (including land), economic freedom and hence growth improved substantially.

Economic growth 2011/12	Economic growth 2012/13
2.2%	2.5%

Real income per capita has risen

2012	2013
R36 903	R37 476

South Africa's economy has essentially doubled in real terms, generating substantial upward social mobility, with most now experiencing a significantly higher standard of living.

Indeed, the direct, positive correlation between economic freedom and wealth creation, economic growth, poverty reduction, higher levels of investment and greater equality generated economic growth of 3.2% a year since 1994, compared to only 1.6% per annum in the final eighteen years of apartheid.

Real after tax income has risen to an average of R24 761 per person, from 1994's R17 320, effectively doubling real tax revenues and affording the considerable expansion of the social welfare net, including the provision of free basic services and direct monetary transfers to the poor. The state provision of basic services has been extensive; 63% to 94% of households now live with sanitation, in formal homes with electricity and access to clean water respectively (in 1994 access to these respective services ranged from 50% to 64%).

While it is impossible to sustainably eradicate the legacy of apartheid in a comparatively short space of time (without state penury), government's service delivery has been negatively impacted by high costs (due in part to inefficiencies, wastage and corruption) which has contributed to both higher budget deficits and borrowing requirements. In combination with the recent violent strikes, that cut economic growth and widened the balance of payments deficit, Moody's, Standard and Poor's and Fitch downgraded South Africa's long-term foreign currency credit rating. The chance of further downgrades has been lowered by the marked lessening in disruptive strike action and recent moderation in projected real government expenditure, as well as maintaining the forecast period during which planned fiscal consolidation is reached.

South Africa's private sector continues to be highly ranked in the World Economic Forum's Global Competitiveness Survey, retaining first place for the third year in a row for both the regulation of the country's securities exchange (JSE) and strength of auditing and reporting standards. South Africa retains its second place in terms of soundness of banks (for the second year) and is now placed first on the efficacy of its corporate boards. However, government provision of healthcare, education and safety and security is ranked amongst the worst in the world, while the level of co-operation between labour and corporates is ranked the lowest in the one hundred and forty-four World Economic Forum's country survey.

Consequently the recent National Development Plan, an economic framework for South Africa until 2030, focuses on addressing these problems, along with unemployment rate, poverty and inequality, by professionalising the civil service, improving the quality of healthcare and education, increasing exports and support for small businesses and so promoting higher incomes via productivity growth.

The need for strong leadership and effective government is also clearly recognised by the ruling party, with additional aims of improving investment and innovation levels, efficient and competitive infrastructure and a labour market that is more responsive to economic opportunity.

United Kingdom

Our views

Whilst a 'triple dip' recession during this period seemed to have been avoided, at the end of the financial year UK output still stood 2.6% below its pre-crisis peak, some five years after the initial move into recession.

Economic growth 2011/12	Economic growth 2012/13
0.3%	0.2%

Real income per capita has risen

2012	2013
£24 031	£24 373

Over the 2012/13 financial year, UK economic growth remained lacklustre.

Seeking to support the UK economy onto a firmer footing, but stopping short of a sustained push for a stronger recovery because of above target inflation, the UK Monetary Policy Committee kept policy expansionary during the period.

The bank rate remained at a record low of 0.5% whilst the Bank of England, at the end of the period, had bought around £375 billion of assets via its Quantitative Easing (QE) programme, having upped that total by £50 billion during the course of the year.

The bank also launched the Funding for Lending Scheme in August 2012 in an effort to boost overall and small business focused lending; material results have yet to be seen, though it is still relatively early days.

The UK was stripped of its AAA long-term sovereign credit rating during the financial year with Moody's cutting its rating with a one notch downgrade to Aa1, with a stable outlook, in February 2013.

In March 2013, Fitch put the UK on ratings watch negative (downgrading it to AA+ in April). As the review period closed, Standard and Poor's had a negative outlook on the UK's rating. However, there was not a long lasting market reaction to the news of these downgrades with confidence aided by the Chancellor sticking rigidly to his goals of fiscal consolidation and a broad plan for achieving this, albeit with success in the headline fiscal metrics so far limited.

Australia

Our views

The Australian economy expanded by 3.1% in 2012, up from its 2.6% 2011 growth rate and in line with the average growth rate for the pre-2008 crisis decade.

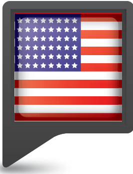
Economic growth 2011/12	Economic growth 2012/13
2.6%	3.1%

Real income per capita has risen

2012	2013
A$63 744	A$65 612

Growth started 2012 robustly, but softened to stand at a quarterly pace of 0.6% in each of the second, third and fourth quarters of 2012, as China and the global economy more broadly lost growth momentum.

Furthermore, a squeeze on domestic expenditure through the fiscal consolidation programme also took its toll on the pace of Australian output expansion. Fears that the mining peak had now been passed as Chinese growth appeared to be moving onto a lower long-term track, pushed the Reserve Bank of Australia (RBA) into easing policy four times during the financial year, taking the RBA's cash rate down to a new record low of 3.00%, some 125 basis points lower than its position at the start of that period.



United States

Our views

The steady US recovery over the three years since 2010 meant that at the end of the 2012/13 financial year, US GDP stood 3.3% up on its 2008 pre-crisis peak level.

The US economy expanded by 2.2% over 2012 and made a respectable start to 2013 recording growth of 2.5% on an annualised seasonally adjusted basis in Q1.

The payroll tax hike which came into effect in January 2013 and the sequester spending cuts which took effect in March 2013, both look set to slow growth sharply in the second quarter.

This improvement in the economic backdrop has also helped to support a modest recovery in the US job market with the unemployment rate having slid close to 7.5%. Broader measures of the US's recovery position have also built over the past year. The pace of loans to the commercial and industrial sector continued to grow at a rapid pace, helping to build the US's industrial recovery. In the housing sector, activity levels climbed sharply over the past year with the price recovery building too, helping to lift consumer sentiment with it.

Despite this improving picture, the US recovery still has some way to go; hence the Federal Reserve loosened policy over the past year. The Fed's policy package included the announcement of the second 'Operation Twist' phase in June 2012, followed by 'QE3' through which, by the start of 2013, the Federal Reserve was purchasing a total of U$85 billion of Mortgage Backed Securities and longer-term Treasury securities per month. Those purchases were still ongoing at the end of the financial year, as the US central bank sought to maintain accommodation in the face of the fiscal squeeze from the payroll tax hike and as the squeeze of the sequester loomed.

Euro zone

The Euro crisis rumbled on through the financial year. From a relatively calm spring, once Greece's debt restructuring had been dealt with in March 2012, market turmoil built through the summer. Peripheral government bonds came under pressure, with Spain and Italy both looking increasingly vulnerable to a bailout as their respective government bond yields tracked higher as sentiment soured once again. European Central Bank (ECB) President Mario Draghi sought to reinstall a state of calm to markets by saying he would do whatever it took to save the Euro whilst unveiling the ECB's new rescue backstop, Outright Monetary Transactions (OMT). Under the OMT the ECB offered the reassurance that it would purchase short-term government bonds, acting as a backstop, subject to conditions being satisfied by the country requesting assistance. The promise of the OMT backstop was enough, without its deployment, to help to bring down peripheral bond yields significantly and calm Euro crisis strains. However, tensions over Greece resurfaced in the autumn, related to whether the Troika would be able to sign off on a revised bailout and release further urgently needed aid cash because of significant slippage in Greece's reform and fiscal objectives. Greece was eventually granted the aid cash, as it signed up to a refreshed reform programme and tensions subsequently calmed. But almost as soon as Greek fears had been addressed, Cyprus came into focus as the next problem. Cyprus eventually ended up the recipient of a full bailout agreement in March 2013, but not before faith in the rescue backstops had been thoroughly shaken with uninsured depositors and senior bondholders both initially put in line for losses as part of the Cypriot agreement. Hence, whilst the Euro survived another turbulent year, 2012/13 closed on a sour note with questions being asked about the robustness of the backstop and rescue mechanisms in place to cope with further rounds of turmoil. The macro-economy of the Euro area did not fare any better, re-entering recession from Q2 2012 with that weakness having persisted into the first quarter of 2013 too.

Operating environment

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

	Period ended 31 March 2013	Period ended 31 March 2012	% change	Average over the period 1 April 2012 to 31 March 2013
Market indicators				
FTSE All share	3 381	3 003	12.6%	3 060
JSE All share	39 861	33 554	18.8%	36 682
Australia All ords	4 980	4 420	12.7%	4 503
S&P	1 569	1 408	11.4%	1 420
Nikkei	12 336	10 084	22.3%	9 601
Dow Jones	14 579	13 212	10.3%	13 244
Rates				
UK overnight	0.42%	0.48%		0.45%
UK 10 year	1.76%	2.20%		1.82%
UK Clearing Banks Base Rate	0.50%	0.50%		0.50%
LIBOR – three month	0.51%	1.03%		0.69%
SA R157 (2015)	5.48%	6.69%		5.68%
Rand overnight	4.76%	5.26%		4.92%
SA prime overdraft rate	8.50%	9.00%		8.65%
JIBAR – three month	5.13%	5.60%		5.24%
Reserve Bank of Australia cash target rate	3.00%	4.25%		3.38%
US 10 year	1.85%	2.21%		1.76%
Commodities				
Gold	USD1 596/oz	USD1 667/oz	(4.3%)	USD1 654/oz
Gas Oil	USD928/mt	USD1 014/mt	(8.5%)	USD950/mt
Platinum	USD1 576/oz	USD1 639/oz	(3.8%)	USD1 556/oz
Macro-economic				
UK GDP (% change over the period)	0.20%	0.30%		
UK per capita GDP	24 373	24 031	1.4%	
South Africa GDP (% real growth over the calendar year in Rand)	2.50%	2.20%		
South Africa per capita GDP (real value in Rand)	37 476	36 903	1.6%	
Australia GDP (% change over the period)	3.10%	2.60%		
Per capita GDP (A$)	65 612	63 744	2.9%	

Source: Datastream, Bloomberg's, Office for National Statistics, SARB Quarterly Bulletin, Australian Bureau of Statistics.

Key income drivers

The bank operates as a specialist bank providing a wide range of financial products and services to a niche client base in South Africa and Mauritius.

Key income drivers	Income impacted primarily by	Income statement – primarily reflected as
• Lending activities	• Rate environment • Size of portfolios • Clients' capital and infrastructural investments • Client activity	• Net interest income • Fees and commissions • Investment income
• Cash and near cash balances	• Rate environment • Capital employed in the business and capital adequacy targets • Asset and liability management policies and risk appetite • Regulatory requirements	• Net interest income • Trading income arising from balance sheet management activities
• Deposit and product structuring and distribution	• The level of clients' investment activity, which, in turn, is affected by among other things, the performance of the global markets and the investment risk appetite of our clients • Distribution channels • Ability to create innovative products • Regulatory requirements	• Net interest income • Fees and commissions
• Investments made (including listed and unlisted equities; debt securities; investment properties) • Gains or losses on investments • Dividends received	• Macro- and micro-economic 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

Key risks relating to our operations

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.

Credit and counterparty risk exposes us to losses caused by financial or other problems experienced by our clients.

27 – 48

Operational risk may disrupt our business or result in regulatory action.

66 – 70

Legal and regulatory risks are substantial in our businesses.

69 and 70

Liquidity risk may impair our ability to fund our operations.

60 – 66

Reputational, strategic and **business risk.**

69

Our net interest earnings and net asset value may be adversely affected by **interest rate risk.**

58 – 60

We may be **vulnerable to the failure of our systems** and breaches of our security systems.

66 – 70

Market, business and general economic conditions and fluctuations could adversely affect our businesses in a number of ways.

53 – 56

We may have insufficient capital in the future and may be unable to secure additional financing when it is required.

70 – 74

Employee misconduct could cause harm that is difficult to detect.

66 – 70

We may be unable to **recruit, retain and motivate key personnel.**

See the Investec group's 2013 integrated annual report on our website.

The **financial services industry** in which we operate is intensely competitive.

11 – 14

Retail conduct risk is the risk that we treat our customers unfairly and deliver inappropriate outcomes. **Wholesale conduct risk** is the risk of conducting ourselves negatively in the market.

70

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

Overview

The bank posted a decrease in headline earnings attributable to ordinary shareholders of 3.9% to R1 741 million (2012: R1 812 million). The balance sheet remains strong with a capital adequacy ratio of 16.2% as calculated in terms of Basel III (2012: 16.1% as per Basel II).

Unless the context indicates otherwise, all income statement comparatives in the review below relate to the results for the year ended 31 March 2012.

Income statement analysis

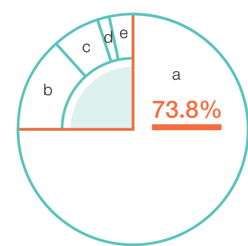
The overview that follows will highlight the main reasons for the variance in the major category line items on the face of the income statement during the year under review.

Total operating income

Total operating income before impairment losses on loans and advances increased by 4.1% to R6 620 million (2012: R6 357 million). The various components of total operating income are analysed below.

R'million	31 March 2013	% of total income	31 March 2012	% of total income	% change
Net interest income	4 883	73.8%	4 269	67.1%	14.4%
Net fee and commission income	942	14.2%	1 055	16.6%	(10.7%)
Investment income	459	6.9%	589	9.3%	(22.1%)
Trading income arising from					
– Customer flow	119	1.8%	259	4.1%	(54.1%)
– Balance sheet management and other trading activities	220	3.3%	175	2.7%	25.7%
Other operating income	(3)	–	10	0.2%	(130.0%)
Total operating income before impairment losses on loans and advances	6 620	100.0%	6 357	100.0%	4.1%

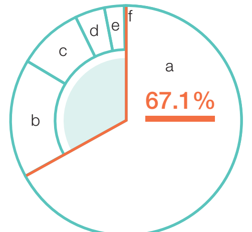
% of total operating income before impairment losses on loans and advances



31 March 2013

R6 620 million total operating income before impairment losses on loans and advances

a	Net interest income	73.8%
b	Net fee and commission income	14.2%
c	Investment income	6.9%
d	Trading income arising from customer flow	1.8%
e	Trading income arising from balance sheet management and other trading activities	3.3%



31 March 2012

R6 357 million total operating income before impairment losses on loans and advances

a	Net interest income	67.1%
b	Net fee and commission income	16.6%
c	Investment income	9.3%
d	Trading income arising from customer flow	4.1%
e	Trading income arising from balance sheet management and other trading activities	2.7%
f	Other operating income	0.2%

Net interest income

Net interest income increased by 14.4% to R4 883 million (2012: R4 269 million) largely as a result of higher lending balances and a sound performance from the bank's fixed income portfolio, partially offset by higher costs on subordinated liabilities.

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

For the year ended R'million	Notes	31 March 2013 Balance sheet value	31 March 2013 Interest received	31 March 2012 Balance sheet value	31 March 2012 Interest received
Cash, near cash and bank debt and sovereign debt securities	1	97 197	4 245	99 394	4 493
Core loans and advances	2	138 105	11 149	124 917	10 633
Private Client		92 563	7 185	92 359	7 667
Corporate, institutional and other clients		45 542	3 964	32 558	2 966
Other debt securities and other loans and advances		6 930	266	6 953	256
Other interest earning assets	3	12 841	149	4 862	468
Total interest earning assets		255 073	15 809	236 126	15 850

For the year ended R'million	Notes	31 March 2013 Balance sheet value	31 March 2013 Interest paid	31 March 2012 Balance sheet value	31 March 2012 Interest paid
Deposits by banks and other debt-related securities	4	40 140	797	33 845	661
Customer accounts		185 311	8 892	176 094	9 773
Other interest bearing liabilities	5	3 521	419	3 425	370
Subordinated liabilities		12 496	818	8 709	777
Total interest bearing liabilities		241 468	10 926	222 073	11 581
Net interest income			4 883		4 269

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

Net fee and commission income

Net fee and commission income decreased by 10.7% to R942 million (2012: R1 055 million) as a result of lower activity in the Corporate and Institutional Banking business.

For a further analysis on net fee and commission income refer to page 119.

Investment income

Investment income decreased by 22.1% to R459 million (2012: R589 million) largely due to a weaker performance from the bank's listed principal investments portfolio.

For a further analysis on investment income refer to pages 119 and 120.

Trading income

Trading income arising from customer flow decreased by 54.1% to R119 million (2012: R259 million) due to lower activity levels in the Corporate and Institutional Banking business. Trading income arising from balance sheet management and other trading activities increased by 25.7% to R220 million (2012: R175 million) reflecting improved activity on the balance sheet management desk.

Impairment losses on loans and advances

Impairments on loans and advances increased from R833 million to R868 million. Default loans have decreased significantly since 31 March 2012, with an improvement reported in the Private Client business partially offset by some corporate loans defaulting in the period. The credit loss charge as a percentage of average gross core loans and advances has improved from 0.69% at 31 March 2012 to 0.65%. The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounts to 1.93% (2012: 2.79%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.44 times (2012: 1.68 times).

For further information on asset quality refer to pages 41 to 48.

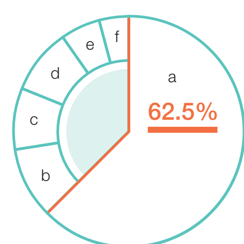
Operating costs

Total operating expenses grew by 8.3% to R3 629 million (2012: R3 351 million) largely as a result of inflationary adjustments with the ratio of total operating costs to total operating income amounting to 54.8% (2012: 52.7%).

The various components of total expenses are analysed below.

R'million	31 March 2013	% of total expenses	31 March 2012	% of total expenses	% change
Staff costs (including directors' remuneration)	2 269	62.5%	2 181	65.1%	4.0%
Business expenses	364	10.0%	343	10.2%	6.1%
Equipment (excluding depreciation)	314	8.7%	173	5.2%	81.5%
Premises (excluding depreciation)	337	9.3%	347	10.3%	(2.9%)
Marketing expenses	202	5.6%	171	5.1%	18.1%
Depreciation	143	3.9%	136	4.1%	5.1%
Total operating costs	3 629	100.0%	3 351	100.0%	8.3%

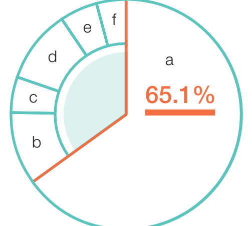
% of total expenses



31 March 2013

R3 629 million total expenses

a	Staff costs	62.5%
b	Business expenses	10.0%
c	Equipment	8.7%
d	Premises	9.3%
e	Marketing	5.6%
f	Depreciation	3.9%



31 March 2012

R3 351 million total expenses

a	Staff costs	65.1%
b	Business expenses	10.2%
c	Equipment	5.2%
d	Premises	10.3%
e	Marketing	5.1%
f	Depreciation	4.1%

Balance sheet analysis

Since 31 March 2012:

- Total shareholders' equity (including non-controlling interests) increased by 12.3% to R23.5 billion largely as a result of retained earnings and the issue of shares
- Total assets increased by 9.1% to R279.3 billion largely as a result of an increase in core loans and advances.

Questions and answers

Stephen Koseff
Bernard Kantor
Glynn Burger

Business leaders

Q Please give us an overview of the environment in which you operate

A The South African environment was fairly volatile over the past year and a very strong stock exchange was overshadowed by very poor labour relations, weak currency, fiscal pressures and relatively low economic growth.

We, however, started to see good growth in our Private Banking Activities and moderate growth in the Corporate and Institutional Banking business. The weak conditions continue to impact our level of impairments which remain elevated. Our defaults, however, have declined significantly as a consequence of our tighter credit standards imposed five years ago and focused management on our problem book.

Most of our operating units showed an improved performance over the last year.

Basel III was implemented on 1 January 2013 and this has had a moderate effect on our capital levels as certain of our capital instruments are being phased out.

Q What have been the key developments in the business over the last financial year?

A We have seen very good progress on the implementation of the single bank structure.

The Corporate and Institutional Banking business created an integrated equities business incorporating equity derivatives, stockbroking and equity related structuring activities from the previous Capital Markets and Securities divisions. The business has five areas of focus namely distribution, flow trading, research, structuring and prime services. Where feasible, research will also be leveraged off our international coverage.

Corporate lending portfolios have grown by 10%.

A Prime Services platform is being established which will consolidate prime broking, clearing and scrip lending activities.

We have maintained a strong positioning in the South African Advisory business. Our focus has been on local and cross-border M&A, capital raisings and restructuring transactions.

The Corporate Finance division was ranked second in volume of listed M&A transactions and third in general corporate finance in *Dealmakers Magazine* Survey for Corporate Finance (2012 calendar year). We have been ranked first in volume of listed M&A transactions for nine out of the last 12 years.

Private Banking activities have been separated into two focus areas, namely high income and high net worth, to enhance the offering and the commensurate profitability.

This renewed focus on core banking in the high income space is aimed at improving the client experience, increasing client acquisition and utilisation of core products.

Q What are your strategic objectives for the coming year?

A The overall business has gone through significant change over the past few years, dealing with the consequences of the global financial crisis and our single bank project.

Foundations are now well-rooted for future growth and development. Cooperation and collaboration across the business units has improved significantly.

The focus is on continuing to service our existing clients in the best possible way while at the same time attracting new clients across all our franchises.

Significant effort will be made on cross-selling our products across different client bases so that we continue to provide integrated solutions to our clients.

Q What is your outlook for the coming year?

A We continue to roll out our Africa strategy concentrating on a number of core geographies in Sub-Saharan Africa. These initiatives remain focused largely on advisory, corporate institutional banking and asset management opportunities.

The past few years have been tough for the bank in South Africa as impairments have been elevated and activity levels moderate.

Looking forward, the overall level of defaults has declined to a level not seen for a few years. The single bank project has improved cooperation across the group and the morale has increased significantly.

Whilst the macro environment remains volatile, we as a group, are well positioned to grow our market share and underlying profitability.

Q How do you incorporate environmental and sustainability considerations into your business?

A Given the severe lack of skills in South Africa, we use our expertise as a business to enrich communities around us through education and entrepreneurship. In this regard, we spent over R10 million during the past financial year on our Promaths programme which offers extra maths and science lessons to grade 10, 11 and 12 learners, facilitating entrance into tertiary learning institutions.

From an environmental point of view, the greatest impact we can have is through our business activities finding opportunities for our clients in areas such as cleaner and renewable energy sources, energy efficiency and responsible lending and investing. For example, we are financing some R3.2 billion worth of renewable energy projects in South Africa over the next two to three years. Post year end we finalised a deal whereby Investec is financing R105 million for a co-generation plant that uses waste heat from hot water from a smelter which evaporates into gas to drive a turbine in the system and helps reduce the plant's overall power costs.

For further information refer to the sustainability report on our website.

Risk management and corporate governance

Risk management

Overview of disclosure requirements

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

on pages 23 to 75 with further disclosures provided within the financial statements section on pages 101 to 175.

All sections, paragraphs, tables and graphs on which an audit opinion is expressed are marked as audited.

The majority of the group's Pillar III risk disclosures as required in terms of Regulation 43 of the regulations relating to banks in South Africa are also included in this section of the annual report.

Information provided in this section of the annual report is prepared on an Investec Bank Limited consolidated basis unless otherwise stated.

Philosophy and approach to risk management

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 risk 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.

Group Risk Management operates within an integrated geographical and divisional structure, in line with our management approach, ensuring that the appropriate processes are used to address all risks across the group.

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

Overall 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 11 to 14.

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 largely 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

Group Risk Management objectives are to:

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

- Credit and counterparty exposures to a select target market; our risk appetite continues to favour lower risk, income-based lending, with credit risk taken over a short to medium term. Exposure is taken against defined target clients displaying sound financial strength and integrity, a core competency and an established track record. Impairments on loans and advances increased from R833 million to R868 million. Since 31 March 2012 the level of defaults has improved with the percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounting to 1.93% (2012: 2.79%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.44 times (2012: 1.68 times). The credit loss ratio as a percentage of average gross core loans and advances has improved from 0.69% at 31 March 2012 to 0.65%
- Limited exposure to structured credit investments; representing approximately 1.0% of total assets
- No exposures to peripheral European sovereign debt
- A low leverage (gearing) ratio of 11.4 times
- A low level of net assets and liabilities exposed to the volatility of IFRS fair value accounting; with level 3 assets amounting to less than 0.1% of total assets
- Low equity and investment risk exposure; with total investments comprising 3.6% 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 0.8% of total operating income
- A high level of readily available, high quality liquid assets; cash and near cash of R73.0 billion, representing 33.0% of our liability base. We continue to maintain a low reliance on interbank wholesale funding to fund core lending asset growth
- Continued increase in retail customer deposits and a growing retail franchise
- Healthy capital ratios; we have always held capital well in excess of regulatory requirements and we intend to perpetuate this philosophy. We continued to meet our capital targets
- Geographical and operational diversity with a high level of recurring income which continues to support sustainability of operating profit.

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 33, 56 and 65 with a high level geographic summary of the most salient aspects provided below.

Credit risk

Core loans and advances grew by 10.6% to R138.1 billion with commercial real estate investments and residential owner occupied portfolios representing the majority of the growth for the financial year in review. There has been continuing adherence to lower loan to value lending and greater competitive pressure on margins. Default loans (net of impairments) as a percentage of core loans and advances improved from 2.79% to 1.93% with an improvement in both lending collateralised by property and the private client portfolio certain problem loans have been settled or written off.

The corporate client portfolio had a small number of defaulted counterparties where the decision was made to write off the exposures in the financial year in review due to low probability of recovery. The credit loss ratio improved to 0.65%.

Traded market risk

Market conditions have remained difficult for traders as client flow has not improved significantly. While equity markets have trended up this has been on low volumes and volatility has remained low all year. Forex and interest rate markets have seen more volatility though this has been mainly on the back of international market drivers. The impact of the Basel regulations has caused the cost of capital in the trading area to increase at least three fold on the year before, this has added to the constraints on traders' level of risk taking.

Balance sheet risk

Investec's balance sheet was well positioned for the 50bps rate cut that took place in July 2012 and the net contribution to income was significantly positive. Investec continued to build its structural liquidity cash resources over the course of the year as part of our drive to improve the Basel III Liquidity Coverage Ratio to be implemented from 2015. The bank continued to benefit from a growing retail franchise with total customer deposits increasing by 5.2% from 1 April 2012 to R185.3 billion at 31 March 2013. Cash and near cash balances increased by 5.6% from 1 April 2012 to R73.0 billion at 31 March 2013. Our liquidity was further boosted by several successful medium-term senior and subordinated notes issues totalling R11.8 billion. Syndicated loan deals raised about US$335 million three-year funding. Investec also issued its first EMTN and raised US$300 million for five years. Further welcome news was the announcement of the softening of some of the Basel III guidelines on liquidity risk in the last quarter and this has placed Investec in a very favourable position to meet the new criteria with less of a negative impact on margins.

Salient features

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

Year to 31 March	2013 R	2012 R
Net core loans and advances (million)	138 105	124 917
Gross defaults as a % of gross core loans and advances	2.88%	3.80%
Defaults (net of impairments) as a % of net core loans and advances	1.93%	2.79%
Net defaults (after collateral and impairments) as a % of net core loans and advances	–	–
Credit loss ratio*	0.65%	0.69%
Structured credit investments as a % of total assets	1.01%	1.05%
Banking book investment and equity risk exposures as a % of total assets	3.56%	2.66%
Traded market risk: one-day value at risk (million)	7.2	2.8
Cash and near cash (million)	72 974	69 077
Customer accounts (deposits) (million)	185 311	176 094
Core loans to equity ratio	5.9x	6.0x
Total gearing/leverage ratio**	11.4x	12.0x
Core loans (excluding own originated assets which have been securitised) to customer deposits	73.2%	69.6%
Capital adequacy ratio	16.2%	16.1%
Tier 1 ratio	10.9%	11.4%
Common equity tier 1 ratio	10.3%	10.6%

* *Income statement impairment change on core loans as a percentage of average advances.*
** *Total assets excluding intergroup loans 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 16.

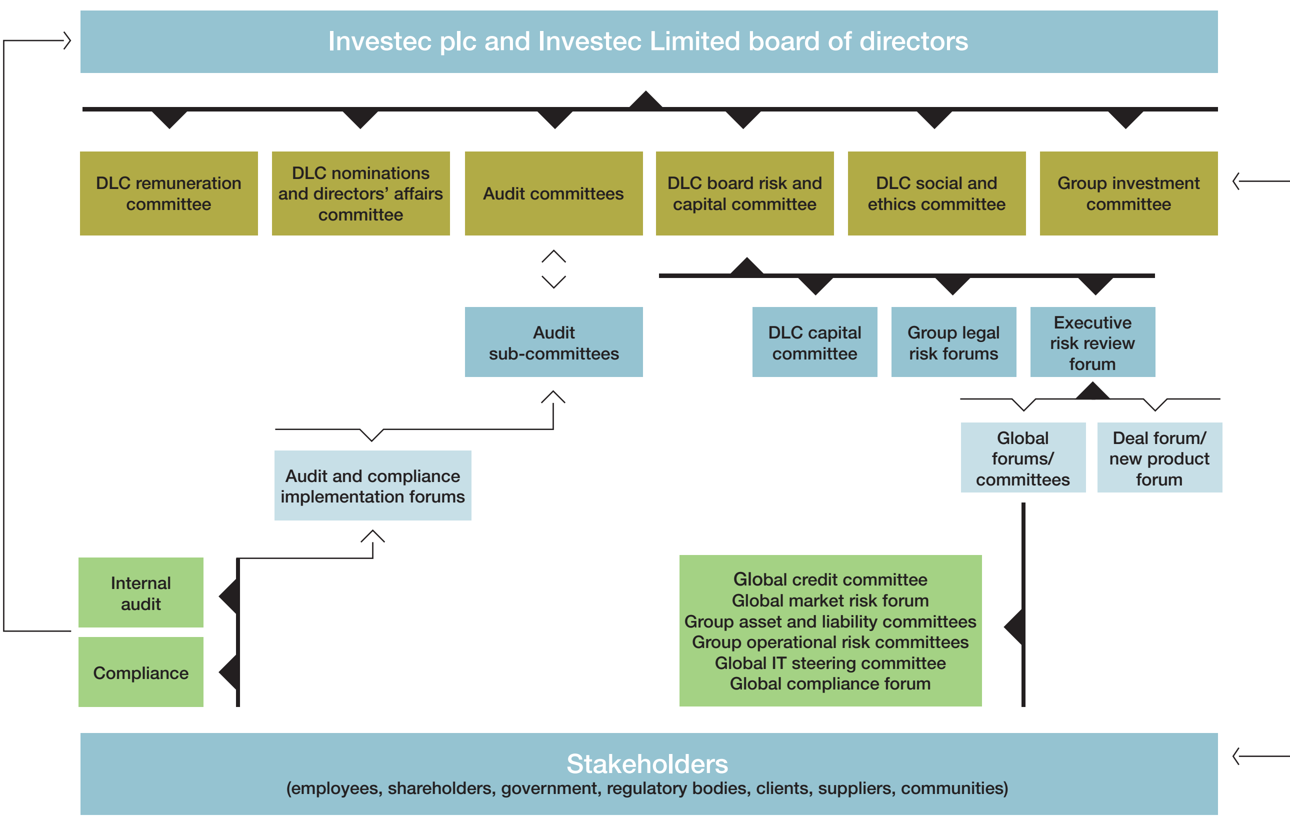
The sections that follow provide information on a number of these risk areas.

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 group level, as shown in the diagram below. These committees and forums operate together with Group Risk Management and are mandated by the board.

Governance framework



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

BRCC Board risk and capital committee
ERRF Executive risk review forum
SARB South African Reserve Bank
ALCO Asset and liability committee

Credit and counterparty risk management

Credit and counterparty risk description

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 particular foreign country, or dependent on that country's economy.

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

Credit and counterparty risk governance structure

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

Whilst we do not have a separate country risk committee, the local and global credit committees will consider, analyse and assess the appropriate limits to be recorded when required, to assume exposure to foreign jurisdictions. The local group credit committee has the authority to approve country limits within mandate. The global credit committee is responsible for approving country limits not within the mandate of local group credit committees.

Credit and counterparty risk appetite

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 48 for further information).

Target clients include high net worth individuals, certain professionally qualified individuals, high income earning individuals, corporates, state owned enterprises and financial institutions. Corporates must have scale, 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 are generally avoided.

We typically originate loans with the intent of holding these assets to maturity, and thereby developing a 'hands on' and longstanding relationship with our clients.

In certain instances we have elected to sell certain assets down and/or securitise them (refer to pages 51 to 53 for further information).

Concentration risk

Credit risk concentration exists when large exposures exist to a particular counterparty or group of connected counterparties, or to a particular geography, asset class or industry. Concentration risk can also exist where portfolio loan maturities are clustered to single periods in time. Loan maturities are monitored on a portfolio and transaction basis by Group Risk and the various business units. Concentration risk can also exist where a number of counterparties are engaged in similar activities and have similar economic characteristics that could cause their ability to meet contractual obligations to be similarly affected by changes in economic, legal, regulatory or other conditions. The board sets a group risk appetite limit framework which regulates the maximum exposures we would be comfortable to tolerate in order to diversify and mitigate risk. This limit framework is monitored on an ongoing basis and reported to ERFF and BRCC on an ongoing basis. Should there be any breaches to limits or where exposures are nearing limits these exceptions are specifically highlighted for attention and action.

Sustainability considerations

Overview

Investec has a broadly based approach to sustainability, which runs beyond recognising our own footprint on the environment, our many CSI activities and our funding and investing activities. This is not merely for business reasons but based on a broader responsibility to our environment and society. Accordingly, sustainable risk considerations are considered by the credit committee and investment committee when making lending or investment decisions. In particular the following factors are taken into account when a transaction might be approved or declined based on the outcome of the sustainability considerations:

- Environmental considerations
- Social considerations
- Economic considerations.

Refer to the sustainability report on our website.

Management and measurement of credit and counterparty risk

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 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, BRCC and the board. 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 Group Credit.

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.

The relevant credit committee/s within Investec will also consider wrong-way risk at the time of granting credit for specific products to each counterparty. Specific wrong-way risk occurs where exposure to a counterparty is positively correlated with the counterparty's probability of default due to the nature of transactions with the counterparty. In other words, the mark to market value of a transaction and the likelihood of the counterparty defaulting increase at the same time.

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. We mainly place reliance upon internal consideration of counterparties and borrowers, and use ratings prepared externally where available as support. Within the credit approval process 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 progressed in the project finance, private bank property-related transactions, corporate, bank and financial institutions areas of operation.

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

- In relation to sovereigns and securitisations, Fitch, Moody's, Standard and Poor's and DBRS have been selected by Investec as eligible ECAIs
- In relation to banks, corporates and debt securities, Fitch, Moody's and Standard and Poor's 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.

The group applies the Standardised approach for capital requirements in the assessment of its credit and counterparty exposures. The group's banking subsidiaries conduct their mapping of credit and counterparty exposures in accordance with the mapping procedures specified by

the Central Bank Registrar, in the respective geographies in which the group operates.

Credit and counterparty risk – nature of lending activities

Credit and counterparty risk is assumed mainly through lending collateralised by property and lending activities by private and corporate clients, although some credit and counterparty risk does arise in other businesses.

Lending collateralised by property

We provide senior debt and other funding for property transactions. Income producing assets account for the majority of exposure to lending collateralised by property. The portfolio is predominantly made up of commercial property collateral.

Client quality and expertise are at the core of our credit philosophy. Our exposure to the property market is well diversified with strong bias towards prime locations for residential exposure and focus on tenant quality for commercial assets. Debt service cover ratios are a key consideration in the lending process supported by reasonable loan to security value ratios.

An analysis of the lending collateralised by property portfolio and asset quality information is provided on page 47.

Private Client activities

We target high net worth individuals, active wealthy entrepreneurs, high-income professionals, newly qualified professionals with high income earning potential, self-employed entrepreneurs, owner managers in mid-market companies and sophisticated investors.

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

Credit risk arises from the following activities:

- Personal Banking delivers products to enable target clients to create and manage their wealth, private client mortgages, transactional banking, high net worth lending, offshore banking and foreign exchange
- Residential Mortgages provides mortgage loan facilities for high income professionals and high net worth individuals tailored to their individual needs as well as vanilla mortgage products for professional target market clients
- Specialised Lending provides structured credit facilities to high net worth individuals and their controlled entities
- The Professional Finance team creates innovative products specifically designed to meet the personal and professional finance needs of predominantly medical, dental, legal and accounting professionals. This enables these clients to maximise their personal wealth through cash management and investment opportunities.

An analysis of the private client loan portfolio and asset quality information is provided on page 47.

Corporate Client activities

We focus on traditional bank lending activities, as well as treasury and trading services that are customer flow-related.

The treasury function, as part of the daily management of liquidity, 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. 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. 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 corporate lending businesses, credit risk can arise from asset finance, project and infrastructure finance, resource finance, corporate loans, growth and acquisition finance, asset based lending, fund finance, debt origination, credit investments and securitisation activities. There are approved limits specifying the maximum exposure to each individual counterparty and industry limits, to minimise concentration risk. Facilities are secured on the assets of the underlying entity. The credit appetite for each counterparty is based on the financial strength of the principal borrower, underlying cash flow and security. Political risk insurance is taken where deemed appropriate. There is also strong adherence to prudent country risk limits to manage concentration risk on an ongoing basis.

Assets we are involved in are diverse, and centre around our areas of expertise including mortgages, resources, aircraft, equipment leasing, corporate credit, project and infrastructure finance. Any assets originated are required to be of very strong credit quality that we are happy to hold on balance sheet to maturity, or purchased at sufficiently low distressed prices that we are happy to hold on balance sheet to maturity because of low imputed loan to value ratios and strong cash flows.

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

- Small Ticket Asset Finance: provides lending to corporates to support asset purchases and other business requirements
- Large Ticket Asset Finance: provides the finance and structuring expertise for aircraft and larger lease assets, the majority of which are senior loans with a combination of corporate and asset backed collateral against the exposure
- Project and Infrastructure Finance: arranges and provides financing for infrastructure assets, such as power, transport, social infrastructure (PFI/private public partnerships) and telecommunications
- Resource Finance: debt arranging and underwriting, together with structured hedging solutions

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.

- Corporate Loans: provides mostly senior loans to mid and large cap corporates.
- Growth and Acquisition Finance: provides debt funding to proven management teams, running small to mid-market sized companies. 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
- Credit Investments: makes credit investments in the primary and secondary markets for both investment (accrual) and arbitrage purposes, generating annuity margin income and investment income. All investment transactions are approved in advance and subject to rigorous stress testing
- Securitisation: structuring and sale of financial assets, mostly in the form of sale to special purpose entities which issue securities to investors.

An analysis of the corporate client loan portfolio and asset quality information is provided on page 47.

Corporate Advisory and Investment Activities

Counterparty risk in this area is modest. 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 quality analysis – credit risk classification and provisioning policy

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 its 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 • Any restructured credit exposures until appropriate watchlist committee decides otherwise. Ultimate loss is not expected, but may occur if adverse conditions persist. Supplementary reporting categories: • Credit exposures overdue 1 – 60 days • Credit exposures overdue 61 – 90 days.

<table>
<tr><th>Regulatory and economic capital classification</th><th>IFRS impairment treatment</th><th>Arrears, default and recoveries classification category</th><th>Description</th></tr>
<tr><td rowspan="3">Assets in default</td><td rowspan="3">Specific impairments are evaluated on a case-by-case basis where objective evidence of impairment has arisen. In determining specific impairments, the following factors are considered:
• Capability of the client to generate sufficient cash flow to service debt obligations and the ongoing viability of the client's business
• Likely dividend or amount recoverable on liquidation, or bankruptcy or business rescue
• Nature and extent of claims by other creditors
• Amount and timing of expected cash flows
• Realisable value of security held (or other credit mitigants)
• Ability of the client to make payments in the foreign currency, for foreign currency denominated accounts.</td><td>Sub-standard</td><td>The counterparty is placed in 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).</td></tr>
<tr><td>Doubtful</td><td>The counterparty is placed in doubtful when the credit exposure is considered to be impaired but not yet considered a final loss due to some pending factors such as a merger, new financing or capital injection which may strengthen the quality of the relevant exposure.</td></tr>
<tr><td>Loss</td><td>• A counterparty is placed in the loss category when the credit exposure is considered to be uncollectible once all efforts, such as realisation of collateral and institution of legal proceedings, have been exhausted, or
• Assets in this category are expected to be written off in the short term since the likelihood of future economic benefits resulting from such assets are remote.</td></tr>
</table>

Credit risk mitigation

Credit risk mitigation techniques can be defined as all methods by which Investec seeks to decrease the credit risk associated with an exposure. Investec considers credit risk mitigation techniques as part of the credit assessment of a potential client or business proposal and not as a separate consideration of mitigation of risk. Risk mitigants include any collateral item, covenant or term and condition imposed on a transaction with the aim of reducing the credit risk inherent to that transaction.

As Investec has a low appetite for unsecured debt, the credit risk mitigation technique most commonly used is the taking of collateral, primarily over tangible assets. Collateral is assessed with reference to the sustainability of value and the likelihood of realisation. Acceptable collateral generally exhibits characteristics that allow for it to be easily identified and appropriately valued.

An analysis of collateral is provided on page 48.

Where a transaction is supported by a bond or charge over property, the primary credit risk is still taken on the borrower. When applications for facilities to be secured by property are submitted to the relevant committee, the following characteristics of the property are considered: type of property; location of property; and the ease with which the property could be relet and/or resold. Where the property is secured by lease agreements, the credit committee will attempt to match the period of the loan to the identifiable term of leases.

The bulk of collateral provided 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. Residential properties are valued by desktop valuation and/or approved valuers, where appropriate.

Other common forms of collateral in the retail asset class are motor vehicles, cash and share portfolios. In addition, the relevant credit committee may require a suretyship or guarantee in support of a transaction.

Our corporate, government and institutional clients provide a range of collateral including cash, corporate assets, debtors (accounts receivable), trading stock, debt securities (bonds), listed and unlisted shares.

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 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.

Investec places no reliance on credit derivatives in its credit risk mitigation techniques.

Further information on credit derivatives used for trading and investment purposes is provided on page 56.

Investec endeavours to implement robust processes to minimise the possibility of legal and/or operational risk in the taking of collateral. The independent legal risk function in Investec ensures the enforceability of credit risk mitigants within the laws applicable to the jurisdictions in which Investec operates. When assessing the potential concentration risk in its credit portfolio cognisance is taken of the types of collateral and credit protection that form part of the portfolio.

Credit and counterparty risk year in review

The financial year in review has seen a combination of trends and factors impacting on the credit quality and assessment of credit and counterparty risks.

Refer to economic section on page 11 to 14.

Against this backdrop, core loans and advances grew by 10.6% to R138.1 billion with commercial real estate investments and residential owner occupied portfolios representing the majority of the growth for the financial year in review.

There has been continuing adherence to lower loan to value lending and greater competitive pressure on margins.

Default loans (net of impairments) as a percentage of core loans and advances improved from 2.79% to 1.93% with an improvement in both lending collateralised by property and the private client portfolio as some transactions have been settled and some written off. The corporate client portfolio had a small number of defaulted counterparties where the decision was made to write off the exposures in the financial year in review due to low probability of recovery.

The credit loss ratio improved to 0.65% from 0.69%.

The majority of the historical defaults were recorded in the lending collateralised by property portfolio and largely comprise a relatively small number of clients where development finance was provided at reasonable loan to values but with no serviceability except realisation of collateral. Defaults have occurred when clients have been unable to realise sales to service and repay. Managing certain of these defaulted property developments in order to maximise recoveries is taking longer than originally anticipated.

Credit risk regulatory considerations

Following on from the South African Reserve Bank's (SARB) adoption of Basel 2.5 as of January 2012, January 2013 saw further (and more significant) amendments to the South African Banks Act in order to bring it in line with the Basel Committee on Banking Supervision's (BCBS) Basel III Framework. Investec's credit capital holding has thus been amended where necessary in order to comply with the revised regulations. While Basel III has far-reaching impact in terms of liquidity and capital supply, the impact on credit risk capital is limited to relatively small, specific portfolios of assets, specifically over-the-counter (OTC) derivatives and securitisation exposure. The impact of the implementation of Basel III in South Africa has thus far had a muted impact on credit capital, with changes to disclosure successfully implemented as of January 2013.

The most noteworthy change in credit capital as a result of Basel III is the introduction of an additional capital charge against OTC derivatives, referred to as CVA or Credit Valuation Adjustment. The introduction of CVA seeks to enhance risk coverage, and is an attempt at capturing the risk of 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. This charge is in keeping with the BCBS's mandate of reducing systemic risk within the banking system, creating a disincentive for banks to engage in OTC derivative transactions, and rather encouraging the adoption of exchange-traded instruments where possible, which offer greater transparency and risk mitigation for the parties involved. These changes are largely due to come into effect in 2014.

Given the implementation of Basel III in South Africa by the Reserve Bank, Investec, together with other major banks, continues to engage with SARB through the Banking Association of South Africa (BASA) on matters of interpretation, particularly in light of the delay in the implementation of Basel III in the US and Europe. 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 23 to 33 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 6.7% to R296.6 billion largely as a result of an increase in core loans and advances and cash and near cash balances. Cash and near cash balances increased by 5.6% to R73.0 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, non-sovereign and non-bank cash placements, sovereign debt securities.

As at 31 March R'million	2013	2012	% change	Average*
Cash and balances at central banks	5 677	9 303	(39.0%)	7 490
Loans and advances to banks	23 278	19 191	21.3%	21 235
Non-sovereign and non-bank cash placements	5 875	7 885	(25.5%)	6 880
Reverse repurchase agreements and cash collateral on securities borrowed	7 668	5 098	50.4%	6 383
Sovereign debt securities	33 730	30 222	11.6%	31 976
Bank debt securities	20 969	27 695	(24.3%)	24 332
Other debt securities	6 258	6 284	(0.4%)	6 271
Derivative financial instruments	11 704	10 269	14.0%	10 987
Securities arising from trading activities	1 357	1 628	(16.6%)	1 493
Loans and advances to customers (gross)	137 075	123 920	10.6%	130 498
Own originated loans and advances to customers (gross)	2 381	2 305	3.3%	2 343
Other loans and advances	684	681	0.4%	683
Other securitised assets	–	81	(100.0%)	41
Other assets	252	–	100.0%	126
Total on-balance sheet exposures	256 908	244 562	5.0%	250 738
Guarantees^	8 415	6 770	24.3%	7 593
Contingent liabilities, committed facilities and other	31 309	26 690	17.3%	29 000
Off-balance sheet exposures	39 724	33 460	18.7%	36 593
Total gross credit and counterparty exposures pre collateral or other credit enhancements	296 632	278 022	6.7%	287 331

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

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

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.

R'million	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 2013				
Cash and balances at central banks	5 677	–		5 677
Loans and advances to banks	23 278	–		23 278
Non-sovereign and non-bank cash placements	5 875	–		5 875
Reverse repurchase agreements and cash collateral on securities borrowed	7 668	–		7 668
Sovereign debt securities	33 730	–		33 730
Bank debt securities	20 969	–		20 969
Other debt securities	6 258	–		6 258
Derivative financial instruments	11 704	457		12 161
Securities arising from trading activities	1 357	–		1 357
Investment portfolio	–	9 102	1	9 102
Loans and advances to customers	137 075	(1 349)	2	135 726
Own originated loans and advances to customers	2 381	(2)	2	2 379
Other loans and advances	684	(12)	2	672
Other securitised assets	–	1 168	3	1 168
Interest in associated undertakings	–	45		45
Deferred taxation assets	–	55		55
Other assets	252	914	4	1 166
Property and equipment	–	224		224
Investment properties	–	1		1
Intangible assets	–	90		90
Loans to group companies	–	11 673		11 673
Total on-balance sheet exposures	256 908	22 366		279 274

1. *Largely relates to exposures that are classified as equity risk in the banking book. Further information is provided on pages 49 to 51.*
2. *Largely relates to impairments.*
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. *Other assets include settlement debtors where we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

R'million	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	9 303	–		9 303
Loans and advances to banks	19 191	–		19 191
Non-sovereign and non-bank cash placements	7 885	–		7 885
Reverse repurchase agreements and cash collateral on securities borrowed	5 098	–		5 098
Sovereign debt securities	30 222	–		30 222
Bank debt securities	27 695	–		27 695
Other debt securities	6 284	–		6 284
Derivative financial instruments	10 269	326		10 595
Securities arising from trading activities	1 628	–		1 628
Investment portfolio	–	6 036	1	6 036
Loans and advances to customers	123 920	(1 305)	2	122 615
Own originated loans and advances to customers securitised	2 305	(3)	2	2 302
Other loans and advances	681	(12)	2	669
Other securitised assets	81	976	3	1 057
Interest in associated undertakings	–	38		38
Deferred taxation assets	–	46		46
Other assets	–	1 074	4	1 074
Property and equipment	–	308		308
Investment properties	–	5		5
Intangible assets	–	96		96
Loans to group companies	–	3 805		3 805
Total on-balance sheet exposures	244 562	11 390		255 952

1. *Largely relates to exposures that are classified as equity risk in the banking book. Further information is provided on pages 49 to 51.*
2. *Largely relates to impairments.*
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. *Other assets include settlement debtors where we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

Gross credit and counterparty exposures by residual contractual maturity as at 31 March 2013

R'million	Up to three months	Three to six months	Six months to one year	One to five years	Five to 10 years	>10 years	Total
Cash and balances at central banks	5 677	–	–	–	–	–	5 677
Loans and advances to banks	18 024	480	1 364	2 498	471	441	23 278
Non-sovereign and non-bank cash placements	5 875	–	–	–	–	–	5 875
Reverse repurchase agreements and cash collateral on securities borrowed	4 614	81	593	1 032	1 348	–	7 668
Sovereign debt securities	12 676	7 219	2 788	4 268	4 013	2 766	33 730
Bank debt securities	502	2 615	3 462	13 156	1 233	1	20 969
Other debt securities	–	–	11	3 449	1 977	821	6 258
Derivative financial instruments	1 107	874	311	5 544	3 134	734	11 704
Securities arising from trading activities	833	–	–	236	131	157	1 357
Loans and advances to customers (gross)	8 258	6 056	14 431	60 384	16 537	31 409	137 075
Own originated loans and advances to customers (gross)	1	2	13	889	52	1 424	2 381
Other loans and advances (gross)	–	–	–	684	–	–	684
Other assets	170	82	–	–	–	–	252
Total on-balance sheet exposures	57 737	17 409	22 973	92 140	28 896	37 753	256 908
Guarantees^	1 512	1 250	203	2 408	293	2 749	8 415
Contingent liabilities, committed facilities and other	2 456	839	5 633	7 287	1 038	14 056	31 309
Total off-balance sheet exposures	3 968	2 089	5 836	9 695	1 331	16 805	39 724
Total gross credit and counterparty exposures pre collateral or other credit enhancements	61 705	19 498	28 809	101 835	30 227	54 558	296 632

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

Detailed analysis of gross credit and counterparty exposures by industry

As at 31 March R'million	HNW and professional individuals	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services
2013					
Cash and balances at central banks	–	–	–	5 677	–
Loans and advances to banks	–	–	–	–	–
Non-sovereign and non-bank cash placements	–	100	–	–	337
Reverse repurchase agreements and cash collateral on securities borrowed	413	–	119	–	–
Sovereign debt securities	–	–	–	33 730	–
Bank debt securities	–	–	–	–	–
Other debt securities	583	–	148	–	–
Derivative financial instruments	98	1	24	–	53
Securities arising from trading activities	–	–	4	484	–
Loans and advances to customers (gross)	91 326	1 047	1 959	869	5 631
Own originated loans and advances to customers (gross)	2 381	–	–	–	–
Other loans and advances (gross)	–	–	–	–	–
Other assets	1	–	–	–	–
Total on-balance sheet exposures	94 802	1 148	2 254	40 760	6 021
Guarantees	3 673	–	164	1	11
Contingent liabilities, committed facilities and other	23 791	200	95	–	625
Total off-balance sheet exposures	27 464	200	259	1	636
Total gross credit and counterparty exposures pre collateral or other credit enhancements	122 266	1 348	2 513	40 761	6 657
2012					
Cash and balances at central banks	–	–	–	9 303	–
Loans and advances to banks	–	–	–	–	–
Non-sovereign and non-bank cash placements	–	100	–	–	365
Reverse repurchase agreements and cash collateral on securities borrowed	37	–	–	43	–
Sovereign debt securities	–	–	–	30 222	–
Bank debt securities	–	–	–	–	–
Other debt securities	682	–	–	110	–
Derivative financial instruments	12	–	60	–	88
Securities arising from trading activities	–	–	–	757	–
Loans and advances to customers (gross)	91 046	448	1 308	837	2 608
Own originated loans and advances to customers securitised (gross)	2 305	–	–	–	–
Other loans and advances (gross)	–	–	–	–	–
Other assets	81	–	–	–	–
Total on-balance sheet exposures	94 163	548	1 368	41 272	3 061
Guarantees	4 023	–	18	1	20
Contingent liabilities, committed facilities and other	21 018	–	18	–	448
Total off-balance sheet exposures	25 041	–	36	1	468
Total gross credit and counterparty exposures pre collateral or other credit enhancements	119 204	548	1 404	41 273	3 529

Finance and insurance	Retailers and wholesalers	Manufacturing and commerce	Construction	Commercial real estate	Mining and resources	Leisure, entertainment and tourism	Transport and communication	Total
–	–	–	–	–	–	–	–	5 677
23 278	–	–	–	–	–	–	–	23 278
1 840	1 259	1 322	33	–	579	–	405	5 875
6 508	–	559	–	–	–	–	69	7 668
–	–	–	–	–	–	–	–	33 730
20 969	–	–	–	–	–	–	–	20 969
4 534	175	–	–	–	597	–	221	6 258
10 083	108	89	–	1 112	67	–	69	11 704
570	96	–	–	–	119	–	84	1 357
6 205	2 690	7 234	903	6 772	3 787	1 398	7 254	137 075
–	–	–	–	–	–	–	–	2 381
684	–	–	–	–	–	–	–	684
250	–	–	–	–	1	–	–	252
74 921	4 328	9 204	936	7 884	5 150	1 398	8 102	256 908
1 198	493	192	1 110	–	1 379	178	16	8 415
839	242	399	9	523	2 332	257	1 997	31 309
2 037	735	591	1 119	523	3 711	435	2 013	39 724
76 958	5 063	9 795	2 055	8 407	8 861	1 833	10 115	296 632
–	–	–	–	–	–	–	–	9 303
19 191	–	–	–	–	–	–	–	19 191
1 267	2 248	2 563	174	–	817	–	351	7 885
5 018	–	–	–	–	–	–	–	5 098
–	–	–	–	–	–	–	–	30 222
27 695	–	–	–	–	–	–	–	27 695
4 854	415	–	–	–	103	–	120	6 284
8 845	108	63	1	928	42	–	122	10 269
822	26	23	–	–	–	–	–	1 628
6 078	2 004	5 322	466	4 891	2 713	1 370	4 829	123 920
–	–	–	–	–	–	–	–	2 305
681	–	–	–	–	–	–	–	681
–	–	–	–	–	–	–	–	81
74 451	4 801	7 971	641	5 819	3 675	1 370	5 422	244 562
1 077	28	189	219	145	946	99	5	6 770
1 332	55	422	111	521	1 685	276	804	26 690
2 409	83	611	330	666	2 631	375	809	33 460
76 860	4 884	8 582	971	6 485	6 306	1 745	6 231	278 022

Private client loans account for 67.2% of total net core loans and advances, as represented by the industry classification 'HNW and professional individuals'.

Summary analysis of gross credit and counterparty exposures by industry

A description of the type of private client lending we undertake is provided on page 29, and a more detailed analysis of the private client loan portfolio is provided on page 47.

The remainder of core loans and advances largely relate to corporate client lending and are evenly spread across industry sectors.

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 clients.

A description of the type of corporate client lending we undertake is provided on page 29, and a more detailed analysis of the corporate client loan portfolio is provided on page 47.

Breakdown of gross credit exposure by industry

As at to 31 March R'million	Gross core loans and advances		Other credit and counterparty exposures		Total	
	2013	2012	2013	2012	2013	2012
HNW and professional individuals	93 707	93 351	28 559	25 853	122 266	119 204
Agriculture	1 047	448	301	100	1 348	548
Electricity, gas and water (utility services)	1 959	1 308	554	96	2 513	1 404
Public and non-business services	869	837	39 892	40 436	40 761	41 273
Business services	5 631	2 608	1 026	921	6 657	3 529
Finance and insurance	6 205	6 078	70 753	70 782	76 958	76 860
Retailers and wholesalers	2 690	2 004	2 373	2 880	5 063	4 884
Manufacturing and commerce	7 234	5 322	2 561	3 260	9 795	8 582
Construction	903	466	1 152	505	2 055	971
Commercial real estate	6 772	4 891	1 635	1 594	8 407	6 485
Mining and resources	3 787	2 713	5 074	3 593	8 861	6 306
Leisure, entertainment and tourism	1 398	1 370	435	375	1 833	1 745
Transport and communication	7 254	4 829	2 861	1 402	10 115	6 231
Total	139 456	126 225	157 176	151 797	296 632	278 022

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

Calculation of core loans and advances to customers

As at 31 March R'million	2013	2012
Loans and advances to customers as per the balance sheet	135 726	122 615
Add: own originated loans and advances securitised as per the balance sheet	2 379	2 302
Net core loans and advances to customers	138 105	124 917

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 33 to 34.

R'million	31 March 2013	31 March 2012
Gross core loans and advances to customers	139 456	126 225
Total impairments	(1 351)	(1 308)
Portfolio impairments	(123)	(206)
Specific impairments	(1 228)	(1 102)
Net core loans and advances to customers	138 105	124 917
Average gross core loans and advances to customers	132 841	121 490
Current loans and advances to customers	133 943	119 622
Past due loans and advances to customers (1 – 60 days)	649	714
Special mention loans and advances to customers	852	1 095
Default loans and advances to customers	4 012	4 794
Gross core loans and advances to customers	139 456	126 225
Current loans and advances to customers	133 943	119 622
Default loans that are current and not impaired	60	128
Gross core loans and advances to customers that are past due but not impaired	2 513	3 226
Gross core loans and advances to customers that are impaired	2 940	3 249
Gross core loans and advances to customers	139 456	126 225
Total income statement charge for impairments on loans and advances	(868)	(833)
Gross default loans and advances to customers	4 012	4 794
Specific impairments	(1 228)	(1 102)
Portfolio impairments	(123)	(206)
Defaults net of impairments	2 661	3 486
Collateral and other credit enhancements	3 841	5 861
Net default loans and advances to customers (limited to zero)	–	–
Ratios		
Total impairments as a % of gross core loans and advances to customers	0.97%	1.04%
Total impairments as a % of gross default loans	33.67%	27.28%
Gross defaults as a % of gross core loans and advances to customers	2.88%	3.80%
Defaults (net of impairments) as a % of net core loans and advances to customers	1.93%	2.79%
Net default as a % of gross core loans and advances to customers	–	–
Credit loss ratio (i.e. income statement impairment charge as a % of average gross core loans and advances)	0.65%	0.69%

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

As at 31 March R'million	2013	2012
Default loans that are current	621	668
1 – 60 days	1 410	1 368
61 – 90 days	285	501
91 – 180 days	274	611
181 – 365 days	382	387
>365 days	2 541	3 068
Past due and default core loans and advances to customers (actual capital exposure)	5 513	6 603
1 – 60 days	722	620
61 – 90 days	61	314
91 – 180 days	70	263
181 – 365 days	170	267
>365 days	2 147	2 458
Past due and default core loans and advances to customers (actual amount in arrears)	3 170	3 922

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

R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
As at 31 March 2013							
Watchlist loans neither past due nor impaired							
Total capital exposure	60	–	–	–	–	–	60
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	1 315	283	170	151	594	2 513
Amount in arrears	–	687	60	55	93	447	1 342
Gross core loans and advances to customers that are impaired							
Total capital exposure	561	95	2	104	231	1 947	2 940
Amount in arrears	–	35	1	15	77	1 700	1 828
As at 31 March 2012							
Watchlist loans neither past due nor impaired							
Total capital exposure	128	–	–	–	–	–	128
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	1 320	493	434	246	733	3 226
Amount in arrears	–	604	309	190	182	583	1 868
Gross core loans and advances to customers that are impaired							
Total capital exposure	540	48	8	177	141	2 335	3 249
Amount in arrears	–	16	5	73	85	1 875	2 054

An age analysis of past due and default core loans and advances to customers as at 31 March 2013 (based on total capital exposure)

R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	649	–	–	–	–	649
Special mention	–	534	188	18	79	33	852
Special mention (1 – 90 days)	–	534	74	18*	79*	33*	738
Special mention (61 – 90 days and item well secured)	–	–	114	–	–	–	114
Default	621	227	97	256	303	2 508	4 012
Sub-standard	60	132	95	155	72	561	1 075
Doubtful	561	95	2	101	231	1 947	2 937
Total	621	1 410	285	274	382	2 541	5 513

An age analysis of past due and default core loans and advances to customers as at 31 March 2013 (based on actual amount in arrears)

R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	174	–	–	–	–	174
Special mention	–	490	39	1	73	6	609
Special mention (1 – 90 days)	–	490	19	1*	73*	6*	589
Special mention (61 – 90 days and item well secured)	–	–	20	–	–	–	20
Default	–	58	22	69	97	2 141	2 387
Sub-standard	–	23	22	55	20	441	561
Doubtful	–	35	–	14	77	1 700	1 826
Total	–	722	61	70	170	2 147	3 170

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

An age analysis of past due and default core loans and advances to customers as at 31 March 2012 (based on total capital exposure)

R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1– 60 days)	–	714	–	–	–	–	714
Special mention	–	423	393	87	71	121	1 095
Special mention (1 – 90 days)	–	423	115	87*	71*	121*	817
Special mention (61 – 90 days and item well secured)	–	–	278	–	–	–	278
Default	668	231	108	524	316	2 947	4 794
Sub-standard	35	8	96	242	141	225	747
Doubtful	633	223	12	282	175	2 722	4 047
Total	668	1 368	501	611	387	3 068	6 603

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)

R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	103	–	–	–	–	103
Special mention	–	410	213	54	50	97	824
Special mention (1 – 90 days)	–	410	81	54*	50*	97*	692
Special mention (61 – 90 days and item well secured)	–	–	132	–	–	–	132
Default	–	107	101	209	217	2 361	2 995
Sub-standard	–	6	96	109	126	196	533
Doubtful	–	101	5	100	91	2 165	2 462
Total	–	620	314	263	267	2 458	3 922

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

An analysis of core loans and advances to customers

R'million	Gross core loans and advances that are neither past due nor impaired	Gross core loans and advances that are past due but not impaired	Gross core loans and advances that are impaired	Total gross core loans and advances (actual capital exposure)	Specific impairments	Portfolio impairments	Total net core loans and advances (actual capital exposure)	Actual amount in arrears
As at 31 March 2013								
Current core loans and advances	133 943	–	–	133 943	–	(112)	133 831	–
Past due (1 – 60 days)	–	649	–	649	–	(1)	648	174
Special mention	–	852	–	852	–	(10)	842	609
Special mention (1 – 90 days)	–	738	–	738	–	(9)	729	589
Special mention (61 – 90 days and item well secured)	–	114	–	114	–	(1)	113	20
Default	60	1 012	2 940	4 012	(1 228)	–	2 784	2 387
Sub-standard	60	1 012	3	1 075	–	–	1 075	561
Doubtful	–	–	2 937	2 937	(1 228)	–	1 709	1 826
Total	134 003	2 513	2 940	139 456	(1 228)	(123)	138 105	3 170
As at 31 March 2012								
Current core loans and advances	119 622	–	–	119 622	–	(195)	119 427	–
Past due (1 – 60 days)	–	714	–	714	–	(3)	711	103
Special mention	–	1 095	–	1 095	–	(8)	1 087	824
Special mention (1 – 90 days)	–	817	–	817	–	(7)	810	692
Special mention (61 – 90 days and item well secured)	–	278	–	278	–	(1)	277	132
Default	128	1 417	3 249	4 794	(1 102)	–	3 692	2 995
Sub-standard	35	711	1	747	–	–	747	533
Doubtful	93	706	3 248	4 047	(1 102)	–	2 945	2 462
Total	119 750	3 226	3 249	126 225	(1 102)	(206)	124 917	3 922

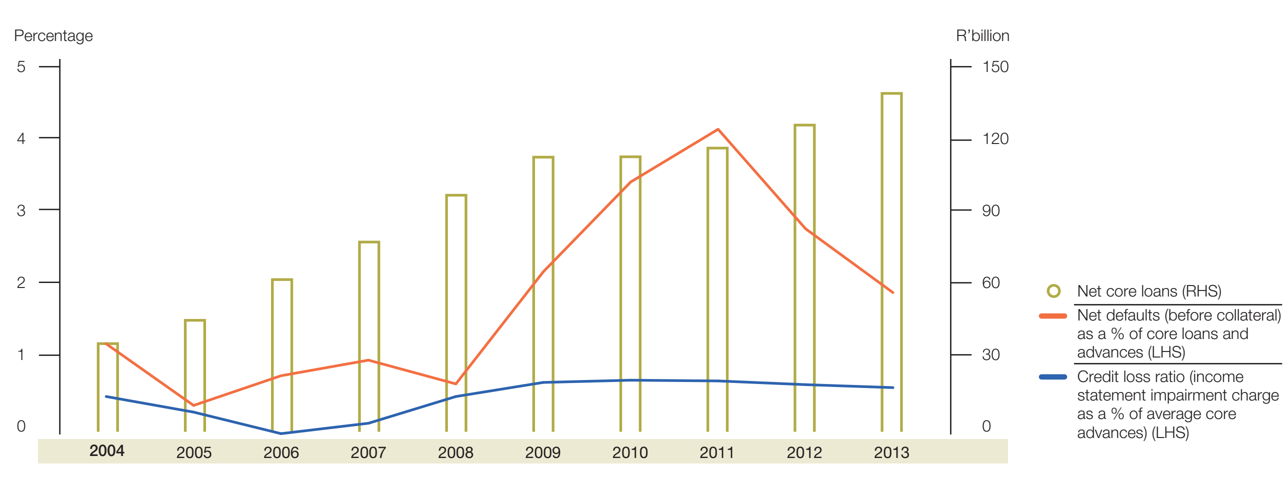
An analysis of core loans and advances to customers and impairments by counterparty type

R'million	Private banking professional and HNW individuals	Corporate sector	Banking, 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 2013						
Current core loans and advances	89 267	35 745	5 928	869	2 134	133 943
Past due (1 – 60 days)	428	117	–	–	104	649
Special mention	803	40	–	–	9	852
Special mention (1 – 90 days)	698	40	–	–	–	738
Special mention (61 – 90 days and item well secured)	105	–	–	–	9	114
Default	3 210	420	281	–	101	4 012
Sub-standard	969	103	–	–	3	1 075
Doubtful	2 241	317	281	–	98	2 937
Total gross core loans and advances to customers	93 708	36 322	6 209	869	2 348	139 456
Total impairments	(1 145)	(134)	(4)	–	(68)	(1 351)
Specific impairments	(1 049)	(111)	–	–	(68)	(1 228)
Portfolio Impairments	(96)	(23)	(4)	–	–	(123)
Net core loans and advances to customers	92 563	36 188	6 205	869	2 280	138 105
As at 31 March 2012						
Current core loans and advances	87 417	23 451	6 067	837	1 850	119 622
Past due (1 – 60 days)	428	204	–	–	82	714
Special mention	1 056	–	–	–	39	1 095
Special mention (1 – 90 days)	817	–	–	–	–	817
Special mention (61 – 90 days and item well secured)	239	–	–	–	39	278
Default	4 450	228	11	–	105	4 794
Sub-standard	746	–	–	–	1	747
Doubtful	3 704	228	11	–	104	4 047
Total gross core loans and advances to customers	93 351	23 883	6 078	837	2 076	126 225
Total impairments	(992)	(235)	(13)	(1)	(67)	(1 308)
Specific impairments	(911)	(114)	(10)	–	(67)	(1 102)
Portfolio Impairments	(81)	(121)	(3)	(1)	–	(206)
Net core loans and advances to customers	92 359	23 648	6 065	836	2 009	124 917

An analysis of default core loans and advances as at 31 March 2013

R'million	Gross core loans	Gross defaults	Collateral	Balance sheet impair-ments
Lending collateralised by property	41 162	2 275	2 138	(764)
Commercial real estate	38 034	1 095	1 218	(310)
Commercial real estate – investment	33 780	935	1 080	(228)
Commercial real estate – development	2 158	14	8	(9)
Commercial vacant land and planning	2 096	146	130	(73)
Residential real estate	3 128	1 180	920	(454)
Residential real estate – development	1 130	100	80	(36)
Residential vacant land and planning	1 998	1 080	840	(418)
High net worth and other private client lending	54 142	938	1 121	(261)
Mortgages (owner occupied)	33 836	660	777	(163)
High net worth and specialised lending	20 306	278	344	(98)
Corporate and other lending	44 152	799	582	(326)
Acquisition finance	15 181	408	317	(136)
Asset based lending	2 351	101	36	(68)
Other corporate loans	18 549	173	100	(105)
Asset finance	3 320	–	–	(6)
Small ticket asset finance	1 010	–	–	–
Large ticket asset finance	2 310	–	–	(6)
Project finance	2 636	117	129	(11)
Resource finance and commodities	2 115	–	–	–
Total	139 456	4 012	3 841	(1 351)

Asset quality trends



Collateral

A summary of total collateral

R'million	Collateral held against: Core loans and advances	Collateral held against: Other credit and counterparty exposures*	Total
As at 31 March 2013			
Eligible financial collateral	29 465	2 896	32 361
Listed shares	27 564	2 866	30 430
Cash	1 901	30	1 931
Mortgage bonds	169 083	24	169 107
Residential mortgages	79 784	–	79 784
Commercial property development	9 665	24	9 689
Commercial property investments	79 634	–	79 634
Other collateral	51 237	1 446	52 683
Unlisted shares	14 454	–	14 454
Bonds other than mortgage bonds	6 735	471	7 206
Asset backed lending	4 977	–	4 977
Guarantees	10 616	717	11 333
Other	14 455	258	14 713
Total collateral	249 785	4 366	254 151
As at 31 March 2012			
Eligible financial collateral	22 799	1 913	24 712
Listed shares	21 178	1 846	23 024
Cash	1 621	67	1 688
Mortgage bonds	154 396	15	154 411
Residential mortgages	63 718	–	63 718
Commercial property development	9 504	15	9 519
Commercial property investments	81 174	–	81 174
Other collateral	49 206	873	50 079
Unlisted shares	13 226	–	13 226
Bonds other than mortgage bonds	5 855	–	5 855
Asset backed lending	8 202	–	8 202
Guarantees	9 440	721	10 161
Other	12 483	152	12 635
Total collateral	226 401	2 801	229 202

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

Equity and investment risk in the banking book

Equity and investment risk description

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

- **Principal Investments (Private Equity and Direct Investments):** Investments are selected based on the track record of management, the attractiveness of the industry and the ability to build value for the existing business by implementing an agreed strategy. In addition, as a result of our local market knowledge and investment banking expertise, we are well positioned to take direct positions in listed shares where we believe that the market is mispricing the value of the underlying portfolio with the intention to stimulate corporate activity. In South Africa, we also continue to pursue opportunities to help create and grow black owned and controlled companies
- **Lending transactions:** The manner in which we structure certain transactions results in equity, warrant and profit shares being held, predominantly within unlisted companies
- **Property Activities:** We source development, investment and trading opportunities to create value and trade for profit within agreed risk parameters
- **Central Funding:** Central Funding is the custodian of certain equity and property investments, which have largely arisen from corporate acquisitions made, notably in the early 2000s.

Equity and investment risk in the banking book represents a moderate percentage of our total assets and is managed within appropriate risk limits.

Management of equity and investment risk

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

Nature of equity and investment risk	Management of risk
Listed equities	Investment committee, market risk management and ERRF
Investment Banking Principal Finance investments	Investment committee, the Investec Bank Limited Direct Investments division, investment committee and ERRF
Embedded derivatives, profit shares and investments arising from lending transactions	Credit risk management committees and ERRF
Investment and trading properties	Investment committee, Investec Property group investment committee in South Africa and ERRF
Central Funding investments	Investment committee and ERRF

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

Valuation and accounting methodologies

For a description of our valuation principles and methodologies refer to pages 138 to 143 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 less than 0.1% of total assets.

Refer to page 138 for further information.

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

For the year ended 31 March R'million	Income (pre-funding costs) Unrealised	Realised	Dividends	Total	Fair value through equity
2013					
Unlisted investments	92	473	159	724	–
Listed equities	(238)	1	–	(237)	35
Investment and trading properties	–	31	–	31	–
Warrants, profit shares and other embedded derivatives	43	38	–	81	–
Total	(103)	543	159	599	35
2012					
Unlisted investments	284	438	265	987	–
Listed equities	(299)	(46)	–	(345)	–
Investments and trading properties	(2)	6	–	4	–
Warrants, profit shares and other embedded derivatives	(137)	124	118	105	–
Total	(154)	522	383	751	–

Unrealised revaluation gains through profit and loss are included in tier 1 capital.

Summary of investments held and stress testing analyses

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

R'million	On-balance sheet value of investments 2013	Valuation change stress test 2013*	On-balance sheet value of investments 2012	Valuation change stress test 2012*
Unlisted investments	6 489	973	5 302	761
Listed equities	2 613	653	734	156
Investment and trading properties	391	78	389	80
Warrants, profit shares and other embedded derivatives	459	160	386	148
Total	9 952	1 864	6 811	1 145

* *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 2013, as reflected above we could have a R1.9 billion reversal in revenue (which assumes a year in which there is a 'severe stress scenario'). This would not cause the group to report a loss but could have a significantly negative impact on earnings for that period.

Capital requirements

In terms of Basel III capital requirements, for Investec Bank Limited, 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 74 for further detail.

Securitisation/credit investment and trading activities exposures

Overview

The group's definition of securitisation/credit investment activities (as explained below) is wider than the definition as applied for regulatory capital purposes, which largely focuses on those securitisations in which the group has achieved significant risk transfer. We however, believe that the information provided below is meaningful in that it groups all these related activities in order for a reviewer to obtain a fuller picture of the activities that we have conducted in this space. Some of the information provided below overlaps with the group's credit and counterparty exposure information.

Refer to page 35 for balance sheet and credit risk classification.

The group applies the Standardised approach in the assessment of regulatory capital for securitisation exposures within its banking book and trading book. The trading book exposures as at 31 March 2013 are not regarded as material, and therefore no further information is disclosed for these exposures.

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

In South Africa, our securitisation business was established over ten years ago. Over this time, we have arranged a number of residential and commercial mortgage backed programmes, asset-backed commercial paper conduits, and third party securitisations.

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

Furthermore, we are sponsor to and provide a standby liquidity facility to Grayston Conduit 1 (RF) Ltd Series 1 and Series 2. These facilities, which totalled R1.1 billion as at 31 March 2013 (31 March 2012: R1.7 billion), have not been drawn on and are thus reflected as off-balance sheet contingent exposures in terms of our credit analysis.

Refer to page 52.

These exposures are risk-weighted for regulatory capital purposes. The liquidity risk associated with these facilities is included in the stress testing for the group and is managed in accordance with our overall liquidity position.

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

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

Total assets that have been originated and securitised by the Private Client division amount to R2.4 billion at 31 March 2013 (March 2012: R2.3 billion).

These securitisation structures have all been rated by Moody's. The group has acted as sole originator and sponsor in these securitisation transactions, which are considered to be traditional securitisations and in which a complete transfer of risk has deemed to have occurred for regulatory capital purposes. The group has retained an investment in all of these transactions. In terms of current securitisation rules, the group cannot act as liquidity provider to these transactions, and thus the liquidity provider role is fulfilled by other local banks. Credit mitigants have not been used in these transactions. Some of these transactions are subject to early amortisation mechanisms and in all of them an exemption notice in terms of securitisation rules has been applied. For regulatory capital purposes, the majority of these transactions are treated as deductions against capital. The group has no resecuritisation exposures in South Africa.

Accounting policies

Securitisation transactions in which the group has either originated or participated are accounted for in accordance with the following accounting policies.

Special purpose entities (SPEs) are consolidated when the substance of the relationship between the group and the SPE indicates that the SPE is controlled by the group. The group performs a reassessment of consolidation whenever there is a change in the substance of the relationship between the group and an SPE.

The transfer of assets to an SPE may give rise to the full or partial derecognition of financial assets transferred. In relation to transferred assets, the group will only fully derecognise the asset when the group has transferred substantially all the risk and rewards associated with the asset. Partial derecognition takes place when the group transfers some but not substantially all of the risk and rewards associated with an asset. The financial assets are recognised on balance sheet to the extent of the group's continuing involvement.

Only on derecognition are disposals and any resulted gains or losses recognised in the income statement.

To the extent that the group does not consolidate and does not continue to recognise securitised assets, any exposure to a securitised vehicle as an investor is carried at fair value. The group's valuation process is based on observable market prices, or where not available, valuation techniques that use observable market inputs to the extent readily available.

Risk management

All existing or proposed exposures to a securitisation or a resecuritisation are analysed on a case-by-case basis, with final

approval typically required from the group's global credit committee. The analysis looks through to the historical and expected future performance of the underlying assets, the position of the relevant tranche in the capital structure as well as analysis of the cashflow waterfall under a variety of stress scenarios. External ratings are presented, but only for information purposes, since the bank principally relies on its own internal risk assessment. Overarching these transaction level principles is the board approved risk appetite policy, which details the group's appetite for such exposures, and each exposure is considered relative to the group's overall risk appetite. We can use explicit credit risk mitigation techniques where required, however, the group prefers to address and manage these risks by only approving exposures to which the group has explicit appetite through the constant and consistent application of the risk appetite policy.

In addition, securitisations of Investec own originated assets are assessed in terms of the credit risk management philosophies and principles as set out on page 23.

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. 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.

As at 31 March Nature of exposure/activity	Exposure 2013 R'million	Exposure 2012 R'million	Internal balance sheet and credit risk classification	Asset quality – relevant comments
Structured credit investments*	2 819	2 680	Other debt securities and other loans and advances.	
Rated	2 674	2 514		
Unrated	145	166		
Loans and advances to customers and investment in third party intermediary originating platforms (mortgage and auto loans) (with the potential to be securitised)	672	669	Other loans and advances.	
Private Client division assets which have been securitised	2 379	2 302	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 41.
Liquidity facilities provided to third party corporate securitisation vehicles	1 122	1 660	Off-balance sheet credit exposure as these facilities have remained undrawn and reflect a contingent liability of the bank.	

* *Analysed further on page 53.*

***Analysis of structured rated and unrated credit investments**

As at 31 March R'million	2013 Rated*	2013 Unrated	2013 Total	2012 Rated*	2012 Unrated	2012 Total
US corporate loans	28	30	58	35	–	35
UK and European RMBS	2 178	11	2 189	2 342	9	2 351
UK and European CMBS	83		83	112	–	112
UK and European corporate loans	–	104	104	–	157	157
Australian RMBS	385	–	385	–	–	–
South African RMBS	–	–	–	25	–	25
Total	2 674	145	2 819	2 514	166	2 680

***Further analysis of rated structured credit investments as at 31 March 2013**

R'million	AAA	AA	A	BBB	BB	B	C and below	Total
US corporate loans	–	–	–	–	28	–	–	28
UK and European RMBS	–	312	1 012	491	344	19	–	2 178
UK and European CMBS	–	–	83	–	–	–	–	83
Australian RMBS	–	305	80	–	–	–	–	385
Total as at 31 March 2013	–	617	1 175	491	372	19	–	2 674

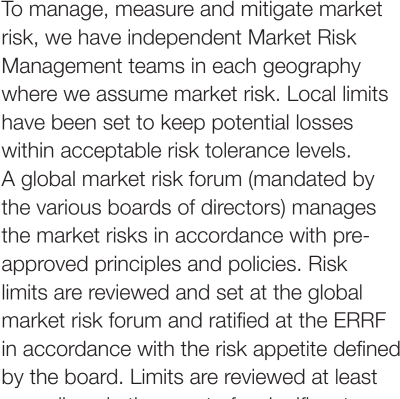
Market risk in the trading book

Traded market risk description

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 from 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 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



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 South Africa, we have internal model approval from the SARB and so trading capital is calculated as a function of the 99% 10-day VaR as well as the 99% 10-day stressed VaR (sVaR). Backtesting results and a detailed stress testing pack are submitted to the regulator on a monthly basis.

VaR

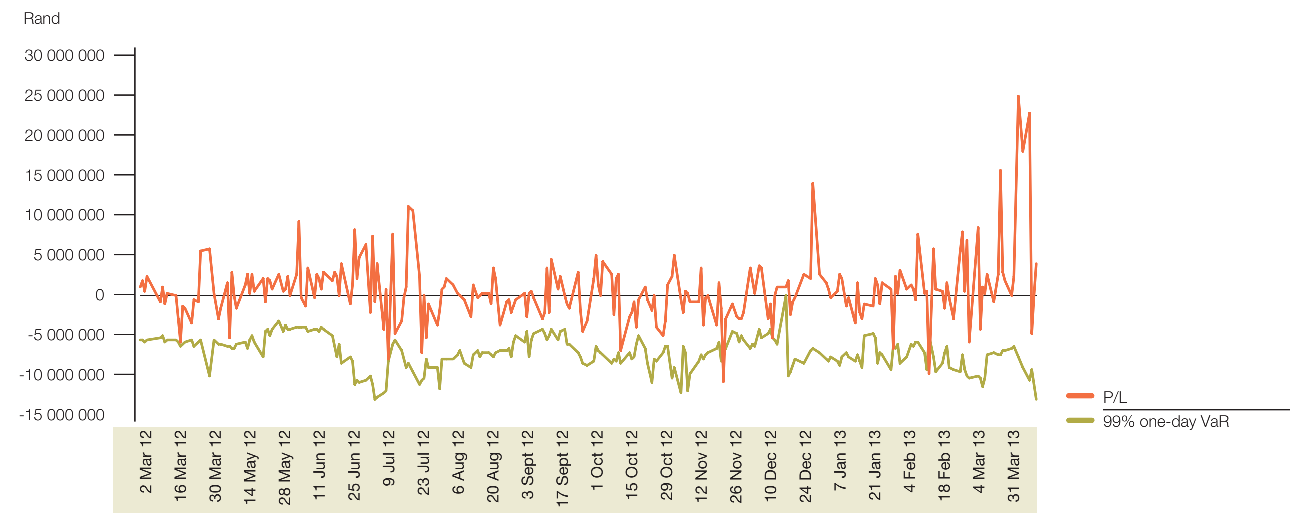
	31 March 2013				31 March 2012			
R'million	Year end	Average	High	Low	Year end	Average	High	Low
95% (one-day)								
Commodities	–	0.1	0.6	–	–	0.1	0.5	–
Equity derivatives	6.1	2.9	8.6	0.9	1.6	1.7	6.9	0.6
Foreign exchange	3.4	2.1	6.0	0.4	1.1	2.7	8.9	0.7
Interest rates	1.1	2.4	7.2	0.9	2.6	2.5	5.3	0.8
Consolidated*	7.2	4.3	8.8	1.9	2.8	3.7	7.6	1.2

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

The graph that follows 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.

VaR for 2013 in the South African trading book was higher than for 2012, though still lower than pre-crisis (2007) levels. Using hypothetical (clean) profit and loss data for backtesting resulted in three exceptions, which is in line with the number of exceptions that a 99% VaR implies. The exceptions were due to normal trading losses. Using actual profit and loss resulted in one exception which is lower than expected.

99% one-day VaR backtesting



ETL 95% (one-day)

For the year ended 31 March R'million	2013	2012
Commodities	–	0.1
Equity derivatives	9.3	2.7
Foreign exchange	4.6	2.2
Interest rates	2.6	3.9
Consolidated*	10.5	4.1

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

Stress testing

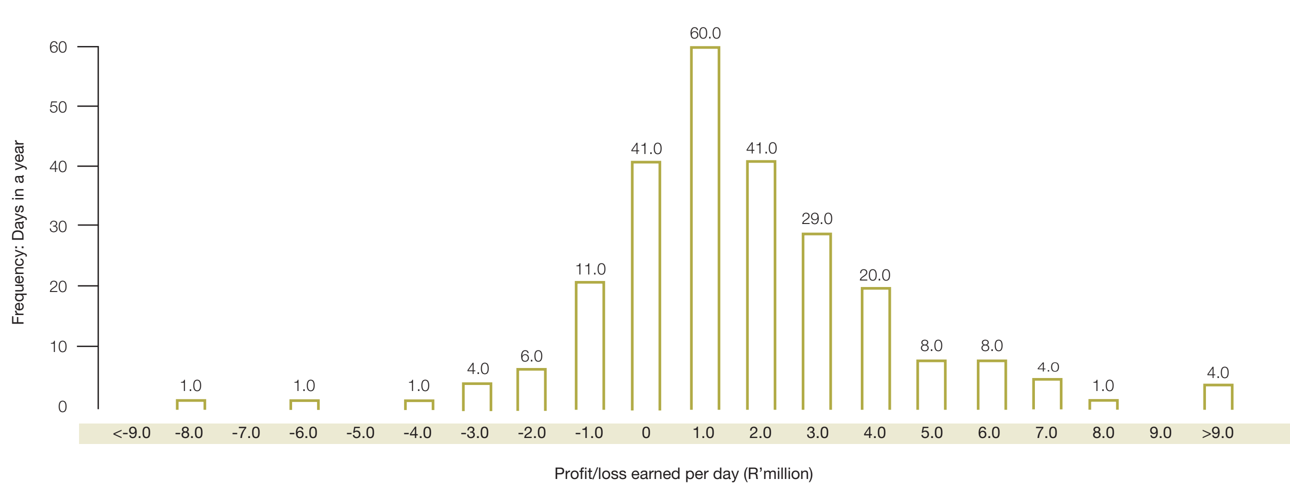
The table below indicates the potential losses that could arise if the portfolio is stress tested under extreme market conditions. The method used is known as extreme value theory (EVT), the reported stress scenario below calculates the 99% EVT which is a 1-in-8 year possible loss event. These numbers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

	31 March 2013				31 March 2012
R'million	Year end	Average	High	Low	Year end
99% (using 99% EVT)					
Commodities	–	0.2	3.8	–	–
Equity derivatives	41.2	21.2	54.8	7.9	16.3
Foreign exchange	13.7	12.7	40.0	4.1	17.2
Interest rates	23.9	23.5	47.2	10.3	24.3
Consolidated	45.4	31.2	51.9	17.1	20.3

Profit and loss histograms

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 175 days out of a total of 250 days in the trading business. The average daily trading revenue generated for the year ended 31 March 2013 was R1.3 million (2012: R1.5 million).

Profit and loss



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.

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.

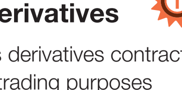
Risk limits are set according to guidelines set out in our risk appetite policy and are calculated on a statistical and non-statistical basis. Statistical limits include VaR and ETL analyses at various confidence intervals. Historical VaR is used (over 500 days of unweighted data), where every 'risk 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

Market conditions have remained difficult for traders as client flow has not improved significantly. While equity markets have trended up this has been on low volumes and volatility has remained low all year. Forex and interest rate markets have seen more volatility though this has been mainly on the back of international market drivers. The impact of the Basel regulations, in January 2012, has caused the cost of capital in the trading area to increase at least three times on the year before, this has added to the constraints on traders' level of risk taking.

Market risk – derivatives



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 150 and 151.

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

Balance sheet risk management

Balance sheet risk description

Balance sheet risk management encompasses the independent monitoring and prudential management of the financial risks relating to our asset and liability portfolios, comprising market liquidity, funding, concentration, non-trading interest rate and forex 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 (ALCOs) within each core geography in which it operates, using regional expertise and local market access as appropriate. The ALCOs 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 ALCOs typically comprise the managing director, the head of risk, the head of corporate and institutional banking activities, economists, divisional heads, the Balance Sheet Risk Management team, the treasurer, Private Banking representatives and any appropriate co-opted personnel. The ALCOs formally 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 over 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, thereby ensuring that price of liquidity is integrated into business level decision making and drives the appropriate mix of sources and uses of funds.

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 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 further performs scenario analysis which quantifies our exposure, thus providing a comprehensive and consistent governance framework. The Balance Sheet Risk Management team proactively 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 assume 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 reviewed regularly, 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 to those contemplated under the Basel Committee on Banking Supervision's (BCBS) 'liquidity risk measurement standards and monitoring'. It is compliant with the 'principles of sound liquidity risk management and supervision' as well as 'guidelines for the management of interest rate risk in the banking book'. The BCBS announced that they propose to both strengthen and harmonise global liquidity standards and plan to introduce two new liquidity standards. The Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are due to be implemented by 2015 and 2018 respectively. The BCBS published the final calibration of the LCR in January 2013 and expect to publish the final calibration of the NSFR in 2014.

Each banking entity within the group maintains a contingency funding plan designed to protect depositors, creditors and shareholders and maintain market confidence during adverse liquidity conditions. The liquidity contingency plans outline extensive early warning indicators, clear lines of communication, and decisive crisis response strategies.

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

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

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

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

Non-trading interest rate risk description

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

Sources of 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.

The above sources of interest rate risk 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 the central treasury function and 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
- The non-trading interest rate risk appetite has been set based on the loss under a worst-case 200bp parallel shock as a percentage of capital. This level applies to both earnings risk and economic value risk
- Internal capital is allocated for non-trading interest rate risk
- The policy dictates that long-term non-trading interest rate risk is materially eliminated. In accordance with the policy the bank swaps its fixed deposits and loans into variable rate in the wholesale market via interest rate swaps, where there is no offset
- It is the responsibility of the liability product and pricing forum, subcommittee of ALCO, to review the liquidity, interest rate and concentration characteristics of all new products and approve their issuance, ensuring that both standard and non-standard deposit products, particularly those designed for the Private Banking customers, both match market curves and can be hedged if necessary
- Pricing for all deposit products (including deposit products offered to the private clients) is set centrally, in so doing we manage access funding at cost-effective levels, considering also the stressed liquidity value of the liabilities
- Balance Sheet Risk Management independently measures and analyses both traditional interest rate repricing mismatch and NPV sensitivity to changes in interest rate risk factors, detailing the sources of interest rate exposure
- 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
- Daily management of interest rate risk is centralised within Treasury and is subject to independent ALCO review
- Treasury is the primary interface to the wholesale market
- We carry out technical interest rate analysis and economic review of fundamental developments by geography and global trends.

Non-trading interest rate risk is measured and analysed by utilising standard tools of traditional interest rate repricing mismatch and NPV sensitivity to changes in interest rate risk factors. We detail the sources of interest rate exposure, whether repricing risk, yield curve risk, basis risk or optionality. This is performed for a variety of interest rate scenarios, covering:

- Subjective expectations and perceived risks (house views)
- Standard shocks to levels and shapes of interest rates and yield curves
- Historically-based scenarios.

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

The aim is to protect and enhance net interest income and economic value in accordance with the board approved risk appetite. Economic value measures have the advantage that all future cash flows are considered and therefore can highlight risk beyond the earnings horizon. The repricing gap provides a basic representation of the balance sheet, with the sensitivity of earnings to 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, and economic value sensitivity and stress testing to macro-economic 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.

These combinations of measures provide 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, Treasury hedges material fixed rate assets with a term of more than one year on a deal-by-deal basis 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, Treasury also hedges all fixed rate deposits with a term of more than one year to variable rate. 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 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 and Institutional Banking division to be traded with the external market. The 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.

Investec has a relatively small endowment risk due to paying market rates on all deposits, compared to banks with significant low or non-interest bearing current and cheque accounts. Endowment risk due to free funding, comprising mainly ordinary share capital and reserves, is managed passively, with the focus on measuring and monitoring. The endowment risk is included within our non-trading interest rate risk measures.

The Basel Financial Market Committee has indicated that after completing and embedding the current reforms (i.e. capital and liquidity), the capital framework for interest rate risk on the banking book will be revisited. In part this is due to the increase in the quantum of high quality liquid assets (HQLA) banks will need to hold in meeting the new liquidity ratios and the potential increase in interest rate risk thereon. The expectation is that Basel will only start with the investigation of this framework in the medium to long term.

Interest rate sensitivity as at 31 March 2013

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

R'million	Not >3 months	>3 months but <6 months	>6 months but <1 year	>1 year but <5 years	>5 years	Non-rate	Total non-trading
Cash and short-term funds – banks	20 540	457	914	592	543	5 050	28 096
Cash and short-term funds – non-banks	5 874	–	–	–	–	–	5 874
Investment/trading assets and statutory liquids	32 741	9 532	2 231	11 317	5 847	10 651	72 319
Securitised assets	3 133	–	–	–	–	414	3 547
Advances	118 610	618	2 036	8 594	5 572	968	136 398
Other assets	–	–	–	–	–	1 355	1 355
Assets	180 898	10 607	5 181	20 503	11 962	18 438	247 589
Deposits – banks	(16 559)	(940)	(6)	(276)	–	(75)	(17 856)
Deposits – non-banks	(157 859)	(13 443)	(7 795)	(3 006)	(547)	(1 307)	(183 957)
Negotiable paper	(1 145)	–	–	(2 946)	–	–	(4 091)
Securitised liabilities	(3 067)	–	–	–	–	(454)	(3 521)
Investment/trading liabilities	(13 415)	–	–	(2 668)	–	(330)	(16 413)
Subordinated liabilities	(9 405)	–	–	(125)	(2 884)	(82)	(12 496)
Other liabilities	–	–	–	–	–	(3 288)	(3 288)
Liabilities	(201 450)	(14 383)	(7 801)	(9 021)	(3 431)	(5 536)	(241 622)
Intercompany loans	17 183	1 177	736	200	(153)	1 380	20 523
Shareholders' funds	(1 161)	–	–	–	(11)	(22 330)	(23 502)
Balance sheet	(4 530)	(2 599)	(1 884)	11 682	8 367	(8 048)	2 988
Off balance sheet	9 159	9 587	(2 326)	(13 645)	(5 726)	(37)	(2 988)
Repricing gap	4 629	6 988	(4 210)	(1 963)	2 641	(8 085)	–
Cumulative repricing gap	4 629	11 617	7 407	5 444	8 085	–	–

Economic value sensitivity as at 31 March 2013

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 value of the mark-to-market portfolios should such a hypothetical scenario arise. This sensitivity effect does not have a significant direct impact on our equity.

South Africa

	Sensitivity to the following interest rates (expressed in original currencies)					
’million	ZAR	GBP	USD	EUR	AUD	All (ZAR)
200bps down	130.1	0.4	6.9	0.9	(1.6)	194.7
200bps up	(143.0)	(0.4)	(5.5)	2.0	1.3	(163.3)

Liquidity risk

Liquidity risk description

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 market-wide 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
- 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, SARB, and the Bank of Mauritius
- The group complies with the BCBS Principles for Sound Liquidity Risk Management and Supervision
- The group has committed itself to implementation of the updated BCBS guidelines for liquidity risk measurement, standards and monitoring to be phased in from 2015 to 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
- 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 Corporate and Institutional Banking division
- 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 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 designed to protect depositors, creditors and shareholders and maintain market confidence during adverse liquidity conditions.

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.

We measure liquidity risk by quantifying and calculating various liquidity risk metrics and ratios to assess potential risks to the liquidity position. Metrics and ratios include:

- Local regulatory requirements
- Contractual run-off based actual cash flows with no modelling adjustment
- Business As Usual normal environment where we apply rollover and reinvestment assumptions under benign market conditions
- Stress conditions based on statistical historical analysis, documented experience and prudent judgement
- Basel standards for liquidity measurement:
  - Liquidity Coverage Ratio (LCR)
  - Net Stable Funding Ratio (NSFR)
- Quantification of a “survival horizon” under stress conditions. The survival horizon is the number of business days it takes before the bank’s cash position turns negative based on statistical historical analysis, documented experience and prudent judgement
- Other key funding and balance sheet ratios
- Monitoring and analysing market trends and the external environment.

This ensures the smooth management of the day-to-day liquidity position within conservative parameters and further validates that we are able to generate sufficient liquidity to withstand short-term liquidity stress or market disruptions in the event of either a firm-specific or general market contingent event.

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 Investec’s risk assets. We continue to develop products to attract and service the investment needs of our Private Bank client base. Although the contractual repayments of many Private Bank customer accounts are on demand or at short notice, in practice such accounts remain a stable source of funds. We continued to successfully raise private client deposits despite competitive pressures with total deposits increasing by 5.2% to R185.3 billion at 31 March 2013. We also have a number of innovative retail deposit initiatives within our Corporate Banking 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 capital markets 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.

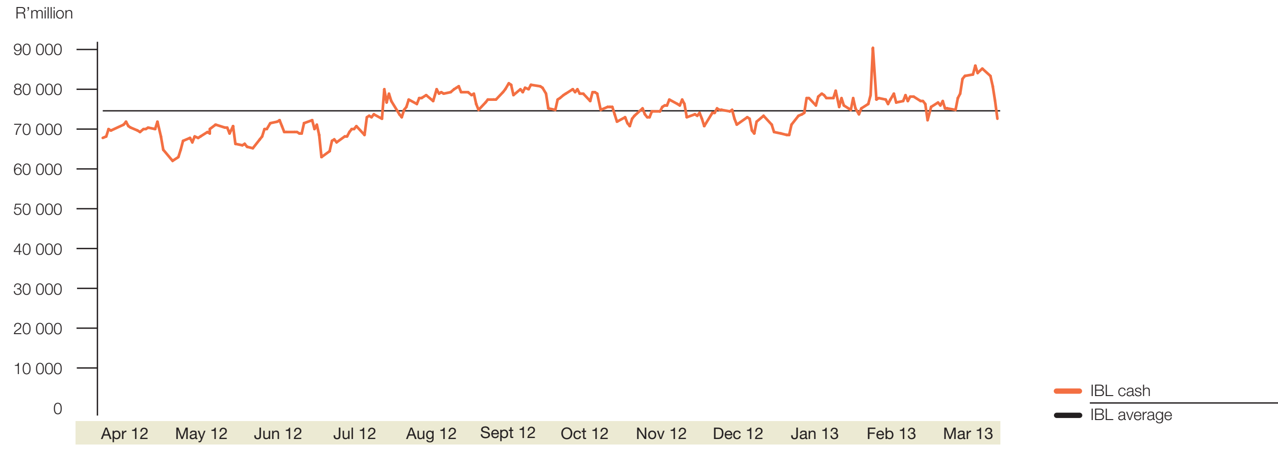
We engage in transactions that involve the use of both special purpose entities and asset securitisation structures. Securitisation represents a relatively modest proportion of our current funding profile, but provides additional flexibility and source of term liquidity. These entities form part of the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

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 2012 to 31 March 2013 average cash and near cash balances over the period amounted to R74.5 billion.

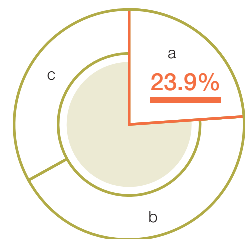
The group does not rely on committed funding lines for protection against unforeseen interruptions to cash flow. We are currently unaware of any circumstances that could significantly detract from our ability to raise funding appropriate to our needs.

The liquidity contingency plans outline extensive early warning indicators, clear lines of communication 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.

Cash and near cash trend



An analysis of cash and near cash

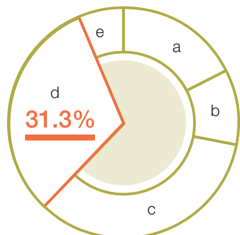


31 March 2013

R72 974 million

a	Cash	23.9%
b	Near cash (central bank guaranteed liquidity)	43.2%
c	Near cash (other 'monetisable' assets)	32.9%

Bank and non-bank depositor concentration by type



31 March 2013

R203 172 million

a	Financial institutions/banks	17.6%
b	Corporate	10.5%
c	Private client	34.3%
d	Fund managers	31.3%
e	Public sector	6.3%

Liquidity mismatch

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

The tables will not agree directly to the balances disclosed in the respective balance sheets since the tables 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 2013, 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; and
  - reported the 'contractual' profile by way of a note to the tables.

With respect to the behavioural liquidity mismatch:

- Behavioural liquidity mismatch tends to display fairly high probability, low severity liquidity position. 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, reinvestment behaviour, with profile and attrition based on history, is applied to term deposits in the normal course of business.

The liquidity position of the group strengthened in 2013, and we continued to enjoy strong inflows of customer deposits.

Contractual liquidity as at 31 March 2013

R'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	>Five years	Total
Cash and short-term funds – banks*	20 137	4 230	1 416	464	1 227	394	1 087	28 955
Cash and short-term funds – non-banks	5 858	6	11	–	–	–	–	5 875
Investment/trading assets and statutory liquids**	23 519	18 180	1 571	1 033	1 960	21 501	23 525	91 289
Securitised assets	81	16	130	118	463	804	1 935	3 547
Advances	3 070	5 833	8 461	9 745	13 326	61 776	34 187	136 398
Other assets	5 269	106	1 855	512	2 080	–	3 388	13 210
Assets	57 934	28 371	13 444	11 872	19 056	84 475	64 122	279 274
Deposits – banks	(2 105)	(833)	(198)	(10 178)	(412)	(4 135)	–	(17 861)
Deposits – non-banks	(66 762)^	(19 027)	(32 690)	(21 079)	(23 397)	(20 136)	(2 220)	(185 311)
Negotiable paper	–	(8)	(10)	(40)	(454)	(3 579)	–	(4 091)
Securitised liabilities	(32)	(618)	(463)	–	(2 000)	–	(408)	(3 521)
Investment/trading liabilities	–	(10 239)	(1 077)	(520)	(1 289)	(14 132)	(1 226)	(28 483)
Subordinated liabilities	(3 003)	(96)	–	–	–	(125)	(9 272)	(12 496)
Other liabilities	–	(263)	–	–	(10)	(92)	(3 637)	(4 002)
Liabilities	(71 902)	(31 084)	(34 438)	(31 817)	(27 562)	(42 199)	(16 763)	(255 765)
Shareholders' funds	–	–	–	–	–	–	(23 509)	(23 509)
Contractual liquidity gap	(13 968)	(2 713)	(20 994)	(19 945)	(8 506)	42 276	23 850	–
Cumulative liquidity gap	(13 968)	(16 681)	(37 675)	(57 620)	(66 126)	(23 850)	–	–

Note: Contractual profile of 'cash and near cash' asset class.

As discussed on page 63.

R'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	>Five years	Total
*Cash and short-term funds – banks	15 117	4 230	1 416	464	1 227	394	6 107	28 955
**Investment/trading assets and statutory liquids	688	6 926	10 518	11 805	7 327	26 841	27 184	91 289

Behavioural liquidity

As discussed on page 63.

R'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	>Five years	Total
Behavioural liquidity gap	18 558	(5 603)	1 405	(5 138)	(2 314)	(55 201)	48 293	–
Cumulative	18 558	12 955	14 360	9 222	6 908	(48 293)	–	–

^ *Includes call deposits of R59 billion and the balance reflects term deposits which have finally reached/are reaching contractual maturity.*

Balance sheet risk year in review

- Investec maintained and improved its strong liquidity position ahead of Basel III and continued to hold high levels of surplus liquid assets
- We sustained strong term funding in demanding market conditions whilst focusing on lowering the weighted average cost of funding
- Our liquidity risk management process remains robust and comprehensive.

The financial year saw only one official change in South Africa's Reserve Bank repurchase (repo) rate, to 5.00% in July 2012 from 5.50%, as inflation dropped from 6.3% year-on-year to a low point of 4.9% year-on-year for 2012. Another highlight was the formal inclusion of South Africa in the CitiBank Global Bond Index which led to major offshore inflows to our bond markets and markedly lower bond rates. However, from September the curve began to steepen as the monetary authorities indicated that upside pressure was expected on inflation with the exchange rate also posing a potential risk (to the inflation outlook). This ended market speculation on further rate interest cuts. The yield curve ended the financial year lower than it began.

The Rand ended the year substantially weaker at R9.23/USD (R11.81/EUR and R13.99/GBP) from R7.64/USD (R10.18/EUR and R12.23/GBP), with the steady depreciation driven initially by negative global risk aversion levels due to the perceived deterioration in the global environment, and then, in the second half of the year, by the downgrades to South Africa's perceived sovereign credit rating and negative investor sentiment in the equity space following prolonged strike action. The Rand has ended the financial year well removed from its fair value of R8.30/USD, although over the longer term it typically returns to fair valuation (purchasing power parity) given the historical depreciation of around 4% a year in South Africa's purchasing power valuation of the Rand. The long-term depreciation in the domestic currency is due to the enduring differential between South Africa and its chief trading partner's inflation rates.

Investec's balance sheet was well positioned for the 50bps rate cut and the net contribution to income was significantly positive. Investec continued to build its structural liquidity cash resources over the course of the year as part of our drive to improve the Basel III LCR to be implemented from 2015. The bank continued to benefit from a growing retail franchise with total customer deposits increasing by 5.2% from 1 April 2012 to R185.3 billion at 31 March 2013 (Private Bank deposits amount to R67.3 billion and other retail deposits amount to R118.0 billion). Cash and near cash balances increased by 5.6% from 1 April 2012 to R73.0 billion at 31 March 2013. Our liquidity was further boosted by several successful medium-term senior and subordinated notes issues totalling R11.8 billion. Syndicated loan deals raised about US$335 million three-year funds. Investec also issued its first EMTN and raised US$300 million for five years. Further welcome news was the announcement of the softening of some of the Basel III guidelines on liquidity risk in the last quarter and this has placed Investec in a very favourable position to meet the new criteria with less of a negative impact on margins.

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

- Investec Bank Limited:
  - issued 10 and 12 year sub debt totalling R5.2 billion over the course of the year;
  - issued medium-term three-, five- and 10-year notes totalling R5.7 billion over the course of the year;
  - issued three-year notes totalling US$300 million over the course of the year; and
  - raised US$335 million equivalent multi currency syndicated loan for three years to boost our foreign currency cash reserves.

Regulatory considerations – balance sheet risk

Regulators propose 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 maintained strong capital, funding and liquidity positions.

The BCBS published the final calibration of the LCR in January 2013 and expect to publish the final calibration of the NSFR in 2014. The main changes to the LCR were to introduce level 2b qualifying assets and recalibrate run-off factors for non-financial commercial depositors and committed facilities. The LCR ratio will be phased in from 2015 to 2019.

We expect that all the jurisdictions where Investec has a banking licence will implement the BCBS guidelines on liquidity. In most jurisdictions there is still some uncertainty on the items for national discretion and this can have an impact on the final interpretation of the ratio.

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.

The group has committed itself to implementation of the BCBS guidelines for liquidity risk measurement standards and 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.

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

The BCBS guidelines were followed by an observation period during which biannual quantitative impact studies are carried out to assess the impact of the new proposals on banks and the broader economy. Investec participated in the QIS study and believes it will be adequately funded and capitalised to meet the new requirements.

Basel III

South Africa is committed to implementing the BCBS guidelines for 'liquidity risk measurement standards and monitoring' published in December 2010 and January 2013, by the due dates of 2015 to 2019.

Investec is involved in the process in the following ways:

- Collectively via the Banking Association of South Africa (BASA) and their task groups
- Direct bilateral consultation with SARB and SARB task teams
- As part of the Quantitative Impact Study by BCBS via SARB
- As part of National Treasury structural Funding and Liquidity Risk task team.

South Africa is a region with insufficient liquid assets; to address this systemic challenge the SARB announced the introduction of a committed liquidity. SARB is in the process of finalising the items for national discretion. With the changes announced by BCBS in January 2013, Investec South Africa already meets the requirement for the LCR in 2015.

Notwithstanding the above, the South African banking industry will find it difficult to meet the NSFR ratio, as currently defined, as a result of the shortcomings and constraints in the South African environment. The banking sector in South Africa is characterised by certain structural features such as a low discretionary savings rate and a higher degree of contractual savings that are captured by institutions such as pension funds, provident funds and providers of asset management services. The proposed liquidity measures have the potential to impact growth and job creation in the economy. In recognition thereof, the Finance Minister instituted a Structural Funding and Liquidity task team to investigate the constraints in the South African market and make recommendations to address these limitations.

BCBS have committed to finalise the NSFR ratio in 2014.

Notwithstanding the above constraints, Investec South Africa is committed to meet the ratios.

Operational risk

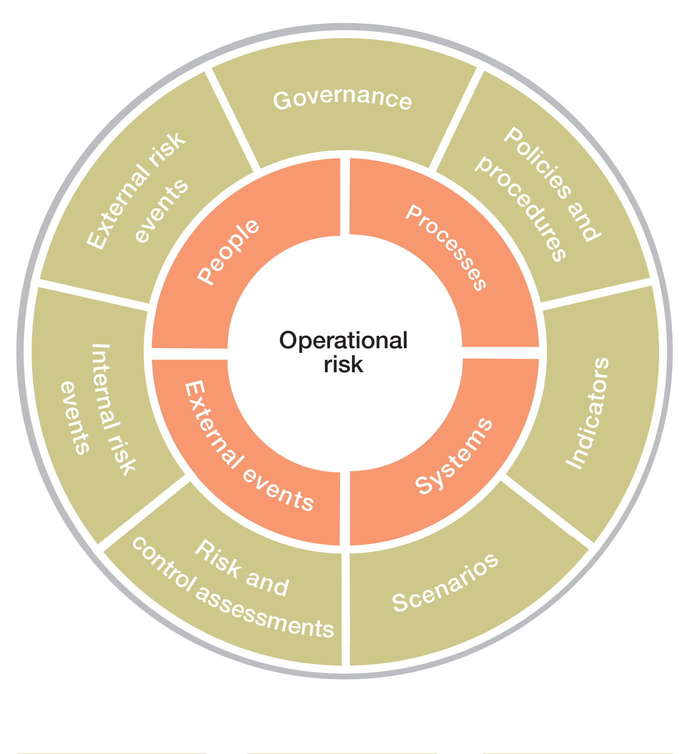
Operational risk definition

Operational risk is the risk of loss arising from inadequate or failed internal processes, people or systems, or external events which occur in the course of business. The consequences of operational risk events are not limited to financial consequences only, but may also have non-financial consequences such as business disruption or reputational impacts.

We recognise that there is a significant risk inherent in the operations of a bank. We endeavour to manage operational risk exposures and events by maintaining and embedding an operational risk management framework which supports sound operational risk management practices.

Operational risk management framework

The operational risk management framework is diagrammatically represented below and includes practices, processes and procedures to identify, assess, report, mitigate and measure operational risk within the bank.



Governance

The governance structure adopted to manage operational risk within the bank operates in terms of a levels of defence model and provides combined assurance in the following manner:

Board and board committees
- Monitor and review the operational risk exposures and metrics

External assurance and supervision
- External assessment of operational risk environment
- Onsite reviews by the SARB.

Internal assurance
- Independent review of framework and its effectiveness
- Audit findings integrated into operational risk management process.

Group operational risk management
- Challenge and review business unit operational practices and data
- Maintain operational risk framework and policy
- Report to board and board committees on operational risk exposures, events and emerging issues.

Business unit management
- Identify, own and mitigate operational risk
- Establish and maintain an appropriate operational risk and control environment.

Assurance

Reliance

The board, through the BRCC, has established and mandated an independent group operational risk management function to manage operational risk within the bank. Policies and procedures are developed at a group level to ensure that operational risk is managed in an appropriate and consistent manner. The embedded risk managers (ERMs) manage operational risk through review, challenge and escalation of issues. Significant risk exposures and events are subject to action and escalation by the 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.

Business unit management implements and embeds policies and procedures to manage operational risk and ensures alignment with the group's risk appetite. All personnel are adequately skilled at both a business unit and a group level.

Operational risk practices

The following practices are used for the management of operational risk as described below:

Risk and control assessments

- Qualitative assessment that identifies key operational risks and controls
- This provides an understanding of the risk profile including the identification of inadequate controls.

Risk indicators

- Monitoring of risk exposure
- Metrics are used to monitor risk exposure against identified thresholds
- Assists in predictive capability through provision of early warning signs.

Internal risk events

- Any incidents relating to people, internal processes or systems that have failed
- Operational risk events, with either a financial or non-financial consequence, are captured
- A causal analysis is performed
- Enables business to identify trends in losses and correct control weaknesses.

External risk events

- Events are collected from public sources and are analysed to inform potential control failures within the bank
- The output of this analysis is used as input into the operational risk assessment process.

Scenarios

- Extreme, unexpected, but plausible loss events which may not yet have been experienced for which the financial and non-financial impacts are evaluated
- Used to measure the impact arising from operational risk exposures which are considered in determining internal operational risk capital requirements.

Reporting

- Group Operational Risk Management reports to the board, board risk and capital committee and audit committee on a regular basis
- A reporting process is in place to ensure that risk exposures are identified and that key risks are appropriately escalated and managed.

Technology

- An operational risk system is in place to support operational risk practices and processes.

Operational risk year under review

The bank continues to operate under the Standardised approach to operational risk.

Enhancement of the risk and control environment has remained a key area of focus for the year under review. In addition, the bank recognises the need to enhance practices relating to other components of the operational risk management framework. The enhancement of practices is currently being driven through identified project work streams, which over the next few years aim to deliver more effective management of operational risk aligned to industry best practice and regulatory requirements.

Regular interaction with regulators promotes an understanding of regulatory expectations and informs the approach to regulatory changes and requirements. Awareness of best practice is achieved through interaction with industry counterparts at formal industry forums.

Key operational risk considerations

The following risks are key focuses of the group which may result in the reduction of earnings if they materialise.

Definition of risk	Mitigation of risk
Financial crime	
Risk associated with fraud, forgery, theft and corruption	• 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
Information security risk	
Risk associated with the confidentiality, integrity or availability of information assets irrespective of location or medium – including both physical and electronic	• Identification of threats to our information assets and assessment of associated risk exposures to these assets • Implementation of management and technical controls to reduce or mitigate identified information security risks • Evaluation of risks posed by third party service providers which process and store our information • Conducting information security awareness training for all employees • Establishment of information technology (IT) policies to manage potential exposures • Establishing and testing security incidents or breach response processes
Process failure	
Risk associated with inadequate or missing internal processes, including human errors and control failures within the business. This includes process origination, execution and operations	• Process failure-related losses are continually mitigated through careful consideration of control effectiveness • Causal analysis of failure-related losses, both potential and actual, identifies weakness in controls
Regulatory and compliance risk	
Risk associated with identification, implementation and monitoring of compliance with regulations	• Group compliance and Group Legal Risk assist in the management of risk • Identification and adherence to legal and regulatory requirements • Review practices and policies as regulatory requirements change
Technology risk	
Risk associated with the reliance on technology to support business processes and client services. This relates to the operations, usage, ownership and responsibility of IT systems across the business	• Establishment of an IT risk assessment framework to consistently and effectively assess IT exposures across the business • Monitoring risk exposures related to adoption of new technologies • Implementing and operating controls to manage IT-related risks • Identification and remediation of vulnerabilities identified in IT systems, applications, and IT processes • Establishing appropriate IT recovery capabilities to safeguard against application failures, telecom outages and data corruption • Establishing effective IT incident management processes to minimise the adverse impact of interruption to IT systems and services

Insurance

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

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.

Legal risk management

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

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

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

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

The legal risk policy is implemented through:

- Identification and ongoing review of areas where legal risk is found to be present
- Allocation of responsibility for the development of procedures for management and mitigation of these risks
- Installation of appropriate segregation of duties, so that legal documentation is reviewed and executed with the appropriate level of independence from the persons involved in proposing or promoting the transaction
- Ongoing examination of the inter-relationship between legal risk and other areas of risk management, so as to ensure that there are no 'gaps' in the risk management process
- Establishing minimum standards for mitigating and controlling each risk. This is 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

We have various policies and practices to mitigate reputational risk, including strong values that are regularly and proactively reinforced.

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.

Conduct risk

By conduct risk we mean the risk that detriment is caused to the bank, its customers, its counterparties or the market, as a result of inappropriate execution of business activities.

The focus on conduct risk is intended to go beyond the current compliance monitoring frameworks in order to move away from the culture of 'tick box' compliance. As a result, firms are expected to look across their business models and strategies and assess how to balance the pursuit of profits with good outcomes for clients and proper standards of markets conduct. All firms will be expected to take a holistic approach to assessing their key conduct risks and to ensure that these are being managed in accordance with strategic objectives of protecting clients, ensuring markets function effectively and promoting competition.

The group's work on conduct risk, includes assessing key risks across the business, identifying key controls and ensuring that the board is receiving the right information to enable it to challenge effectively the management of risks by the business. This work is set to continue for the coming year and will aim to build on the existing controls such as the compliance monitoring, Treating Customers Fairly and operational risk frameworks.

Capital management and allocation

Capital measurement

Although Investec Limited (and its subsidiaries) and Investec plc (and its subsidiaries) are managed independently and have their respective capital bases ring-fenced, 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 subcommittee with ultimate responsibility for the capital adequacy of both Investec Limited and Investec plc.

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 Limited and Investec plc are separately regulated entities. Operating with different regulatory capital regimes, it is difficult to directly compare regulatory capital sufficiency of the two entities. The following provides a brief outline of the regulatory environment relevant to the group's capital management framework.

Regulatory capital – Investec Bank Limited

Investec Bank Limited is supervised for capital purposes by the SARB, on a consolidated basis.

On 1 January 2013, the SARB implemented its local version of the Basel III rules as composed by the Bank for International Settlements. Basel III builds upon the Basel II framework to strengthen minimum capital (and liquidity) requirements imposed on banks following the global financial crisis. The SARB adaptation of the Basel III proposals within its local rules brings about a number of changes for the assessment of capital adequacy.

In calculating capital adequacy, the most material effect of the new SARB regulatory framework relates to the eligibility of capital to support minimum capital requirements. In particular, the rules impose tighter restrictions on the type of capital that qualifies as tier 1 capital and increase the regulatory minima of capital that must be held. Internal targets remain in excess of these increased minimum requirements.

Investec Bank Limited uses the Standardised approach to calculate its credit and counterparty credit risk and operational risk capital requirements. The market risk capital requirement is measured using an internal risk management model, approved by the SARB.

Various subsidiaries of Investec Bank Limited are subject to additional regulation covering various activities or implemented by local regulators in other jurisdictions. For capital management purposes, it is the prevailing rules applied to the consolidated Investec Bank Limited group that are monitored most closely. Nevertheless, where capital is a relevant consideration, management within each regulated entity pays close attention to prevailing local regulatory rules as determined by their respective regulators. Management of each regulated entity, with the support of the group's capital management functions, ensures that capital remains prudently above minimum requirements at all times.

Capital targets

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 Limited and Investec Bank Limited have always held capital in excess of regulatory requirements and the group continues to remain well capitalised. Accordingly, the group manages its capital position to meet a tier 1 capital target of 10.5% and a total capital adequacy ratio target of 14% to 17%. These targets are continuously assessed for appropriateness.

The DLC capital committee is responsible for ensuring that the impact of any regulatory change is analysed, understood and prepared for. To allow the committee to carry out this function, the group's regulatory and capital management teams closely monitor regulatory developments and regularly present to the committee on latest developments. As part of any assessment the committee is provided with analysis showing the group's capital adequacy 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 to ensure the impact on the group and its subsidiaries is monitored.

Capital management

Philosophy and approach

Both the Investec Limited and Investec plc groups operate an approach to capital management that utilises both regulatory capital, as appropriate to that jurisdiction, and internal capital, which is an internal risk-based assessment of capital requirements. Capital management primarily relates to management of the interaction of both; with the emphasis on regulatory capital for managing portfolio level capital sufficiency and on internal capital for ensuring that returns are appropriate for the level of risk taken at an individual transaction or business unit level.

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
- Inform the setting of minimum regulatory capital through the Supervisory Review Process (SREP).

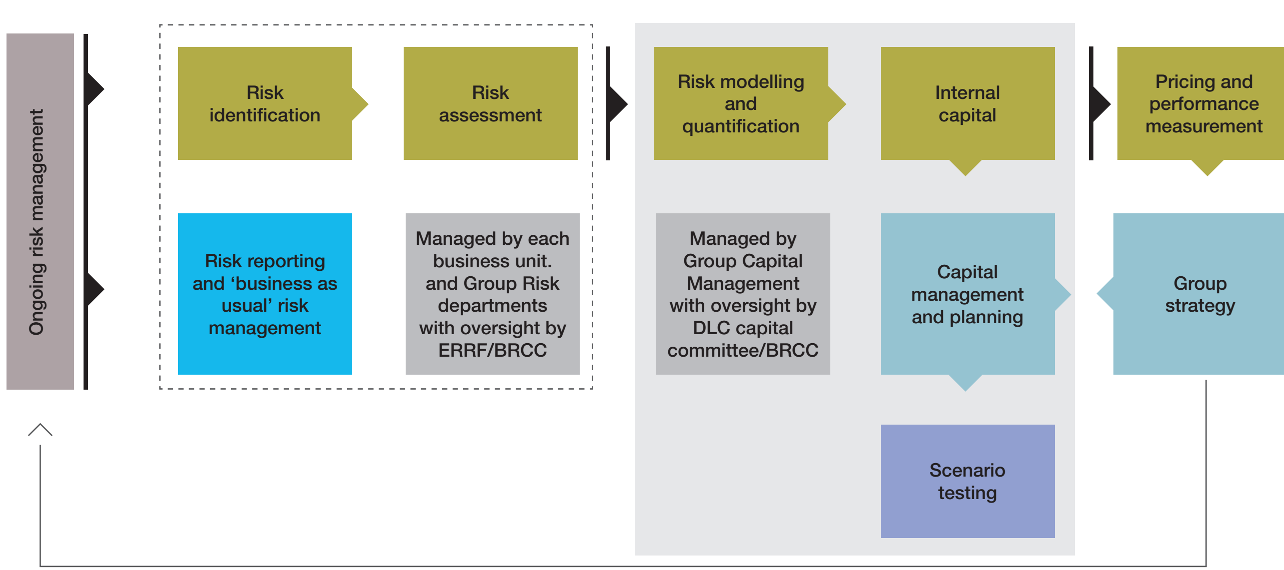
The DLC capital committee seeks to optimise the balance sheet such that capital held is in excess of internal capital. Internal capital performs a critical role in:

- 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 reporting

We review the business continuously to maintain a close understanding of our universe of risks, which are analysed through the risk management governance framework under stewardship of BRCC. Key risks are reviewed and debated by senior management on a continuous basis. 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.

Key identified risks are monitored by Group Risk Management and by Internal Audit to ensure that each risk is managed to an acceptable level. 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
- Market risk
- Equity and investment risk in the banking book
- Balance sheet liquidity and non-trading interest rate risk
- Operational, conduct and reputational risk
- Legal risk (considered within operational risk for capital purposes).

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

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 is based on analysis of internal data, management expertise and judgement and external benchmarking.

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

- Credit and counterparty risk, including:
  - Underlying counterparty risk
  - Concentration risk
  - Securitisation risk
- Market risk
- Equity and investment risk held in the banking book
- Balance sheet risk, including:
  - Liquidity
  - Banking book interest rate risk
- Strategic and reputational risks
- Operational risk, which 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 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 capital adequacy. This plan is designed to assess capital adequacy under a range of economic and internal conditions over the medium term (three years), with the impact on earnings, asset growth, risk appetite 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.

Capital planning is performed on the basis of both regulatory and internal capital, with regulatory capital being the key driver of decision making. The goal of capital planning is to provide insight into potential sources of vulnerability of capital adequacy by way of market, economic or internal events. As such, we stress the capital plans based on conditions most likely to place us under duress. The conditions themselves are agreed by the DLC capital committee after consultation with relevant internal and external experts and research. Such plans are used by management to formulate balance sheet strategy and agree management actions, trigger points and influence the determination of our risk appetite.

The output of capital planning allows senior management to make decisions to ensure that the group continues to hold sufficient capital to meet its targets against regulatory and internal capital targets. On certain occasions, especially under stressed scenarios, management may plan to undertake a number of actions. Assessment of the relative merits of undertaking various actions is then considered using an internal view of relative returns across portfolios which are themselves based on internal assessments of risk and capital.

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 as an allocation tool means that all transactions are considered in the context of their contribution to return on risk-adjusted capital. This ensures 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.

Capital disclosures

The tables that follow provide information as required in terms of Basel III (where applicable).

Capital management and allocation

Capital structure and capital adequacy

Summary information on the terms and conditions of the main features of all capital instruments is provided on pages 70 to 72.

As at 31 March R'million	2013*	2012
Tier 1 capital		
Shareholders' equity	21 975	19 399
Shareholders' equity per balance sheet	23 509	20 933
Perpetual preference share capital and share premium	(1 534)	(1 534)
Regulatory adjustments to the accounting basis	446	437
Unrealised gains on available-for-sale equities	–	(64)
Cash flow hedging reserve	446	253
Foreign currency translation reserve	–	248
Deductions	(90)	(344)
Goodwill and intangible assets net of deferred tax	(90)	(96)
Securitisation positions	–	(248)
Common equity tier 1 capital	22 331	19 492
Additional tier 1 capital before deductions	1 381	1 534
Additional tier 1 instruments	1 534	1 534
Phase out of non-qualifying additional tier 1 instruments	(153)	
Total tier 1 capital	23 712	21 026
Tier 2 capital		
Total qualifying tier 2 capital before deductions	11 493	8 915
Unrealised gains on available-for-sale equities	–	–
Collective impairment allowances	122	206
Tier 2 instruments	12 496	8 709
Phase out of non-qualifying tier 2 instruments	(1 125)	–
Deductions	–	(248)
Securitisation positions	–	(248)
Total tier 2 capital	11 493	8 667
Total regulatory capital	35 205	29 693
Risk-weighted assets	217 715	184 253
Capital ratios		
Common equity tier 1 ratio	10.3%	10.6%
Tier 1 ratio	10.9%	11.4%
Total capital ratio	16.2%	16.1%

* *Based on Basel III capital requirements as currently applicable in South Africa. Comparative information is disclosed on a Basel II basis.*

Capital management and allocation (continued)

Capital requirements

As at 31 March R'million	2013	2012
Capital requirements	20 681	17 504
Credit risk – prescribed standardised exposure classes	14 798	12 965
Corporates	9 023	7 773
Secured on real estate property	1 513	1 246
Short-term claims on institutions and corporates	2 155	2 033
Retail	325	314
Institutions	1 058	1 125
Other exposure classes	73	92
Securitisation exposures	651	382
Equity risk – Standardised approach	3 472	2 376
Listed equities	789	229
Unlisted equities	2 683	2 147
Counterparty credit risk	716	498
Market risk	426	421
Interest rate	117	125
Foreign exchange	74	120
Commodities	2	2
Equities	233	174
Operational risk – Standardised approach	1 269	1 244

Risk-weighted assets

As at 31 March R'million	2013	2012
Risk-weighted assets (banking and trading)	217 715	184 253
Credit risk – prescribed standardised exposure classes	155 781	136 476
Corporates	94 983	81 824
Secured on real estate property	15 925	13 117
Short-term claims on institutions and corporates	22 685	21 401
Retail	3 426	3 301
Institutions	11 141	11 846
Other exposure classes	768	970
Securitisation exposures	6 853	4 017
Equity risk – Standardised approach	36 548	25 011
Listed equities	8 306	2 407
Unlisted equities	28 242	22 604
Counterparty credit risk	7 537	5 245
Market risk	4 488	4 424
Interest rate	1 229	1 314
Foreign exchange	783	1 266
Commodities	20	17
Equities	2 456	1 827
Operational risk – Standardised approach	13 361	13 097

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 2013 are as follows:

Rating agency	Investec Limited	Investec Bank Limited – a subsidiary of Investec Limited
Fitch		
Long-term ratings		
Foreign currency	BBB-	BBB-
National		A+(zaf)
Short-term ratings		
Foreign currency	F3	F3
National		F1 (zaf)
Viability rating	bbb-	bbb-
Support rating	5	3
Moody's		
Long-term deposit ratings		
Foreign currency		Baa1
National		Aa3 (za)
Short-term deposit ratings		
Foreign currency		Prime-2
National		P1 (za)
Bank financial strength rating		C-
Global Credit Ratings		
Local currency		
Short-term rating		A1+(za)
Long-term rating		AA-(za)

Internal audit

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

The head of internal audit reports at each audit committee meeting and has a direct reporting line to the chairman of the audit committee. He operates independently of executive management but has access to the chief executive officer. The head of internal audit is responsible for coordinating internal audit efforts to ensure coverage is adequate and departmental skills are leveraged to maximise efficiency. For administrative purposes the head of internal audit also reports to the global head of corporate governance and compliance. The function complies 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 audit committee. High risk businesses and processes are audited at least every 18 months, 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 assurance 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 including the requirements of King III in South Africa. The audit teams comprise well-qualified, experienced staff to ensure that the function has the competence to match Investec's diverse requirements. Where specific specialist skills or additional resources are required, these are obtained from third parties. Internal audit resources are subject to review by the respective audit committees.

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 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.

Year in review

Following from National Treasury's publication of the Red Book (which includes South Africa's regulatory response to the global financial crisis) and various G20 commitments, we have been subject to an unprecedented volume of regulatory activity (new or enhanced regulation and policies, and extensively enhanced reporting), in both the prudential and market areas, such as: Basel III, Solvency and Asset Management, Financial Markets Act, Hedge Funds, Collective Investment Schemes, and the National Credit Act.

With the 'Twin Peaks' model of regulation having been identified as the most appropriate model going forward with separate regulators being responsible for prudential and market conduct regulation across industries, a variety of South African legislation needs to be amended to ensure each regulator has the appropriate authority and scope to enable adequate regulation. To initiate this process the Financial Services Board (FSB) has published 'The Roadmap: Treating Customers Fairly (TCF)' which sets out their programme and intended timelines for market conduct regulation. The six principles set out by the FSB mirror the equivalent principles published by the FSA in the UK. A further development, in February 2013, was the publication of the document "Implementing a Twin Peaks Model of Financial Regulation in South Africa". The document outlines National Treasury's proposals for the splitting of regulatory functions between a prudential and market conduct regulator, and the functions of a systemic regulator.

Investec is participating in both the TCF and Twin Peaks industry work-streams.

Consumer protection

Consumer protection regulation remains a key focus into 2013 with additional emphasis on aligning existing processes with the TCF Roadmap published by the FSB.

As required by FAIS, the fit and proper status of representatives and key individuals of all licensed Investec financial services providers (FSPs) is monitored on an ongoing basis and the requisite reports are made to the FSB.

The National Credit Regulator (NCR) commissioned a review of the NCA policy, in anticipation of amendments to the National Credit Act. The University of Pretoria undertook the review, and Investec participated in the workshops held with the Banking Association of South Africa (BASA). The NCR will present the results of the review to Parliament early this year, and it is anticipated that they will commence with amendments thereafter.

The most recent draft of the Protection of Personal Information Bill (POPI) was debated at the Technical Working Committee during March 2012. Once enacted POPI will have a material impact on all aspects of Investec's business that concern the processing of personal information in respect of Investec's clients and employees, as well as information relating to the Investec group and subsidiaries.

Anti-money laundering and terror financing

The Anti-Money Laundering (AML) supervisory landscape has been amended. The Financial Intelligence Centre (FIC) who historically filled the role as both compliance supervisor on AML matters as well as the designated country FIU, has assumed the responsibility of compliance supervisor only on matters relating to the requirement to register as an accountable institution with the FIC as well as reporting of suspicious transaction reports, counter-terrorist financing reports and cash threshold reports.

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.

Chairman's introduction

Dear shareholder

Introduction

I am pleased to present the 2013 annual corporate governance report which sets out Investec Bank Limited's approach to corporate governance.

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

This section provides a summary of our corporate governance philosophy and practices.

A more detailed review is provided in the corporate governance report of the Investec group's 2013 annual report and can be found on our website.

We encourage all stakeholders to read the corporate governance report as the detailed reports from the various board committee chairmen included in that report provide a detailed explanation of how those committees discharge their duties in respect of both the group and its major subsidiaries.

Governance framework

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

The DLC (combined) board committees of Investec Limited and Investec plc act as the board committees of Investec Bank Limited as well.

A diagram of the group's governance framework as well as reports on the various board committees can be found in the corporate governance report of Investec group's 2013 annual report.

As allowed under the Companies Act No 71 of 2008 as amended (the Act) and the Banks Act No 94 of 1990 as amended, the Investec Limited group audit committee and the DLC social and ethics committee, which are both statutory committees as per the Act, perform the necessary functions required on behalf of Investec Bank Limited.

The DLC nominations and directors' affairs committee (NOMDAC) acts as the NOMDAC for the group (including Investec Bank Limited).

The DLC remuneration committee acts as the remuneration committee for the group (including Investec Bank Limited) and the statement of the remuneration committee, explaining the group's policies and processes, as well as required disclosures can be found on pages 86 to 95.

Issues specific to Investec Bank Limited are considered at each meeting of the various committees and the Investec Bank Limited board receives a report on the proceedings of the committees at each of their meetings.

The board of Investec Bank Limited takes comfort from the group's corporate governance process as well as the fact that the board of Investec Bank Limited includes common membership with the boards of Investec Limited and Investec plc. In addition certain members, who are only appointed to the board of Investec Bank Limited, represent the company at the audit, NOMDAC as well as the DLC board risk and capital committees (BRCC) of the group.

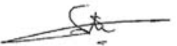
Our culture and values

Underpinning legislative, regulatory and best practice requirements are Investec's values and philosophies which provide 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 act with integrity, displaying consistent and uncompromising moral strength and conduct in order to promote and maintain trust. Sound corporate governance is therefore 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.

As noted, we operate under a DLC structure, and consider the corporate governance principles and regulations of both the UK and South Africa before adopting the appropriate rule for the group.

Conclusion

We acknowledge that the environment in which we operate provides challenges from a governance and regulatory perspective; however, we are confident that our culture and values will continue to provide the group with a strong foundation that will enable the board and group to meet these challenges going forward.



Fani Titi
Chairman

11 June 2013

Board statement

The board, management and employees of Investec Bank Limited are in full support of and are committed to complying with regulatory requirements and the King Code of Governance Principles for South Africa (King III). As a result of our listed non-redeemable, non-cumulative, non-participating preference shares, we are committed to complying with the JSE Limited (JSE) listings requirements as well.

Stakeholders are therefore assured that we are being managed ethically and in compliance with the latest legislation, regulations and best practice.

King III

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 applied the King III principles.

For a complete list of all principles and a reference to demonstrate how Investec has applied these principles, please refer to our website.

Financial reporting and going concern

Disclosure regarding the group's financial reporting and going concern can be found in the Investec group's 2013 annual report.

The same processes and principles have been applied by the board of Investec Bank Limited.

The board of Investec Bank Limited is of the opinion, based on its knowledge of the company, key processes in operation by the group and specific enquiries, that there are adequate resources to support the company as a going concern for the foreseeable future.

Further information on the bank's liquidity and capital position is provided on pages 60 to 66 of this 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 senior management succession are considered regularly by the NOMDAC.

Internal control

Risks and controls are reviewed and monitored regularly for relevance and effectiveness. The BRCC and audit committees assist the board in this regard. Sound risk management practices are promoted by the group risk management function, which is independent of operational management. The board recognises its responsibility for the overall risk and control framework and for reviewing its effectiveness.

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

Internal Audit reports any control recommendations to senior management, Group Risk Management and the 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 regularly considered 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 BRCC and the audit committee. Reports from the audit committee, BRCC and risk and control functions are reviewed at each board meeting.

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.

Processes are in place to monitor internal control effectiveness, identify and report material breakdowns, and ensure that timely and appropriate corrective action is taken. Group Finance and Investor Relations coordinate, review and comment on the monthly financial and regulatory reports, and facilitate the interim and annual financial reporting process, including the independent audit process.

Board of directors

The board operates within the group's governance framework and is accountable for the performance and affairs of Investec Bank Limited. The board meets

Stakeholders are therefore assured that we are being managed ethically and in compliance with the latest legislation, regulations and best practice.

its objectives by reviewing and following corporate strategy as determined by the boards of Investec Limited and Investec plc.

The board has defined the limits of delegated authority within Investec Bank Limited. Together with the boards of Investec Limited and Investec plc, and through the group's board committees, it is responsible for assessing and managing risk policies and philosophies, ensuring appropriate internal controls, overseeing major capital expenditure, acquisitions and disposals, approving the establishment of businesses and approving the introduction of new products and services. In fulfilling its responsibilities, the board together with management implements the plans and strategies.

For further detail of the functions of the board of Investec Bank Limited, as included with the functions of the boards of Investec Limited and Investec plc, performed directly or through board committees, refer to the Investec group's 2013 annual report.

Membership

At the end of the year under review, the board comprised five executive directors and eight non-executive directors. As set out below, the board concluded that the majority (i.e. six) of the non-executive directors are independent in terms of King III.

Biographical details of the directors are set out on page 84.

During the year under review we appointed David Friedland as an independent non-executive director and member of the audit committee. David will, from 8 August 2013, succeed Sam Abrahams as chair of the audit committee.

The names of the directors at the date of this report, the year of their appointment, their independence status and whether they will retire and seek re-election at the 2013 annual general meeting, are set out in the table below.

	Date of appointment	Independent	Last elected	Retiring by rotation and seeking re election in 2013
Executive directors				
S Koseff (chief executive officer)	30 June 1990	No	2010	Yes
B Kantor (managing director)	30 June 1990	No	2011	No
DM Lawrence (deputy chairman)	1 July 1997	No	2012	No
GR Burger (group risk and finance director)	30 June 1990	No	2011	No
B Tapnack	1 July 1997	No	2011	No
Non-executive directors				
F Titi (chairman)	3 July 2002	Yes	2012	No
SE Abrahams	1 July 1997	Yes	2010	Yes
D Friedland*	1 March 2013	Yes	2013	Yes
MP Malungani	21 August 2001	No	2012	No
Sir David Prosser	15 July 2011	Yes	2012	No
KXT Socikwa	18 July 2006	Yes	2010	Yes
PRS Thomas	1 July 1997	Yes	2011	No
CB Tshili	18 July 2006	No	2010	Yes

* *As per the Memorandum of Incorporation of Investec Bank Limited, D Friedland who was appointed to the board on 1 March 2013, needs to be elected at the annual general meeting following his appointment.*

Re-election of board members

All directors are subject to election at the first annual general meeting following their appointment. Thereafter, in accordance with the Memorandum of Incorporation of Investec Bank Limited, at least one third of the directors will retire at each annual general meeting. Retiring directors are subject to an assessment of their performance by the chairman and the NOMDAC before nomination for re-election and reappointment.

Details of the directors standing for re-election at the 2013 annual general meeting are on page 80.

Independence

As at 31 March 2013, the board is compliant with Chapter 2, Principle 2.18 of King III in that the majority of non-executive directors are independent.

A summary of the factors the board uses to determine the independence of non-executive directors is detailed below.

Relationships and associations

Peter Malungani is the chairman and Busi Tshili is the financial director of Peu Group (Pty) Ltd (Peu). Peu had a material relationship with Investec Limited as a result of the empowerment transaction concluded in 2003 in light of South Africa's Financial Sector Charter. Accordingly, the board concluded that Peter and Busi could not be considered independent under King III.

Despite the board concluding that Peter and Busi cannot be considered independent for the reasons explained above, the board is of the view that their skills, knowledge, experience and attributes are nonetheless valuable to the organisation and believe they do and will use their independent judgement when making decisions that affect the organisation and stakeholders.

Tenure

The board follows a robust process of assessing independence on an annual basis for each director whose tenure exceeds nine years.

The board does not believe that tenure of any of the current non-executive directors materially interferes with their independence of judgement and ability to act in Investec's best interests. Accordingly, the board has concluded that Fani Titi, Peter Thomas and Sam Abrahams, despite having been directors of Investec for nine years or more, retain both financial independence and independence of character and judgement.

Notwithstanding the guidelines set out in King III, the board is of the view that these non-executive directors are independent of management and promote the interests of stakeholders. The balance of executive and non-executive directors is such that there is a clear division of responsibility to ensure a balance of power, such that no one individual or group can dominate board processes or have unfettered powers of decision making. The board believes that it functions effectively and evaluates its performance annually.

Attendance at risk management meetings

Sam Abrahams and Peter Thomas regularly attend, by invitation, certain credit committees of the group. The board considers their attendance at these committees to be desirable in terms of developing an understanding of the day-to-day issues facing the business. This further allows Sam to discharge his responsibilities more effectively as chairman of the Investec Limited audit committee. The board concluded that Sam and Peter retain independence of character and judgement. Going forward, David Friedland will attend certain credit committees for the same reasons as explained above.

Board meetings

The board of Investec Bank Limited met six times during the financial year.

The chairman is responsible for setting the agenda for each meeting, in consultation with the chief executive officer and the company secretary. Comprehensive information packs on matters to be considered by the board are provided to directors in advance.

Details of directors' attendance at board meetings:

	Number of meetings attended of the 6 held during the year
Executive directors	
S Koseff (chief executive officer)	6
B Kantor (managing director)	6
DM Lawrence (deputy chairman)	6
GR Burger (group risk and finance director)	5
B Tapnack	5
Non-executive directors	
F Titi (chairman)	6
SE Abrahams	6
D Friedland*	0
MP Malungani	6
Sir David Prosser	6
KXT Socikwa	4
PRS Thomas	5
CB Tshili	6

* *D Friedland was appointed to the board of directors on 1 March 2013 and there were no meetings held between 1 March 2013 and 31 March 2013.*

Directors' ongoing training and development is a standing board agenda item, including updates on various training and development initiatives.

Skills, knowledge, experience and attributes of directors

The board considers that the skills, knowledge, experience and attributes of the directors as a whole are appropriate for their responsibilities and our activities. The directors bring a range of skills to the board including:

- International business and operational experience
- Understanding of the economics of the sectors in which we operate
- Knowledge of the regulatory environments in which we operate
- Financial, accounting, legal and banking experience and knowledge.

The skills and experience profile of the board and its committees are regularly reviewed by the NOMDAC, to ensure an appropriate and relevant composition from a governance, succession and effectiveness perspective.

Board and directors' performance evaluation

The board and individual directors' performance is formally evaluated annually based on recognised codes of corporate governance and covers areas of the board's processes and responsibilities, according to leading practice.

The performance evaluation process takes place both informally, through personal observations and discussions, and/or in the form of evaluation questionnaires. The results are considered and discussed by the board.

The chairman holds regular one-on-one meetings with each director to discuss the results of the formal and informal evaluations and, in particular, to seek comments on strengths and developmental areas of the members, the chairman and the board as a whole. Individual training and development needs are discussed with each board member and any requests for training are communicated to the company secretary for implementation.

Performance evaluation of the board and directors as well as training and development are matters that are standing agenda items of the NOMDAC.

Terms of appointment

On appointment, non-executive directors are provided with a letter of appointment. The letter sets out, among other things, duties, responsibilities and expected time commitments, details of our policy on obtaining independent advice and, where appropriate, details of the board committees of which the non-executive director is a member. We have an insurance policy that insures directors against liabilities they may incur in carrying out their duties. On the recommendation of the NOMDAC, non-executive directors will be appointed for an expected term of nine years (three times three year terms) from the date of their first appointment to the board.

Ongoing training and development

On appointment, directors are provided with an induction pack and participate in an induction programme tailored to their needs. This includes meeting with the business unit and central services heads to ensure they become familiar with business operations, senior management, our business environment and internal controls, policies, processes and systems for managing risk.

Directors' ongoing training and development is a standing board agenda item, including updates on various training and development initiatives. Board members receive regular formal presentations on regulatory and governance matters as well as on the business and support functions. Regular interactive workshops are arranged between directors and the heads of risk management, control functions and business units.

The company secretary liaises with directors to source relevant seminars and conferences which directors could attend, funded by Investec.

Following the board's and directors' performance evaluation process, any training needs are communicated to the company secretary who ensures these needs are addressed.

During the period under review there were a number of director workshops arranged outside of board meetings.

Independent advice

Through the chairman or deputy chairman or the company secretary, individual directors are entitled to seek professional independent advice on matters related to the exercise of their duties and responsibilities at the expense of Investec. No such advice was sought during the 2013 financial year.

Chairman and chief executive officer

The roles of the chairman and chief executive officer are distinct and separate. The chairman leads the board and is responsible for ensuring that the board receives accurate, timely and clear information to ensure that the directors can perform their duties effectively.

Details of the chairman's external directorships are set out on page 84.

The board does not consider the chairman's external commitments to interfere with his performance and responsibilities to Investec. The board is satisfied that the chairman makes sufficient time available to serve Investec effectively.

The deputy chairman is David Lawrence.

Company secretary

Benita Coetsee is the company secretary of Investec Bank Limited. Benita is professionally qualified and has experience gained over a number of years. Her services are evaluated by board members during the annual board evaluation process. Benita is responsible for the flow of information to the board and its committees and for ensuring compliance with board procedures. All directors have access to the advice and services of the company secretary, whose appointment and removal are a board matter.

In compliance with the JSE listings requirements, the board has considered and is satisfied that the company secretary is competent, has the relevant qualifications and experience and maintains an arm's length relationship with the board. In evaluating these qualities, the board has considered the prescribed role and duties pursuant to the requirements codified in the Companies Act No 71 of 2008 and the listings and governance requirements as applicable. In addition, the board confirms that the company secretary has not served as a director on the boards of Investec plc, Investec Limited or Investec Bank Limited, nor does she take part in board deliberations and only advises on matters of governance, form or procedure. The review was for the period 1 April 2012 to 31 March 2013.

Further disclosures

Refer to the Investec group's 2013 annual report for more information regarding:

- Remuneration
- Directors' dealings
- Board committees – including the report prepared by the chairmen of the board committees, specifically the statutory committees, i.e. the audit committee and the social and ethics committee
  - In terms of the King III Code and the Companies Act No 71 of 2008, as amended, the chairman of the audit committee should report to shareholders on its statutory duties. The audit committee of Investec Limited performs the necessary functions required on behalf of Investec Bank Limited.
  - The report by the chairman of the audit committee can be found in the corporate governance report of the Investec group's 2013 annual report.
  - In terms of the Companies Act No 71 of 2008, as amended, the chairman of the social and ethics committee should report to shareholders on the matters within its mandate. The DLC social and ethics committee performs the necessary functions required on behalf of Investec Bank Limited.
  - The report by the chairman of the DLC social and ethics committee can be found in the corporate governance report of the Investec group's 2013 annual report.

Directorate

Executive directors

(details as at the date of this report)

Stephen Koseff (61)
Chief executive officer
BCom, CA(SA), H Dip BDP, MBA

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

Current directorships: The Bidvest Group Limited and a number of Investec subsidiaries.

Bernard Kantor (63)
Managing director
CTA

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

Current directorships: Phumelela Gaming and Leisure Limited and a number of Investec subsidiaries.

David M Lawrence (61)
Deputy chairman
BA (Econ) (Hons), MCom

Current directorships: JSE Limited, Afrox Limited, a number of Investec subsidiaries and other unlisted companies.

Glynn R Burger (56)
Group risk and finance director
BAcc, CA(SA), H Dip BDP, MBL

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

Current directorships: A number of Investec subsidiaries.

Bradley Tapnack (66)
BCom, CA(SA)

Current directorships: Metaf Investment Holdings (Pty) Ltd and a number of Investec subsidiaries.

Non-executive directors

(details as at the date of this report)

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

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

Current directorships: Joint chairman of Investec Limited and Investec plc, MTN Group Limited, Kumba Iron Ore Limited, Tsiya Group (Pty) Ltd and a number of its investee companies, Investec Employee Benefits Limited and Investec Asset Management Holdings (Pty) Ltd.

Samuel E Abrahams (74)
FCA, CA(SA)

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

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

David Friedland (59)
BCom CA (SA)

Committees: DLC audit, Investec Limited group audit, Investec plc audit, DLC board risk and capital, DLC capital and global credit

Current directorships: Investec plc, Investec Limited and Investec Bank plc.

Peter M Malungani (55)
BCom, MAP, LDP

Committees: DLC board risk and capital

Current directorships: Phumelela Gaming and Leisure Limited (chairman), Investec Bank Limited, Investec Asset Management Holdings (Pty) Ltd, Deals and Acquisitions Committee (chairman), Pretoria Portland Cement Limited, Peu Group (Pty) Ltd and a number of Peu subsidiaries.

Sir David Prosser (69)
BSc (Hons), FIA

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

Current directorships: Epson Downs Racecourse Limited, The Royal Automobile Club Limited, Pippbrook Limited.

Karl-Bart XT Socikwa (44)
BCom, LLB, MAP, IPBM (IMD)

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

Current directorships: RAM Transport (South Africa) (Pty) Ltd and The Brand Union (Pty) Ltd.

Peter RS Thomas (68)
CA(SA)

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

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

Busi C Tshili (49)
CA(SA)

Committee: Investec Limited group audit

Current directorships: A number of Peu group companies.

Remuneration report

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

Remuneration philosophy, principles and policy

Remuneration philosophy

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

We reward executive directors and employees for their contribution through:

- An annual gross remuneration package (base salary and benefits) providing an industry competitive package
- A variable short-term incentive related to performance (annual bonus)
- A long-term incentive plan (share awards) providing long-term equity participation.

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

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

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

In summary, we recognise that financial institutions have to distribute 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 remuneration philosophy seeks to maintain an appropriate balance between the interests of these stakeholders, and is closely aligned to our culture and values which include risk consciousness, meritocracy, material employee ownership and an unselfish contribution to colleagues, clients and society.

Remuneration principles

Remuneration policies, procedures and practices, collectively referred to as the 'remuneration policy', are designed, in normal market conditions, to:

- Be in line with the business strategy, objectives, values and long-term interests of the bank
- Be consistent with, and promote, sound and effective risk management, and not encourage risk taking that exceeds the level of tolerated risk of the bank
- Ensure that payment of variable remuneration does not limit the bank's ability to maintain or strengthen its capital base
- Target gross remuneration (base salary and benefits including pension) at median market levels to contain fixed costs
- Ensure that variable remuneration is largely economic value added (EVA)-based and underpinned by our pre-determined risk appetite and capital allocation
- Facilitate alignment with stakeholders through deferral of a portion of short-term incentives into shares and long-term incentive share awards
- Target total compensation (base salary, benefits and incentives) to the relevant competitive market at upper quartile levels for superior performance.

Given our stance on the fixed cost component of remuneration, our commitment to inspiring an entrepreneurial culture, and our risk-adjusted return on capital approach to EVA, we do not apply an upper limit on variable rewards.

The fixed cost component of remuneration is, however, designed to be sufficient so that employees do not become dependent on their variable compensation as we are contractually (and do not consider ourselves morally) bound to make variable remuneration awards.

In addition, we operate a fully flexible incentive policy and are not contractually bound to make incentive awards. Investec has the ability to pay no annual bonuses and make no long-term incentive awards should the performance of the bank or individual employees require this.

We do not pay remuneration through vehicles that facilitate avoidance of applicable laws and regulations.

Furthermore, employees must undertake not to use any personal hedging strategies or remuneration or liability-related contracts of insurance to undermine the risk alignment effects embedded in their remuneration arrangements. Compliance maintains arrangements designed to ensure that employees comply with this policy.

No individual is involved in the determination of his/her own remuneration rewards and specific internal controls and processes are in place to prevent conflicts of interest between Investec and its clients from occurring and posing a risk to the bank on prudential grounds.

Remuneration policy

All remuneration payable (salary, benefits and incentives) is assessed at an Investec group, business unit and individual level. This framework seeks to balance both financial and non-financial measures of performance to ensure that the appropriate factors are considered prior to making awards, and that the appropriate mix of cash and share-based awards is made.

Determination of remuneration levels

Qualitative and quantitative considerations form an integral part of the determination of overall levels of remuneration and total compensation for each individual.

Factors considered for overall levels of remuneration at the level of the Investec group include:

- Financial measures of performance
  - Risk adjusted EVA model
  - Affordability
- Non-financial measures of performance of:
  - Market context
  - Specific input from the risk and compliance functions.

Factors considered to determine total compensation for each individual include:

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

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

- The most relevant competitive reference points for remuneration levels are based on the scope of responsibility and individual contributions made
- The committee recognises that we operate an international business and compete with both local and international competitors in each of our markets
- Appropriate benchmark, industry and comparable organisations' remuneration practices are reviewed regularly
- For executive directors, the remuneration committee benchmarks against a bespoke peer group comprising: ABSA Group, FirstRand, Nedbank Group and Standard Bank Group
- For employees, the JSE Financial 15 has offered the most appropriate benchmark
- In order to avoid disproportionate packages across areas of the bank and between executives, adjustments may be made at any extremes to ensure broad internal consistency. Adjustments may also be made to the competitive positioning of pay components for individuals, in cases where a higher level of investment is needed in order to build or grow or sustain either a business unit or our capability in a geography.

The following section outlines our remuneration policy in more detail for each element of total compensation as it applies to employees. Our remuneration arrangements for some of our executive directors are currently the subject of a consultation with shareholders and will be the subject of a shareholder circular.

Gross remuneration: base salary and benefits

Salaries and benefits are reviewed annually and reflect the relative skills and experience of, and contribution made by, the individual. It is the bank's policy to seek to set base salaries and benefits (together known as gross remuneration) at median market levels when compared like for like with peer group companies.

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

Advisers are often engaged by either the Human Resources division or the business units to obtain general benchmark information or to benchmark specific positions to ensure that gross remuneration levels are market-driven and competitive so that levels of remuneration do not inhibit our ability to recruit the people we need to develop our business.

Benefits are targeted at competitive levels and are delivered through flexible and tailored packages. Benefits include pension schemes; life, disability and personal accident insurance; medical cover; and other benefits, as dictated by competitive local market practices. Only salaries, not annual bonuses, are pensionable.

Variable short-term incentive: annual bonus

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

Risk-weighted returns form basis for variable remuneration levels

In our ordinary course of business we face a number of risks that could affect our business operations, as highlighted on page 16.

Risk Management is independent from the business units and monitors, manages and reports on the bank's risk to ensure it is within the stated risk appetite as mandated by the board of directors through the board risk and capital committee (BRCC). The bank monitors and controls risk exposure through credit, market, liquidity, operational and legal risk divisions/forums/committees.

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

The BRCC (comprising both executive and non-executive directors) sets the overall risk

appetite for the bank and determines the categories of risk, the specific types of risks and the extent of such risks which the bank should undertake, as well as the mitigation of risks and overall capital management and allocation process. Senior members of the bank's risk management teams who provide information for the meeting packs and present and contribute to the committee's discussions, attend these meetings.

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

The executive risk review forum (ERRF) comprises members of the executive and the heads of the various risk functions. Its responsibilities include approving limits and mandates, ensuring these are adhered to and that agreed recommendations to mitigate risk are implemented.

The bank's central credit and risk forums provide transaction approval independent of the business unit on a deal-by-deal basis and the riskiness of business undertaken is therefore evaluated and approved at initiation of the business through deal forum, investment committee and ERRF and is reviewed and ratified at ERRF on a regular basis. These central forums provide a level of risk management by ensuring that risk appetite and various limits are being adhered to and that an appropriate interest rate and by implication, risk premium is built into every approved transaction. The approval of transactions by these independent central forums thus ensures that every transaction undertaken by the bank results in a contribution to profit that has already been subject to some risk adjustment.

Our EVA model as described in detail below is principally applied to realised profits against pre-determined targets above risk and capital weighted returns. In terms of the EVA structure, capital is allocated based on risk and therefore the higher the risk, the higher the capital allocation and the higher the hurdle return rate required. This model ensures that risk and capital management are embedded in key processes at both a bank and transaction level which form the basis of the bank's performance related variable remuneration model thus balancing the interests of all stakeholders.

Further, both the risk and compliance functions are also embedded in the operating business units and are subject to review by the internal audit and compliance monitoring teams. The risk and compliance functions also provide, on an exception only basis, information relating to the behaviour of individuals and business areas if there has been evidence of non-compliance or behaviour which gives rise to concerns regarding the riskiness of business undertaken.

EVA model: allocation of performance related bonus pool

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

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

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

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

- The profitability of each operating business unit is determined as if they are a stand-alone business. Gross revenue is determined based on the activity of the business, with arm's length pricing applicable to inter-segment activity. Profits are determined as follows:
  - Realised gross revenue (net margin and other income)
  - Less: Funding costs
  - Less: Impairments for bad debts
  - Add back: Debt coupon or preference share dividends paid out of the business (where applicable)
  - Less: Direct operating costs (personnel, systems, etc)
  - Less: Allocated costs and residual charges (certain independent bank functions are provided on a centralised basis, with an allocation model applied to charge out costs incurred to business units. Costs allocated are based on the full operational costs for the particular central service area, inclusive of the variable remuneration cost of the central service. Allocation methodologies generally use cost drivers as the basis of allocation)
  - Less: Profits earned on retained earnings and statutory held capital
  - Add: Notional profit paid by centre on internal allocated capital
  - Equals: net profits.
- Capital allocated is a function of both regulatory and internal capital requirements, the risk assumed within the business and our overall business strategy
- The bank has always held capital in excess of minimum regulatory requirements, and this principle is perpetuated in our internal capital allocation process. This process ensures that risk and capital discipline is embedded at the level of deal initiation and incorporates independent approval (outside of the business unit) of transactions by the various risk and credit committees

A detailed explanation of our capital management and allocation process is provided on pages 70 to 74.

- Internal capital comprises the regulatory capital requirement taking into account a number of specified risks plus a capital buffer which caters, *inter alia*, for any unspecified or future risks not specifically identified in the capital planning process. The bank then ensures that it actually holds capital in excess of this level of internal capital
- Internal capital is allocated to each business unit via a comprehensive

analysis of the risks inherent within that business and an assessment of the costs of those risks

- Hurdle rates or targeted returns are determined for each business unit based on the weighted average cost of capital (plus a buffer for trading businesses to take into account additional risks not identified in the capital allocation process) applied to internal capital
- Targeted returns differ by business unit reflecting the competitive economics and shareholder expectation for the specific area of the business, and are set with reference to the degree of risk and the competitive benchmarks for each product line
- In essence varying levels of return are required for each business unit reflecting the state of market maturity, country of operation, risk, capital invested (capital intensive businesses) or expected expense base (fee-based businesses)
- Growth in profitability over time will result in an increasing bonus pool, as long as it is not achieved at the expense of capital efficiency
- Target returns must be reflective of the inherent risk assumed in the business. Thus, an increase in absolute profitability does not automatically result in an increase in the annual bonus pool. This approach allows us to embed risk and capital discipline in our business processes. These targets are subject to annual review
- The bank's credit and risk forums provide transaction approval independent of the business unit on a deal-by-deal basis adding a level of risk consciousness to the pre-determined (and risk-adjusted) capital allocation and required hurdle rates and thus ensure that each transaction generates a return that is commensurate with its associated risk profile.

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

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

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

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

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

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

Deferral of annual bonus awards

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

Other information on deferred awards and clawback provisions within the bank

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

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

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

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

- The extent to which the individual had control over the outcome
- Failure of internal control systems
- The impact of the risk profile of the relevant member of the bank or business unit
- Any violation of the culture and values
- The long-term impact of the outcome on the bank or relevant business unit
- External factors including market conditions
- Any other relevant factors.

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

Long-term incentive: share awards

We have a number of share option and long-term share incentive plans that are designed to align the interests of employees with those of stakeholders and long-term organisational interests, and to build material share ownership over the long term through share awards. These share option and incentive plans are also used in appropriate circumstances as a retention mechanism for key talent.

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

In principle all employees are eligible for long-term incentives. Awards are considered by the remuneration committee and made only in the 42-day period following the release of our interim or final financial results in accordance with the Association of British Insurers (ABI) guidelines. These awards comprise three elements, namely:

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

All proposed long-term incentive awards (LTIPs) are recommended by business unit management, approved by the staff share executive committee and then the remuneration committee before being awarded.

LTIP awards are subject to 75% vesting at the end of four years and the final 25% at the end of the fifth year, which we believe is appropriate for our business requirements. The awards are forfeited on termination, but 'good leaver' discretion is applied in exceptional circumstances.

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

For further information on the share option and long-term share incentive plans in operation and in which the directors are eligible to participate refer to our website.

Non-executive directors' remuneration

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

Governance

Compliance and governance statement

The remuneration report complies with the provisions of the South African King III Code of Corporate Practice and Conduct, the South African Companies Act 2008 and the JSE Limited listings requirements.

Scope of our remuneration policy

The bank aims to apply remuneration policies to executive directors and employees that are largely consistent across the bank, but recognises that certain parts of the bank are governed by local regulations that may contain more onerous requirements in certain respects. In those cases, the higher requirements are applied to that part of the bank. Additionally, where any aspect of our remuneration policy contravenes local laws or regulations, the local laws or regulations shall prevail.

Audited information

Directors' annual remuneration

	Salaries, directors' fees and other remuneration 2013 R	Annual bonus 2013* R	Total remuneration expense 2013 R	Salaries, directors fees and other remuneration 2012 R	Annual bonus 2012* R	Total remuneration 2012 R
Executive directors						
S Koseff (chief executive officer)	1 818 603	1 946 883	3 765 486	1 590 158	–^	1 590 158
B Kantor (managing director)	1 202 382	2 930 792	4 133 174	1 051 843	–^	1 051 843
DM Lawrence (deputy chairman)	2 547 577	3 600 000	6 147 577	2 433 637	3 150 000	5 583 637
GR Burger (group risk and finance director)	1 861 667	5 250 000	7 111 667	1 775 000	–^	1 775 000
B Tapnack	1 667 500	2 250 000	3 917 500	1 587 500	1 800 000	3 387 500
Total in Rand	9 097 729	15 977 675	25 075 404	8 438 138	4 950 000	13 388 138
Non-executive directors						
F Titi (chairman)	1 512 280	–	1 512 280	2 413 235	–	2 413 235
SE Abrahams	2 028 387	–	2 028 387	1 863 415	–	1 863 415
D Friedland^^	–	–	–	–	–	–
MP Malungani	696 831	–	696 831	690 317	–	690 317
KXT Socikwa	443 000	–	443 000	425 000	–	425 000
PRS Thomas	1 218 246	–	1 218 246	1 113 035	–	1 113 035
B Tshili	370 000	–	370 000	355 000	–	355 000
Total in Rand	6 268 744	–	6 268 744	6 860 002	–	6 860 002
Total in Rand	15 366 473	15 977 675	31 344 148	15 298 140	4 950 000	20 248 140

* *As discussed on page 89, a portion of the bonus is received in cash and a portion is deferred with reference to the value of a pre-determined number of Investec Limited shares over a three-year period.*

^ *S Koseff, B Kantor and GR Burger waived their bonuses in respect of the year ended 31 March 2012.*

^^ *D Friedland was appointed on 1 March 2013.*

Directors' shareholdings in Investec plc and Investec Limited shares as at 31 March 2013

	Beneficial and non-beneficial interest Investec plc[2]		% of shares in issue[1]	Beneficial and non-beneficial interest Investec Limited[3]		% of shares in issue[1]
	1 April 2012	31 March 2013	31 March 2013	1 April 2012	31 March 2013	31 March 2013
Executive directors						
S Koseff (chief executive officer)	4 839 133	4 589 355	0.8%	1 809 330	1 809 399	0.6%
B Kantor (managing director)	63 980	57 980	–	3 801 000	4 201 000	1.5%
GR Burger (group risk and finance director)	2 402 135	2 402 135	0.4%	1 037 076	737 076	0.3%
DM Lawrence (deputy chairman)	799 410	799 410	0.1%	200 590	100 590	–
B Tapnack	75 595	75 595	–	40 000	40 000	–
Total number	8 180 253	7 924 475	1.3%	6 887 996	6 888 065	2.4%
Non-executive directors						
F Titi (chairman)	–	–	–	–	–	–
SE Abrahams	–	–	–	–	–	–
MP Malungani	–	–	–	–	–	–
KXT Socikwa	–	–	–	250	250	–
PRS Thomas	195 800	195 800	–	500	500	–
B Tshili	–	–	–	–	–	–
Total number	195 800	195 800	–	750	750	–
Total number	8 376 053	8 120 275	1.3%	6 888 746	6 888 815	2.4%

1. *The issued share capital of Investec plc and Investec Limited at 31 March 2013 was 605.2 million and 279.6 million shares, respectively.*
2. *The market price of an Investec plc share as at 31 March 2013 was £4.59 (2012: £3.82), ranging from a low of £3.10 to a high of £5.14 during the financial year.*
3. *The market price of an Investec Limited share as at 31 March 2013 was R64.26 (2012: R47.16), ranging from a low of R41.31 to a high of R69.89 during the financial year.*

Directors' interest in preference shares as at 31 March 2013

	Investec Bank Limited		Investec Limited		Investec plc	
	1 April 2012	31 March 2013	1 April 2012	31 March 2013	1 April 2012	31 March 2013
S Koseff	4 000	4 000	3 000	3 000	101 198	101 198
DM Lawrence	4 000	4 000	5 400	5 400	–	–
B Tapnack	2 000	2 000	3 800	8 620	9 058	9 058

- *The market price of an Investec plc preference share as at 31 March 2013 was R56.00 (2012: R45.00).*
- *The market price of an Investec Limited preference share as at 31 March 2013 was R85.10 (2012: R93.41).*
- *The market price of an Investec Bank Limited preference share as at 31 March 2013 was R91.90 (2012: R98.25).*

Directors' interest in options as at 31 March 2013

Investec plc shares

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

Investec Limited shares

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

Directors' interest in long-term incentive plans as at 31 March 2013

Investec Limited shares

	Date of grant	Exercise price	Number of Investec Limited shares at 1 April 2012	Exercised during the year	Options granted/ lapsed during the year	Balance at 31 March 2013	Period exercisable
DM Lawrence	25 June 2009	Nil	100 000	–	–	100 000	75% is exercisable on 25 June 2013 and 25% on 25 June 2014
	1 July 2010	Nil	100 000	–	–	100 000	75% is exercisable on 1 July 2014 and 25% on 1 July 2015
B Tapnack	23 December 2011	Nil	100 000	–	–	100 000	75% is exercisable on 23 December 2015 and 25% on 23 December 2016

These options are not subject to any performance conditions.

Directors' interest in the Share Matching Plan 2005 as at 31 March 2013

	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2012	Exercised during the year	Options granted/ lapsed during the year	Balance at 31 March 2013	Market price at date of exercise	Gross gains made on date of exercise	Period exercisable
S Koseff	25 June 2009	Nil	300 000		(300 000)	–			The entire award was forfeited on 25 June 2012^
	1 July 2010	Nil	750 000	–	–	750 000*			The entire award will be forfeited on 1 July 2013
B Kantor	25 June 2009	Nil	300 000		(300 000)	–			The entire award was forfeited on 25 June 2012^
	1 July 2010	Nil	750 000	–	–	750 000*			The entire award will be forfeited on 1 July 2013
GR Burger	25 June 2009	Nil	300 000		(300 000)	–			The entire award was forfeited on 25 June 2012^
	1 July 2010	Nil	750 000	–	–	750 000*			The entire award will be forfeited on 1 July 2013

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

* *The performance conditions in respect of the awards made on 1 July 2010 have not been met and accordingly the awards will be forfeited on 1 July 2013.*

This plan was approved by shareholders at an extraordinary general meeting held on 14 November 2005.

Further details on the plan are available on our website.

South African Companies Act, 2008 disclosures

Subsequent to regulatory developments in South Africa, Investec Bank Limited is required to disclose the remuneration of those individuals that are defined by the South African Companies Act No 71 of 2008 as amended, read together with the Companies Regulations 2011 (together the Act), as Prescribed Officers.

The bank operates as a specialist bank within Southern Africa and in keeping with the integrated management structure, the Prescribed Officers for Investec Bank Limited, as per the Act are the following three executive directors:

- Stephen Koseff
- Bernard Kantor
- Glynn Burger.

For disclosure of their remuneration, refer to page 91 of the remuneration report.

Unaudited information

Pillar III remuneration disclosures

The bank is required to make certain quantitative and qualitative remuneration disclosures on an annual basis in terms of the South African Reserve Bank's Basel Pillar III Disclosure requirements.

The bank's qualitative remuneration disclosures are provided on pages 86 to 90 and further information is provided in the Investec group's 2013 annual report.

The information contained in the tables below sets out the bank's quantitative disclosures for the year ended 31 March 2013.

Aggregate remuneration by remuneration type

R'million	Senior management^	Risk takers^	Financial and risk control staff^	Total
Fixed remuneration	49.6	60.8	8.7	119.1
Variable remuneration*				
– Cash	101.6	57.3	54.0	212.9
– Deferred shares	104.3	46.5	1.8	152.6
– Deferred shares – long-term incentive awards^^	41.9	10.5	27.2	79.6
Other				
– Options – long-term incentive awards made in current year**	2.6	1.5	1.8	5.9
– Options – long-term incentive awards made in prior years**	48.9	20.6	15.7	85.2
Total aggregate remuneration and deferred incentives^^	348.9	197.2	109.2	655.3

* *Total number of employees receiving variable remuneration was 323.*

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

^ *Senior management: all members of our South African general management forum, excluding executive directors.*
Risk takers: includes anyone (not categorised above) who is deemed to be responsible for a division/function (e.g. lending, balance sheet management, advisory and transactional banking activities) which could be incurring risk on behalf of the bank.
Financial and risk control staff: includes everyone in central Group Finance and central Group Risk as well as employees responsible for risk and finance functions within the operating business units.

^^ *All employees are subject to clawback provisions as discussed on page 90. No remuneration was reduced for ex post implicit adjustments during the year.*

Additional disclosure on deferred variable remuneration

R'million	Senior management^	Risk takers^	Financial and risk control staff^	Total
Deferred unvested remuneration outstanding at the beginning of the year	208.3	60.8	8.7	277.8
Deferred unvested remuneration adjustment – employees that are no longer employed by the bank	(3.7)	–	–	(3.7)
Deferred remuneration awarded in year	146.2	57.0	29.0	232.2
Deferred remuneration reduced in year through performance adjustments	–	–	–	–
Deferred remuneration vested in year	–	–	–	–
Deferred unvested remuneration outstanding at the end of the year^^	**350.8**	**117.8**	**37.7**	**506.3**

^^ *All employees are subject to clawback provisions as discussed on page 90. No remuneration was reduced for ex post implicit adjustments during the year.*

Unaudited R'million	Senior management^	Risk takers^	Financial and risk control staff^	Total
Deferred unvested remuneration outstanding at the end of the year				
– Equity	283.7	94.6	8.9	387.2
– Cash	–	–	–	–
– Other	–	–	–	–
	283.7	94.6	8.9	387.2

Unaudited R'million	Senior management^	Risk takers^	Financial and risk control staff^	Total
Deferred remuneration vested in year				
– For awards made in 2012 financial year	–	–	–	–
– For awards made in 2011 financial year	(70.4)	(12.7)	(1.6)	(84.7)
– For awards made in 2010 financial year	–	–	–	–
	(70.4)	(12.7)	(1.6)	(84.7)

Other remuneration disclosures

	Senior management^	Risk takers^	Financial and risk control staff^	Total
Sign-on payments				
Made during the year (R'million)	–	–	–	–
Number of beneficiaries	–	–	–	–
Severance payments				
Made during the year (R'million)	–	–	–	–
Number of beneficiaries	–	–	–	–
Guaranteed bonuses*				
Made during the year (R'million)	–	–	–	–
Number of beneficiaries	–	–	–	–

* *Included in variable remuneration as reflected on page 94.*

^ ***Senior management:*** *all members of our South African general management forum, excluding executive directors.*
Risk takers: *includes anyone (not categorised above) who is deemed to be responsible for a division/function (e.g. lending, balance sheet management, advisory and transactional banking activities) which could be incurring risk on behalf of the bank.*
Financial and risk control staff: *includes everyone in central Group Finance and central Group Risk as well as employees responsible for risk and finance functions within the operating business units.*
The number of people in each category is as follows: senior management 22; risk takers 18 and financial and risk control staff 294.

Annual financial
statements

Directors' responsibility statement

The directors are responsible for the preparation and fair presentation of the group annual financial statements and the annual financial statements of Investec Bank Limited, comprising the balance sheets at 31 March 2013, and the income statements and statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report, in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act 71 of 2008, as amended.

The directors are also responsible 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, and for maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these financial statements.

The directors have made an assessment of the ability of the company and its subsidiaries to continue as going concerns and have no reason to believe that the businesses will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the group annual financial statements and annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of group annual financial statements and annual financial statements

The group annual financial statements and annual financial statements of Investec Bank Limited, as identified in the first paragraph, were approved by the board of directors on 11 June 2013 and signed on its behalf by:

Fani Titi Chairman	Stephen Koseff Chief executive officer

11 June 2013

Declaration by the company secretary

In terms of section 88(2)(e) of the South African Companies Act No 71 of 2008, as amended (the Act), I hereby certify that, to the best of my knowledge and belief, Investec Bank Limited has lodged with the Companies and Intellectual Property Commission, for the financial year ended 31 March 2013, all such returns as are required in terms of the Act and that all such returns are true, correct and up to date.

Benita Coetsee
Company secretary, Investec Bank Limited

11 June 2013

Independent auditor's report to the members of Investec Bank Limited

To the shareholder of Investec Bank Limited

Report on the financial statements

We have audited the group annual financial statements and the annual financial statements of Investec Bank Limited, which comprise the consolidated and separate balance sheets as at 31 March 2013 and the consolidated and separate income statements, statements of total comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of accounting policies and other explanatory notes, and the directors' report, as set out on pages 99 to 175 and the specified disclosures within the risk management and remuneration report that are marked as audited.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and presentation of these financial statements in accordance with the recognition and measurement principles of International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Auditor's 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, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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, these consolidated and annual financial statements present fairly, in all material respects, the financial position of Investec Bank Limited at 31 March 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 31 March 2013, we have read the company secretary's declaration for the purpose of identifying whether there are material inconsistencies between this report and the audited financial statements. This report is the responsibility of the respective preparer. Based on reading this report we have not identified material inconsistencies between this report and the audited financial statements. However, we have not audited this report and accordingly do not express an opinion on this report.

Ernst & Young Inc

Ernst & Young
Registered Auditor

Per Farouk Mohideen
Chartered Accountant (SA)
Registered Auditor
Director

Wanderers Office Park
52 Corlett Drive Illovo

Johannesburg
11 June 2013

KPMG Inc.

KPMG Inc.
Registered Auditor

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

KPMG Crescent
85 Empire Road Parktown

Johannesburg
11 June 2013

Directors' report

Nature of business

Investec Bank Limited is a specialist bank providing a diverse range of financial products and services to a niche client base in South Africa and Mauritius.

Financial results

The group and company financial results of Investec Bank Limited are set out in the financial statements and accompanying notes for the year ended 31 March 2013.

A review of the operations for the year can be found on pages 11 to 21.

The preparation of the group and company annual financial statements was supervised by the group risk and finance director, Glynn Burger.

Authorised and issued share capital

Details of the share capital are set out in note 40 and 41 to the financial statements.

Ordinary dividends

The following dividends were declared and paid during the year:

- R100 000 000 was declared on 13 June 2012 and paid on 14 June 2012
- R547 600 000 was declared on 26 July 2012 and paid on 26 July 2012
- R200 000 000 was declared on 13 December 2012 and paid on 14 December 2012.

Preference dividends

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

Preference dividend number 19 for the six months ended 30 September 2012, amounting to 367.67936 cents per share, was declared to members holding preference shares registered on 7 December 2012 and was paid on 18 December 2012.

Preference dividend number 20 for the six months ended 31 March 2013, amounting to 353.18222 cents per share, was declared to members holding preference shares registered on 14 June 2013 and will be paid on 25 June 2013.

Directors

Details of the directors are reflected on pages 80 and 84.

Messrs S Koseff, SE Abrahams, KXT Socikwa and CB Tshili retire by rotation in terms of the Memorandum of Incorporation and being eligible, offer themselves for re-election.

D Friedland was appointed to the board on 1 March 2013. His appointment terminates at the end of the first annual general meeting after the effective date of his appointment and therefore he stands to be elected at the annual general meeting on 8 August 2013.

Directors' shareholdings

No director holds any ordinary shares in Investec Bank Limited.

Directors' shareholdings in Investec Limited and Investec plc and in Investec Bank Limited's preference shares are set out on pages 92 and 93.

Directors' remuneration

Directors' remuneration is disclosed on pages 86 to 95.

Company secretary and registered office

The company secretary is Benita Coetsee.

The registered office is c/o Company Secretarial, Investec Limited, 100 Grayston Drive, Sandown, Sandton 2196.

Audit committee

As allowed under the Companies Act No 71 of 2008, as amended, and the Banks Act No 96 of 1990, as amended, the audit committee of Investec Limited performs the necessary functions required on behalf of Investec Bank Limited.

An audit committee comprising non-executive directors meets regularly with senior management, the external auditors, Operational Risk, the Internal Audit, Compliance and the Finance division, to consider the nature and scope of the audit reviews and the effectiveness of the group's risk and control systems. Further details on the role and responsibilities of the audit committee are set out in the Investec group's 2013 annual report.

Social and ethics committee

As allowed under the Companies Act No 71 of 2008, as amended, the social and ethics committee of the group performs the necessary functions required on behalf of Investec Bank Limited.

Auditors

KPMG Inc. and Ernst & Young Inc. have expressed their willingness to continue in office as joint auditors. A resolution to re-appoint KPMG Inc. and Ernst & Young Inc. as joint auditors will be proposed at the annual general meeting taking place on 8 August 2013.

Holding company

The bank's holding company is Investec Limited.

Major shareholders

Investec Limited owns 100% of the issued ordinary shares.

Subsidiary and associated companies

Details of principal subsidiary companies are reflected on page 160 and the associate companies on page 156.

The interest of the company in the aggregate profits after taxation of its subsidiary companies is R414.0 million (2012: R388.6 million) and its share in aggregate losses is R20.1 million (2012: R27.1 million).

Special resolutions

At the annual general meeting of members held on 2 August 2012, the following special resolutions were passed in terms of which:

- A general approval was granted for the acquisition by Investec Bank Limited or its subsidiaries of ordinary shares and non-redeemable, non-cumulative, non-participating preference shares issued by Investec Bank Limited
- The board of directors of Investec Bank Limited may authorise Investec Bank Limited to provide direct or indirect financial assistance by way of loan, guarantee, the provision of security or otherwise, not in the ordinary course of business
- The remuneration of the non-executive directors was approved for a period of 24 months from the date of passing the special resolution
- A separate class meeting of holders, approving the amendment of the Article 150.1.9 and the insertion of the new Article 150.1.9 in the company's Memorandum of Incorporation.

Accounting policies and disclosure

Accounting policies are set having regard to commercial practice and comply with the applicable South African law and International Financial Reporting Standards.

These policies are set out on pages 109 to 117.

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

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

Further information is provided in the Investec group's 2013 annual report.

Empowerment and transformation

In South Africa, transformation and black economic empowerment remain high on the corporate agenda. Our approach is to utilise our own entrepreneurial expertise to foster the creation of new black entrepreneurial platforms, and continue to be one of the prime sources of empowerment financing. We also recognise the need for our own internal transformation and are bringing about greater representivity within our work place by creating black entrepreneurs within the organisation.

Environment

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

Further information is provided in the Investec group's 2013 annual report.

Subsequent events

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

Fani Titi Chairman	Stephen Koseff Chief executive officer

11 June 2013

Income statements

For the year to 31 March R'million	Notes	Group 2013	Group 2012	Company 2013	Company 2012
Interest income	1	15 809	15 850	14 980	14 924
Interest expense	1	(10 926)	(11 581)	(10 649)	(11 060)
Net interest income		4 883	4 269	4 331	3 864
Fee and commission income	2	1 051	1 146	982	1 100
Fee and commission expense	2	(109)	(91)	(100)	(85)
Investment income	3	459	589	349	500
Trading income arising from					
– customer flow		119	259	126	261
– balance sheet management and other trading activities		220	175	220	179
Other operating (loss)/income	4	(3)	10	(7)	1
Total operating income before impairment losses on loans and advances		6 620	6 357	5 901	5 820
Impairment losses on loans and advances	25	(868)	(833)	(844)	(762)
Operating income		5 752	5 524	5 057	5 058
Operating costs	5	(3 629)	(3 351)	(3 379)	(3 128)
Profit before taxation		2 123	2 173	1 678	1 930
Taxation	7	(245)	(215)	(191)	(331)
Profit after taxation		1 878	1 958	1 487	1 599

Statements of comprehensive income

For the year to 31 March R'million	Notes	Group 2013	Group 2012	Company 2013	Company 2012
Profit after taxation		1 878	1 958	1 487	1 599
Other comprehensive income:					
Fair value movements on cash flow hedges taken directly to other comprehensive income	7	(194)	(354)	(194)	(354)
Fair value movements on available-for-sale assets taken directly to other comprehensive income	7	86	84	86	84
Gain on realisation of available-for-sale assets recycled through the income statement	7	(39)	(42)	(39)	(42)
Foreign currency adjustments on translating foreign operations		441	229	–	3
Total comprehensive income		2 172	1 875	1 340	1 290
Total comprehensive income attributable to ordinary shareholders		2 063	1 771	1 231	1 186
Total comprehensive income attributable to perpetual preference shareholders		109	104	109	104
Total comprehensive income		2 172	1 875	1 340	1 290

Balance sheets

At 31 March R'million	Notes	Group 2013	Group 2012	Company 2013	Company 2012
Assets					
Cash and balances at central banks	16	5 677	9 303	5 635	9 274
Loans and advances to banks	17	23 278	19 191	20 123	17 505
Non-sovereign and non-bank cash placements		5 875	7 885	5 875	7 885
Reverse repurchase agreements and cash collateral on securities borrowed	18	7 668	5 098	7 668	5 098
Sovereign debt securities	19	33 730	30 222	33 730	30 222
Bank debt securities	20	20 969	27 695	19 848	26 734
Other debt securities	21	6 258	6 284	5 286	5 665
Derivative financial instruments	22	12 161	10 595	11 883	10 387
Securities arising from trading activities	23	1 357	1 628	1 357	1 628
Investment portfolio	24	9 102	6 036	8 969	5 897
Loans and advances to customers	25	135 726	122 615	124 327	114 497
Own originated loans and advances to customers securitised	26	2 379	2 302	919	913
Other loans and advances	25	672	669	672	669
Other securitised assets	26	1 168	1 057	414	410
Interest in associated undertakings	27	45	38	–	–
Deferred taxation assets	28	55	46	–	–
Other assets	29	1 166	1 074	865	775
Property and equipment	30	224	308	220	296
Investment properties	31	1	5	1	1
Intangible assets	32	90	96	89	94
Loans to group companies	33	11 673	3 805	11 840	5 233
Investment in subsidiaries	34	–	–	5 755	3 882
		279 274	255 952	265 476	247 065
Liabilities					
Deposits by banks		17 861	13 933	17 688	13 776
Derivative financial instruments	22	9 232	8 570	9 232	8 570
Other trading liabilities	35	1 063	172	1 063	172
Repurchase agreements and cash collateral on securities lent	18	18 188	18 174	17 089	18 174
Customer accounts (deposits)		185 311	176 094	179 172	173 039
Debt securities in issue	36	4 091	1 738	3 261	901
Liabilities arising on securitisation of own originated loans and advances	26	2 933	2 933	919	913
Liabilities arising on securitisation of other assets	26	588	492	–	–
Current taxation liabilities	37	1 142	1 113	1 315	1 120
Deferred taxation liabilities	28	61	9	54	3
Other liabilities	38	2 799	3 082	2 648	2 893
		243 269	226 310	232 441	219 561
Subordinated liabilities	39	12 496	8 709	12 496	8 709
		255 765	235 019	244 937	228 270
Equity					
Ordinary share capital	40	32	29	32	29
Share premium	40/42	14 885	13 527	14 885	13 527
Other reserves		175	(119)	(332)	(185)
Retained income		8 417	7 496	5 954	5 424
Total equity		23 509	20 933	20 539	18 795
Total liabilities and equity		279 274	255 952	265 476	247 065

Statements of changes in equity

R'million	Ordinary share capital	Share premium
Group		
At 1 April 2011	27	11 845
Movement in reserves 1 April 2011 – 31 March 2012		
Profit after taxation	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–
Gain on realisation of available-for-sale assets recycled through the income statement	–	–
Foreign currency adjustments on translating foreign operations	–	–
Total comprehensive income for the year	–	–
Issue of ordinary shares	2	1 682
Dividends paid to ordinary shareholders	–	–
Dividends paid to perpetual preference shareholders	–	–
Transfer from retained earnings to regulatory general risk reserve	–	–
At 31 March 2012	29	13 527
Movement in reserves 1 April 2012 – 31 March 2013		
Profit after taxation	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–
Gain on realisation of available-for-sale assets recycled through the income statement	–	–
Foreign currency adjustments on translating foreign operations	–	–
Total comprehensive income for the year	–	–
Issue of ordinary shares	3	1 358
Dividends paid to ordinary shareholders	–	–
Dividends paid to perpetual preference shareholders	–	–
At 31 March 2013	32	14 885

Other reserves					
Regulatory general risk reserve	Available-for-sale-reserve	Cash flow hedge reserve	Foreign currency reserve	Retained income	Total equity
259	21	102	(482)	7 065	18 837
–	–	–	–	1 958	1 958
–	–	(354)	–	–	(354)
–	84	–	–	–	84
–	(42)	–	–	–	(42)
–	–	–	229	–	229
–	42	(354)	229	1 958	1 875
–	–	–	–	–	1 684
–	–	–	–	(1 359)	(1 359)
–	–	–	–	(104)	(104)
64	–	–	–	(64)	–
323	63	(252)	(253)	7 496	20 933
–	–	–	–	1 878	1 878
–	–	(194)	–	–	(194)
–	86	–	–	–	86
–	(39)	–	–	–	(39)
–	–	–	441	–	441
–	47	(194)	441	1 878	2 172
–	–	–	–	–	1 361
–	–	–	–	(848)	(848)
–	–	–	–	(109)	(109)
323	110	(446)	188	8 417	23 509

Statements of changes in equity (continued)

R'million	Ordinary share capital	Share premium
Company		
At 1 April 2011	27	11 845
Movement in reserves 1 April 2011 – 31 March 2012		
Profit after taxation	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–
Gain on realisation of available-for-sale assets recycled through the income statement	–	–
Foreign currency adjustments on translating foreign operations	–	–
Total comprehensive income for the year	–	–
Issue of ordinary shares	2	1 682
Dividends paid to ordinary shareholders	–	–
Dividends paid to perpetual preference shareholders	–	–
At 31 March 2012	29	13 527
Movement in reserves 1 April 2012 – 31 March 2013		
Profit after taxation	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–
Gain on realisation of available-for-sale assets recycled through the income statement	–	–
Total comprehensive income for the year	–	–
Issue of ordinary shares	3	1 358
Dividends paid to ordinary shareholders	–	–
Dividends paid to perpetual preference shareholders	–	–
At 31 March 2013	32	14 885

Other reserves				
Available-for-sale-reserve	Cash flow hedge reserve	Foreign currency reserve	Retained income	Total equity
22	102	–	5 288	17 284
–	–	–	1 599	1 599
–	(354)	–	–	(354)
84	–	–	–	84
(42)	–	–	–	(42)
–	–	3	–	3
42	(354)	3	1 599	1 290
–	–	–	–	1 684
–	–	–	(1 359)	(1 359)
–	–	–	(104)	(104)
64	(252)	3	5 424	18 795
–	–	–	1 487	1 487
–	(194)	–	–	(194)
86	–	–	–	86
(39)	–	–	–	(39)
47	(194)	–	1 487	1 340
–	–	–	–	1 361
–	–	–	(848)	(848)
–	–	–	(109)	(109)
111	(446)	3	5 954	20 539

Cash flow statements

For the year to 31 March R'million	Notes	Group 2013	Group 2012	Company 2013	Company 2012
Cash flows from operating activities					
Operating profit adjusted for non-cash items	44	3 102	3 100	2 630	2 781
Taxation (paid)/received		(188)	(470)	41	(418)
Increase in operating assets	44	(33 456)	(24 511)	(28 752)	(21 614)
Increase in operating liabilities	44	15 982	30 234	12 634	29 365
Net cash (outflow)/inflow from operating activities		(14 560)	8 353	(13 447)	10 114
Cash flows from investing activities					
Net investment in property, equipment and intangible assets		(59)	(146)	(67)	(135)
Net investment in associates		1	109	–	–
Net decrease in investment in subsidiaries		–	–	(1 873)	(2 875)
Net cash outflow from investing activities		(58)	(37)	(1 940)	(3 010)
Cash flows from financing activities					
Proceeds on issue of shares, net of related costs		1 361	1 684	1 361	1 684
Dividends paid to ordinary shareholders		(848)	(1 359)	(848)	(1 359)
Dividends paid to perpetual preference shareholders		(109)	(104)	(109)	(104)
Net inflow on subordinated debt raised		3 787	1 843	3 787	1 843
Net cash inflow from financing activities		4 191	2 064	4 191	2 064
Effects of exchange rates on cash and cash equivalents		406	146	–	–
Net (decrease)/increase in cash and cash equivalents		(10 021)	10 526	(11 196)	9 168
Cash and cash equivalents at the beginning of the year		24 994	14 468	23 433	14 265
Cash and cash equivalents at the end of the year		14 973	24 994	12 237	23 433
Cash and cash equivalents is defined as including:					
Cash and balances at central banks		5 677	9 303	5 635	9 274
On demand loans and advances to banks		3 421	7 806	727	6 274
Non-sovereign and non-bank cash placements		5 875	7 885	5 875	7 885
Cash and cash equivalents at the end of the year		14 973	24 994	12 237	23 433

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

Accounting policies

Basis of presentation

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

The group and company financial statements 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, that have been measured at fair value.

Accounting policies applied are consistent with those of the prior year. 'Group' refers to group and company in the accounting policies that follow.

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 23 to 75.

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 Limited and Investec plc.

Basis of consolidation

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 income statement 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.

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

In circumstances where 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.

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

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

Segmental reporting

An operating segment is a component of the group 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.

No additional disclosures have been provided regarding the segmental results as the bank only has one segment.

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 the 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 re-measured 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. The group tests goodwill acquired in a business combination for impairment annually, irrespective of whether an indication of impairment exists and in accordance with IAS 36.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units that are expected to benefit from the combination.

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

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

Share-based payments to employees

The group engages in equity-settled share-based payments.

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 increase in equity is offset by a payment made to the holding company of Investec Bank Limited for the provision of the equity-settled shares.

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

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

Foreign currency transactions and foreign operations

The presentation currency of the group is South African Rand, being the functional currency of Investec in which the group mainly operates, except Mauritius which is in US Dollars.

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

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

- Foreign currency monetary items (other than monetary items that form part of the net investment in a foreign operation) are translated using closing rates, with gains and losses recognised in the income statement
- Exchange differences arising on monetary items that form part of the net investment in a foreign operation are determined using closing rates and recognised as a separate component of equity (foreign currency translation reserve) upon consolidation and is recognised in the income statement upon disposal of the net investment
- Non-monetary items that are measured at historical 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 measured at the fair value of the consideration received or receivable.

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 are shown net of the funding costs of the underlying positions and includes the unrealised profits on trading portfolios, which are marked to market daily. Equity investments received in lieu of corporate finance fees are included in investment portfolio 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 and income from interests in associated undertakings.

Financial instruments

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

Regular way purchase and sales transactions in respect of financial assets that require delivery of a financial instrument within the time frame established by market convention are recorded at settlement 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 or loss are designated as such on initial recognition of the instrument and remain in this classification until derecognition.

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 inconsistency 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 or 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 as available-for-sale instruments.

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.

Securitisation/credit investment and trading activities exposures

The group makes use of securitisation vehicles as a source of finance, as a means

of risk transfer and to leverage returns through the retention of equity tranches in low default rate portfolios. The group predominately focuses on the securitisation of residential and commercial mortgages. The group also trades in structured credit investments.

Loans and advances that are originated are transferred to the SPE, and the SPE issues debt securities to external investors to fund the purchase of the securitised assets. The group's exposure to the SPE is the reserves provided as credit enhancement to the holders of the SPEs debt securities, with the first loss position treated as a long-term interest rate borrowing to the SPEs.

The SPEs are consolidated under SIC-12 Special Purpose Entities when the group does not transfer the majority of risks and rewards related to the underlying asset transferred to the SPEs. Where the group has transferred the right to receive the cash flows from the securitised assets, substantially all risks and the group retains no control over the assets, full derecognition of the securitised assets will occur.

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, 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. Refer to the 'Day 1' profit or loss accounting policy.

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 arm's 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 or over the life of the transaction.

Impairments of financial assets held at amortised cost

Financial assets carried at amortised cost are impaired if there is objective evidence that the group would not receive cash flows according to the original contractual terms. Financial assets are assessed for objective evidence of impairment at least at each balance sheet reporting date.

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

Impairments are credited to an allowance account which is carried against the carrying value of financial assets. Interest continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or 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 expected 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 risk and rewards associated with the financial assets or (b) the group has neither transferred nor retained substantially all the risks and rewards associated with the financial assets but has transferred control of the asset.

A financial liability is derecognised when it is extinguished, that is when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced or modified with substantially different terms, such a replacement or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

Reclassification of financial instruments

The group may reclassify, in rare 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.

Credit derivatives

Credit derivatives are entered into largely for trading purposes. Credit derivatives of the group are initially recognised at their fair values, being the transaction price of the derivative. Subsequently the derivatives are carried at fair value, with movements in fair value through profit and loss, based on the remeasured price.

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 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.

Sale and repurchase agreements (including securities borrowing and lending)

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

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

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

Financial guarantees

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

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

Instalment credit, leases and rental agreements

A finance lease is a lease that transfers substantially all of the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a financial lease.

Where classified as a finance lease, amounts outstanding on these contracts, net of unearned finance charges, are included in loans and advances where the group is the lessor and included in liabilities where the group 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 maintenance and service costs 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 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 eight years). The depreciable amount related to each intangible asset is determined as the difference between the cost and the residual value of the asset. The residual value is the estimated amount, net of disposal costs, which the group 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 are recognised in income in the period in which the reversal is identified, to the extent that the carrying value of the asset does not exceed the amount 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 recognised 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.

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

The group 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 Consolidated 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. The impact of the adoption of IFRS 10 on the group 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, thus removing the option to proportionately consolidate. The standard is retrospectively effective for the group for the year commencing 1 April 2013. 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. The impact of the standard is further disclosure, with no changes to measurement or recognition requirements.

IFRS 13 – Fair Value Measurement

This standard defines fair value (being a market-based measurement) and sets out in a single IFRS a framework for measuring fair value. This standard requires extensive disclosure about fair value measurements, inclusive of non-financial instruments that are subject to fair value measurement. The standard is prospectively effective for the group for the year commencing 1 April 2013. The impact of the adoption is currently under evaluation.

IFRS 9 – Financial Instruments

IFRS 9: Financial Instruments will replace certain key elements of IAS 39 when finally issued. The two key elements that would impact the group's accounting policies include:

- Classification and measurement of financial assets and financial liabilities – the standard requires that all financial assets be classified as either held at fair value 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 arise solely 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. With reference to financial liabilities held at fair value, the standard proposes that changes to fair value attributable to credit risk is taken directly to other comprehensive income without recycling. These are current deliberations which may result in 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. Revisions to the methodology are subject to deliberation, with expected amendments to IFRS 9 in 2013.

The standard is effective for the group for the year commencing 1 April 2015, and does not require the restatement of 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 the most relevant observable market inputs, adjusted where necessary 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 49 to 52.

- Valuation of investment properties is performed twice annually by directors that are qualified valuators. The valuation is performed by capitalising the budgeted net income of a property at the market related yield applicable at the time.

Refer to note 31 for the carrying value of investment property with further analysis contained in the risk management section on pages 49 to 52.

- The determination of impairments against assets that are carried at amortised cost and impairments relating to available-for-sale financial assets involves the assessment of future cash flows which is judgemental in nature.

Refer to pages 41 to 48 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 to 31 March R'million	Notes	Group 2013 Balance sheet value	Group 2013 Interest received	Group 2012 Balance sheet value	Group 2012 Interest received	Company 2013 Balance sheet value	Company 2013 Interest received	Company 2012 Balance sheet value	Company 2012 Interest received
1. Net interest income									
Cash, near cash and bank debt and sovereign debt securities	1	97 197	4 245	99 394	4 493	92 879	4 174	96 718	4 451
Core loans and advances	2	138 105	11 149	124 917	10 633	125 245	10 203	115 410	9 880
Private Client		92 563	7 185	92 359	7 667	86 713	6 802	87 873	7 384
Corporate, institutional and other clients		45 542	3 964	32 558	2 966	38 532	3 401	27 537	2 496
Other debt securities and other loans and advances		6 930	266	6 953	256	5 958	197	6 334	183
Other interest earning assets	3	12 841	149	4 862	468	17 236	406	5 643	410
Total interest earning assets		255 073	15 809	236 126	15 850	241 318	14 980	224 105	14 924

For the year to 31 March R'million	Notes	Group 2013 Balance sheet value	Group 2013 Interest paid	Group 2012 Balance sheet value	Group 2012 Interest paid	Company 2013 Balance sheet value	Company 2013 Interest paid	Company 2012 Balance sheet value	Company 2012 Interest paid
Deposits by banks and other debt related securities	4	40 140	(797)	33 845	(661)	38 038	(757)	32 851	(461)
Customer accounts (deposits)		185 311	(8 892)	176 094	(9 773)	179 172	(8 710)	173 039	(9 739)
Other interest bearing liabilities	5	3 521	(419)	3 425	(370)	919	(364)	913	(84)
Subordinated liabilities		12 496	(818)	8 709	(777)	12 496	(818)	8 709	(776)
Total interest bearing liabilities		241 468	(10 926)	222 073	(11 581)	230 625	(10 649)	215 512	(11 060)
Net interest income			4 883		4 269		4 331		3 864

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

For the year to 31 March R'million	Group		Company	
	2013	2012	2013	2012
2. Net fees and commissions				
Private client transactional fees	424	377	388	336
Corporate and institutional transactional and advisory services	627	769	594	764
Fee and commission income	1 051	1 146	982	1 100
Fee and commission expense	(109)	(91)	(100)	(85)
Net fees and commissions	942	1 055	882	1 015

Fees and commission from trust and fiduciary activities amounts to R20.8 million (2012: R16.0 million) for the group and Rnil (2012: Rnil) for the company, and is included in private client transactional fees.

For the year to 31 March R'million	Asset portfolio				
	Investment portfolio (listed and unlisted equities)*	Debt securities (sovereign, bank and other)	Investment properties	Other asset categories	Total
3. Investment income					
The following table analyses investment income generated by the asset portfolio shown on the balance sheet:					
Group					
2013					
Investment income comprises:					
Realised	512	–	26	10	548
Unrealised	(103)	42	–	–	(61)
Dividend income	159	–	–	–	159
Funding cost and other net related costs	(180)	–	–	(7)	(187)
	388	42	26	3	459
2012					
Investment income comprises:					
Realised	516	11	6	–	533
Unrealised	(152)	27	(2)	–	(127)
Dividend income	383	(1)	–	–	382
Funding cost and other net related costs	(199)	–	–	–	(199)
	548	37	4	–	589

* *Including embedded derivatives (warrants and profit shares).*

For the year to 31 March R'million	Asset portfolio			
	Investment portfolio (listed and unlisted equities)*	Debt securities (sovereign, bank and other)	Other asset categories	Total
3. Investment income (continued)				
Company				
2013				
Investment income comprises:				
Realised	512	–	2	514
Unrealised	(142)	–	–	(142)
Dividend income	159	–	4	163
Funding cost and other net related costs	(179)	–	(7)	(186)
	350	–	(1)	349
2012				
Investment income comprises:				
Realised	528	–	–	528
Unrealised	(238)	–	–	(238)
Dividend income	410	(1)	–	409
Funding cost and other net related costs	(199)	–	–	(199)
	501	(1)	–	500

* *Including embedded derivatives (warrants and profit shares).*

For the year to 31 March R'million	Group		Company	
	2013	2012	2013	2012
4. Other operating (loss)/income				
Rental income from properties	4	3	–	–
(Loss)/gain on sale of assets	(7)	1	(7)	1
Other	–	7	–	–
Operating loss from associates	–	(1)	–	–
	(3)	10	(7)	1

For the year to 31 March R'million	Group 2013	Group 2012	Company 2013	Company 2012
5. Operating costs				
Staff costs	2 269	2 181	2 151	2 072
– Salaries and wages (including directors' remuneration)*	1 811	1 735	1 708	1 640
– Training and other costs	66	53	64	53
– Share-based payments expense	245	279	235	268
– Social security costs	39	14	38	14
– Pensions and provident fund contributions	108	100	106	97
Premises expenses (excluding depreciation)	337	347	300	319
Equipment expenses (excluding depreciation)	314	173	280	146
Business expenses**	364	343	313	295
Marketing expenses	202	171	195	164
Depreciation, amortisation and impairment of property, equipment and intangibles	143	136	140	132
	3 629	3 351	3 379	3 128
The following amounts were paid to the auditors:				
Audit fees	27	25	23	20
Other services	3	–	3	–
	30	25	26	20
Fees by audit firm:				
Ernst & Young Inc	9	9	6	5
KPMG Inc	21	16	20	15
	30	25	26	20

* *Details of the directors' emoluments, pensions and their interests are disclosed in the directors' remuneration report on pages 86 to 95.*

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

For the year to 31 March 2013 R'million	Group 2013	Group 2012	Company 2013	Company 2012
6. Share-based payments				
The group operates share option and long-term incentive plans for employees, which are on an equity-settled basis. The purpose of the staff share schemes is to promote an *esprit de corps* within the organisation, create an awareness of Investec's performance and provide an incentive to maximise individual and group performance by allowing all staff to share in the risks and rewards of the group. Further information on the group share options and long-term incentive plans are provided in the remuneration report and on our website.				
Equity-settled share-based payment expense charged to the income statement	245	279	235	268
Fair value of options granted in the year	257	223	248	215

For the year to 31 March	Group				Company			
	2013		2012		2013		2012	
	Number of share options	Weighted average exercise price R	Number of share options	Weighted average exercise price R	Number of share options	Weighted average exercise price R	Number of share options	Weighted average exercise price R
6. Share-based payments (continued)								
Details of options outstanding during the year								
Outstanding at the beginning of the year	28 119 086	–	27 613 189	0.69	26 971 544	–	26 463 754	0.72
Re-location of employees during the year	196 660	–	894 219	–	192 748	–	894 219	–
Granted during the year	7 274 675	–	6 139 563	–	7 023 875	–	5 906 613	–
Exercised during the year	(3 392 724)	–	(5 244 032)	3.64	(3 125 274)	–	(5 018 589)	3.79
Expired during the year	(1 203 956)	–	(1 283 853)	–	(1 195 018)	–	(1 274 453)	–
Outstanding at the end of the year	30 993 741	–	28 119 086	–	29 867 875	–	26 971 544	–
Exercisable at the end of the year	386 265	–	736 568	–	384 820	–	736 530	–

For the year to 31 March	Group 2013	Group 2012	Company 2013	Company 2012
The exercise price range and weighted average remaining contractual life for the options outstanding were as follows:				
Long-term incentive options with no strike prices				
Exercise price range	Rnil	Rnil	Rnil	Rnil
Weighted average remaining contractual life	2.74 years	2.98 years	2.74 years	2.98 years
Weighted average fair value of options granted at measurement date	R34.88	R36.33	R34.86	R36.33
The fair values of options granted were calculated using a Black-Scholes option pricing model. For options granted during the year, the inputs into the model were as follows:				
– Share price at date of grants	R43.85 – R56.86	R44.00 – R56.29	R43.85 – R56.86	R44.00 – R56.29
– Exercise price	Rnil	Rnil	Rnil	Rnil
– Expected volatility	30%	30%	30%	30%
– Option life	2.5 years – 5 years	5 years	2.5 years – 5 years	5 years
– Expected dividend yields	5.42% – 6.70%	3.87% – 5.33%	5.42% – 6.70%	3.87% – 5.33%
– Risk-free rate	5.46 % – 6.29%	6.44% – 7.58%	5.46 % – 6.29%	6.44% – 7.58%

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

For information on the share options granted to directors, refer to the remuneration report on pages 92 and 93.

For the year to 31 March R'million	Group		Company	
	2013	2012	2013	2012

7. Taxation

	Group 2013	Group 2012	Company 2013	Company 2012
Taxation on income				
South Africa	232	208	191	331
– Current taxation	201	550	154	514
in respect of current year	242	550	195	514
in respect of prior year adjustments	(41)	–	(41)	–
– Deferred taxation	31	(342)	37	(183)
Foreign taxation – Mauritius	13	7	–	–
Total taxation charge as per income statement	**245**	**215**	**191**	**331**
Tax rate reconciliation:				
Profit before taxation as per income statement	2 123	2 173	1 678	1 930
Total taxation charge as per income statement	245	215	191	331
Effective rate of taxation	11.5%	9.9%	11.4%	17.2%
The standard rate of South African normal taxation has been affected by:				
Dividend income	9.6%	13.5%	11.6%	15.5%
Foreign earnings*	3.6%	2.2%	–	–
Prior year tax adjustments	2.0%	–	2.5%	–
Profits of capital nature	4.8%	–	6.1%	–
Utilisation of assessed losses	(0.3%)	–	–	–
Other permanent differences	(3.2%)	2.4%	(3.6%)	(4.7%)
	28.0%	28.0%	28.0%	28.0%

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

For the year to 31 March R'million	Group 2013	Group 2012	Company 2013	Company 2012
7. Taxation (continued)				
Other comprehensive income taxation effects				
Fair value movements on cash flow hedges taken directly to other comprehensive income	(194)	(354)	(194)	(354)
– Pre-taxation	(194)	(371)	(194)	(371)
– Income tax effect	–	17	–	17
Fair value movements on available-for-sale assets taken directly to other comprehensive income	86	84	86	84
– Pre-taxation	111	117	110	117
– Income tax effect	(25)	(33)	(24)	(33)
Gains on realisation of available-for-sale assets recycled through the income statement	(39)	(42)	(39)	(42)
– Pre-taxation	(50)	(58)	(50)	(58)
– Income tax effect	11	16	11	16

	Group				Company			
	2013		2012		2013		2012	
For the year to 31 March	Cents per share	R'million	Cents per share	R'million	Cents per share	R'million	Cents per share	R'million
8. Dividends								
Perpetual preference dividend								
Final dividend in prior year	338.42	52	341.61	53	338.42	52	341.61	53
Interim dividend for current year	367.68	57	338.42	51	367.68	57	338.42	51
Total dividend attributable to perpetual preference shareholders recognised in current financial year	706.10	109	680.03	104	706.10	109	680.03	104

The directors have declared a final dividend in respect of the financial year ended 31 March 2013 of 353.18222 cents (2012: 338.42466 cents) per perpetual preference share.

For the year to 31 March R'million	Group		Company	
	2013	2012	2013	2012

9. Headline earnings

Headline earnings attributable to ordinary shareholders				
Calculation of headline earnings				
Profit after taxation	1 878	1 958	1 487	1 599
Preference dividends paid	(109)	(104)	(109)	(104)
Earnings attributable to ordinary shareholders	1 769	1 854	1 378	1 495
Headline adjustments, net of taxation	(28)	(42)	(28)	(42)
Gain on realisation of available-for-sale financial assets*	(28)	(42)	(28)	(42)
Headline earnings attributable to ordinary shareholders	1 741	1 812	1 350	1 453

* *Amount is net of taxation of R10.9 million (2012: R16.3 million) for both group and company.*

For the year to 31 March R'million	Group		Company	
	2013	2012	2013	2012

10. Operating lease income and expenses

Operating lease expenses recognised in operating costs:				
Minimum lease payments	285	313	285	313
	285	313	285	313
Operating lease income recognised in income:				
Minimum lease payments	–	3	–	–
	–	3	–	–

The majority of the operating lease expenses in the group and company relate to property rental.

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

For the year to 31 March R'million	At fair value through profit or loss Trading	 Designated at inception
Group		
2013		
Net interest income	547	1 981
Fee and commission income	–	4
Fee and commission expense	–	(6)
Investment income	7	422
Trading income arising from		
– customer flow	82	8
– balance sheet management and other trading activities	228	(40)
Other operating income	–	–
Total operating income before impairment losses on loans and advances	864	2 369
Impairment losses on loans and advances	–	–
Operating income	864	2 369
2012		
Net interest income	698	2 293
Fee and commission income	24	50
Fee and commission expense	(3)	–
Investment income	–	635
Trading income arising from		
– customer flow	259	–
– balance sheet management and other trading activities	146	(44)
Other operating income	–	–
Total operating income before impairment losses on loans and advances	1 124	2 934
Impairment losses on loans and advances	–	–
Operating income	1 124	2 934

Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non-financial instruments	Other fee income	Total
929	10 564	644	(9 777)	(5)	–	4 883
–	304	–	10	2	731	1 051
–	(29)	–	–	(2)	(72)	(109)
–	5	8	–	17	–	459
–	29	–	–	–	–	119
(2)	34	–	–	–	–	220
–	–	–	–	(3)	–	(3)
927	10 907	652	(9 767)	9	659	6 620
–	(868)	–	–	–	–	(868)
927	10 039	652	(9 767)	9	659	5 752
998	11 056	374	(11 165)	–	15	4 269
–	516	–	–	–	556	1 146
–	(26)	–	(4)	–	(58)	(91)
–	9	2	–	(57)	–	589
–	–	–	–	–	–	259
–	73	–	–	–	–	175
–	2	–	–	8	–	10
998	11 630	376	(11 169)	(49)	513	6 357
–	(833)	–	–	–	–	(833)
998	10 797	376	(11 169)	(49)	513	5 524

For the year to 31 March R'million	At fair value through profit or loss Trading	 Designated at inception
11. Analysis of income and impairments by category of financial instrument (continued)		
Company		
2013		
Net interest income	541	1 995
Fee and commission income	–	4
Fee and commission expense	–	(6)
Investment income	7	345
Trading income arising from		
– customer flow	89	9
– balance sheet management and other trading activities	228	(43)
Other operating income	–	–
Total operating income before impairment losses on loans and advances	865	2 304
Impairment losses on loans and advances	–	–
Operating income	865	2 304
2012		
Net interest income	701	2 324
Fee and commission income	18	33
Fee and commission expense	(3)	–
Investment income	–	529
Trading income arising from		
– customer flow	261	–
– balance sheet management and other trading activities	151	(44)
Other operating income	–	–
Total operating income before impairment losses on loans and advances	1 128	2 842
Impairment losses on loans and advances	–	–
Operating income	1 128	2 842

	Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non-financial instruments	Other fee income	Total
	930	9 520	644	(9 294)	(5)	–	4 331
	–	271	–	1	2	704	982
	–	(24)	–	–	(2)	(68)	(100)
	–	5	–	–	(8)	–	349
	–	28	–	–	–	–	126
	–	35	–	–	–	–	220
	–	–	–	–	(7)	–	(7)
	930	9 835	644	(9 293)	(20)	636	5 901
	–	(844)	–	–	–	–	(844)
	930	8 991	644	(9 293)	(20)	636	5 057
	984	10 206	374	(10 727)	–	2	3 864
	–	489	–	–	–	560	1 100
	–	(24)	–	(3)	–	(55)	(85)
	–	(2)	–	–	(27)	–	500
	–	–	–	–	–	–	261
	–	72	–	–	–	–	179
	–	–	–	–	1	–	1
	984	10 741	374	(10 730)	(26)	507	5 820
	–	(762)	–	–	–	–	(762)
	984	9 979	374	(10 730)	(26)	507	5 058

At 31 March R'million	At fair value through profit or loss	
	Trading	Designated at inception
12. Analysis of financial assets and liabilities by measurement basis		
Group		
2013		
Assets		
Cash and balances at central banks	–	–
Loans and advances to banks	–	789
Non-sovereign and non-bank cash placements	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	5 043	–
Sovereign debt securities	–	25 206
Bank debt securities	8 410	93
Other debt securities	–	117
Derivative financial instruments*	12 161	–
Securities arising from trading activities	1 357	–
Investment portfolio	–	6 805
Loans and advances to customers	–	14 856
Own originated loans and advances to customers securitised	–	–
Other loans and advances	–	–
Other securitised assets	–	432
Interests in associated undertakings	–	–
Deferred taxation assets	–	–
Other assets	1	–
Property and equipment	–	–
Investment properties	–	–
Intangible assets	–	–
Loans to group companies	(57)	–
	26 915	48 298
Liabilities		
Deposits by banks	–	5
Derivative financial instruments*	9 232	–
Other trading liabilities	1 063	–
Repurchase agreements and cash collateral on securities lent	2 205	–
Customer accounts (deposits)	–	6 252
Debt securities in issue	–	2 619
Liabilities arising on securitisation of own originated loans and advances	–	–
Liabilities arising on securitisation of other assets	–	588
Current taxation liabilities	–	–
Deferred taxation liabilities	–	–
Other liabilities	496	–
Subordinated liabilities	–	–
	12 996	9 464

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*

For more information refer to note 49 on page 175.

Available-for-sale	Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
–	–	–	5 677	–	5 677	–	5 677
–	789	–	22 489	–	22 489	–	23 278
–	–	–	5 875	–	5 875	–	5 875
–	5 043	–	2 625	–	2 625	–	7 668
5 273	30 479	3 251	–	–	3 251	–	33 730
1 028	9 531	10 388	1 050	–	11 438	–	20 969
1 144	1 261	1 831	3 166	–	4 997	–	6 258
–	12 161	–	–	–	–	–	12 161
–	1 357	–	–	–	–	–	1 357
2 297	9 102	–	–	–	–	–	9 102
–	14 856	–	120 870	–	120 870	–	135 726
–	–	–	2 379	–	2 379	–	2 379
–	–	–	672	–	672	–	672
–	432	–	736	–	736	–	1 168
–	–	–	–	–	–	45	45
–	–	–	–	–	–	55	55
–	1	–	583	–	583	582	1 166
–	–	–	–	–	–	224	224
–	–	–	–	–	–	1	1
–	–	–	–	–	–	90	90
–	(57)	–	11 730	–	11 730	–	11 673
9 742	84 955	15 470	177 852	–	193 322	997	279 274
–	5	–	–	17 856	17 856	–	17 861
–	9 232	–	–	–	–	–	9 232
–	1 063	–	–	–	–	–	1 063
–	2 205	–	–	15 983	15 983	–	18 188
–	6 252	–	–	179 059	179 059	–	185 311
–	2 619	–	–	1 472	1 472	–	4 091
–	–	–	–	2 933	2 933	–	2 933
–	588	–	–	–	–	–	588
–	–	–	–	–	–	1 142	1 142
–	–	–	–	–	–	61	61
–	496	–	–	669	669	1 634	2 799
–	–	–	–	12 496	12 496	–	12 496
–	22 460	–	–	230 468	230 468	2 837	255 765

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

At 31 March R'million	At fair value through profit or loss Trading	 Designated at inception
Group		
2012		
Assets		
Cash and balances at central banks	–	–
Loans and advances to banks	–	759
Non-sovereign and non-bank cash placements	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	5 098	–
Sovereign debt securities	–	23 106
Bank debt securities	13 131	149
Other debt securities	–	400
Derivative financial instruments*	10 595	–
Securities arising from trading activities	1 628	–
Investment portfolio	–	6 035
Loans and advances to customers	–	14 820
Own originated loans and advances to customers securitised	–	–
Other loans and advances	–	–
Other securitised assets	–	335
Interests in associated undertakings	–	–
Deferred taxation assets	–	–
Other assets	140	–
Property and equipment	–	–
Investment properties	–	–
Intangible assets	–	–
Loans to group companies	(40)	–
	30 552	45 604
Liabilities		
Deposits by banks	–	–
Derivative financial instruments*	8 570	–
Other trading liabilities	172	–
Repurchase agreements and cash collateral on securities lent	3 817	–
Customer accounts (deposits)	–	6 748
Debt securities in issue	–	–
Liabilities arising on securitisation of own originated loans and advances	–	–
Liabilities arising on securitisation of other assets	–	492
Current taxation liabilities	–	–
Deferred taxation liabilities	–	–
Other liabilities	301	6
Subordinated liabilities	–	–
	12 860	7 246

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*

For more information refer to note 49 on page 175.

Available-for-sale	Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
–	–	–	9 303	–	9 303	–	9 303
–	759	–	18 432	–	18 432	–	19 191
–	–	–	7 885	–	7 885	–	7 885
–	5 098	–	–	–	–	–	5 098
5 082	28 188	2 034	–	–	2 034	–	30 222
1 241	14 521	9 003	4 171	–	13 174	–	27 695
302	702	5 015	567	–	5 582	–	6 284
–	10 595	–	–	–	–	–	10 595
–	1 628	–	–	–	–	–	1 628
1	6 036	–	–	–	–	–	6 036
–	14 820	–	107 795	–	107 795	–	122 615
–	–	–	2 302	–	2 302	–	2 302
–	–	–	669	–	669	–	669
–	335	–	722	–	722	–	1 057
–	–	–	–	–	–	38	38
–	–	–	–	–	–	46	46
–	140	–	478	–	478	456	1 074
–	–	–	–	–	–	308	308
–	–	–	–	–	–	5	5
–	–	–	–	–	–	96	96
–	(40)	–	3 845	–	3 845	–	3 805
6 626	82 782	16 052	156 169	–	172 221	949	255 952
–	–	–	–	13 933	13 933	–	13 933
–	8 570	–	–	–	–	–	8 570
–	172	–	–	–	–	–	172
–	3 817	–	–	14 357	14 357	–	18 174
–	6 748	–	–	169 346	169 346	–	176 094
–	–	–	–	1 738	1 738	–	1 738
–	–	–	–	2 933	2 933	–	2 933
–	492	–	–	–	–	–	492
–	–	–	–	–	–	1 113	1 113
–	–	–	–	–	–	9	9
–	307	–	–	1 309	1 309	1 466	3 082
–	–	–	–	8 709	8 709	–	8 709
–	20 106	–	–	212 325	212 325	2 588	235 019

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

At 31 March R'million	At fair value through profit or loss Trading	 Designated at inception
Company		
2013		
Assets		
Cash and balances at central banks	–	–
Loans and advances to banks	–	789
Non-sovereign and non-bank cash placements	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	5 043	–
Sovereign debt securities	–	25 206
Bank debt securities	8 409	93
Other debt securities	–	11
Derivative financial instruments*	11 883	–
Securities arising from trading activities	1 357	–
Investment portfolio	–	6 673
Loans and advances to customers	–	14 856
Own originated loans and advances to customers securitised	–	–
Other loans and advances	–	–
Other securitised assets	–	–
Other assets	1	–
Property and equipment	–	–
Investment properties	–	–
Intangible assets	–	–
Loans to group companies	(99)	–
Investment in subsidiaries	–	–
	26 594	47 628
Liabilities		
Deposits by banks	–	5
Derivative financial instruments*	9 232	–
Other trading liabilities	1 063	–
Repurchase agreements and cash collateral on securities lent	2 205	–
Customer accounts (deposits)	–	6 252
Debt securities in issue	–	2 619
Liabilities arising on securitisation of own originated loans and advances	–	–
Current taxation liabilities	–	–
Deferred taxation liabilities	–	–
Other liabilities	496	–
Subordinated liabilities	–	–
	12 996	8 876

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*

For more information refer to note 49 on page 175.

Available-for-sale	Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
–	–	–	5 635	–	5 635	–	5 635
–	789	–	19 334	–	19 334	–	20 123
–	–	–	5 875	–	5 875	–	5 875
–	5 043	–	2 625	–	2 625	–	7 668
5 273	30 479	3 251	–	–	3 251	–	33 730
1 028	9 530	9 268	1 050	–	10 318	–	19 848
1 144	1 155	1 831	2 300	–	4 131	–	5 286
–	11 883	–	–	–	–	–	11 883
–	1 357	–	–	–	–	–	1 357
2 296	8 969	–	–	–	–	–	8 969
–	14 856	–	109 471	–	109 471	–	124 327
–	–	–	919	–	919	–	919
–	–	–	672	–	672	–	672
–	–	–	414	–	414	–	414
–	1	–	532	–	532	332	865
–	–	–	–	–	–	220	220
–	–	–	–	–	–	1	1
–	–	–	–	–	–	89	89
–	(99)	–	11 939	–	11 939	–	11 840
–	–	–	–	–	–	5 755	5 755
9 741	83 963	14 350	160 766	–	175 116	6 397	265 476
–	5	–	–	17 683	17 683	–	17 688
–	9 232	–	–	–	–	–	9 232
–	1 063	–	–	–	–	–	1 063
–	2 205	–	–	14 884	14 884	–	17 089
–	6 252	–	–	172 920	172 920	–	179 172
–	2 619	–	–	642	642	–	3 261
–	–	–	–	919	919	–	919
–	–	–	–	–	–	1 315	1 315
–	–	–	–	–	–	54	54
–	496	–	–	629	629	1 523	2 648
–	–	–	–	12 496	12 496	–	12 496
–	21 872	–	–	220 173	220 173	2 892	244 937

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

At 31 March R'million	At fair value through profit or loss Trading	 Designated at inception
Company		
2012		
Assets		
Cash and balances at central banks	–	–
Loans and advances to banks	–	759
Non-sovereign and non-bank cash placements	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	5 098	–
Sovereign debt securities	–	23 106
Bank debt securities	13 132	149
Other debt securities	–	348
Derivative financial instruments*	10 387	–
Securities arising from trading activities	1 628	–
Investment portfolio	–	5 897
Loans and advances to customers	–	14 820
Own originated loans and advances to customers securitised	–	–
Other loans and advances	–	–
Other securitised assets	–	–
Other assets	140	–
Property and equipment	–	–
Investment properties	–	–
Intangible assets	–	–
Loans to group companies	(40)	–
Investment in subsidiaries	–	–
	30 345	45 079
Liabilities		
Deposits by banks	–	–
Derivative financial instruments*	8 570	–
Other trading liabilities	172	–
Repurchase agreements and cash collateral on securities lent	3 817	–
Customer accounts (deposits)	–	6 748
Debt securities in issue	–	–
Liabilities arising on securitisation of own originated loans and advances	–	–
Current taxation liabilities	–	–
Deferred taxation liabilities	–	–
Other liabilities	301	–
Subordinated liabilities	–	–
	12 860	6 748

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*

For more information refer to note 49 on page 175.

Available-for-sale	Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
–	–	–	9 274	–	9 274	–	9 274
–	759	–	16 746	–	16 746	–	17 505
–	–	–	7 885	–	7 885	–	7 885
–	5 098	–	–	–	–	–	5 098
5 082	28 188	2 034	–	–	2 034	–	30 222
1 241	14 522	8 041	4 171	–	12 212	–	26 734
302	650	5 015	–	–	5 015	–	5 665
–	10 387	–	–	–	–	–	10 387
–	1 628	–	–	–	–	–	1 628
–	5 897	–	–	–	–	–	5 897
–	14 820	–	99 677	–	99 677	–	114 497
–	–	–	913	–	913	–	913
–	–	–	669	–	669	–	669
–	–	–	410	–	410	–	410
–	140	–	432	–	432	203	775
–	–	–	–	–	–	296	296
–	–	–	–	–	–	1	1
–	–	–	–	–	–	94	94
–	(40)	–	5 273	–	5 273	–	5 233
–	–	–	–	–	–	3 882	3 882
6 625	**82 049**	**15 090**	**145 450**	**–**	**160 540**	**4 476**	**247 065**
–	–	–	–	13 776	13 776	–	13 776
–	8 570	–	–	–	–	–	8 570
–	172	–	–	–	–	–	172
–	3 817	–	–	14 357	14 357	–	18 174
–	6 748	–	–	166 291	166 291	–	173 039
–	–	–	–	901	901	–	901
–	–	–	–	913	913	–	913
–	–	–	–	–	–	1 120	1 120
–	–	–	–	–	–	3	3
–	301	–	–	1 200	1 200	1 392	2 893
–	–	–	–	8 709	8 709	–	8 709
–	**19 608**	**–**	**–**	**206 147**	**206 147**	**2 515**	**228 270**

13. Fair value hierarchy

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

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

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

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

At 31 March R'million	Total instruments at fair value	Valuation technique applied		
		Level 1	Level 2	Level 3
Group				
2013				
Financial assets				
Loans and advances to banks	789	–	789	–
Reverse repurchase agreements and cash collateral on securities borrowed	5 043	–	5 043	–
Sovereign debt securities	30 479	30 479	–	–
Bank debt securities	9 531	1 121	8 410	–
Other debt securities	1 261	1 144	11	106
Derivative financial instruments	12 161	13	12 233	(85)
Securities arising from trading activities	1 357	1 357	–	–
Investment portfolio	9 102	2 601	6 439	62
Loans and advances to customers	14 856	–	14 856	–
Other securitised assets	432	–	432	–
Other assets	1	1	–	–
Loans to group companies	(57)	(57)	–	–
	84 955	36 659	48 213	83
Financial liabilities				
Deposits by banks	5	–	5	–
Derivative financial instruments	9 232	–	9 232	–
Other trading liabilities	1 063	1 063	–	–
Repurchase agreements and cash collateral on securities lent	2 205	–	2 205	–
Customer accounts (deposits)	6 252	–	6 252	–
Debt securities in issue	2 619	–	2 619	–
Liabilities arising on securitisation of other assets	588	588	–	–
Other liabilities	496	–	496	–
	22 460	1 651	20 809	–

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

13. Fair value hierarchy (continued)

Group				
2012				
Financial assets				
Loans and advances to banks	759	–	759	–
Reverse repurchase agreements and cash collateral on securities borrowed	5 098	3 252	1 846	–
Sovereign debt securities	28 188	27 329	859	–
Bank debt securities	14 521	1 287	13 234	–
Other debt securities	702	302	348	52
Derivative financial instruments	10 595	1	10 683	(89)
Securities arising from trading activities	1 628	867	761	–
Investment portfolio	6 036	729	5 243	64
Loans and advances to customers	14 820	–	14 820	–
Other securitised assets	335	–	335	–
Other assets	140	140	–	–
Loans to group companies	(40)	–	(40)	–
	82 782	33 907	48 848	27
Financial liabilities				
Derivative financial instruments	8 570	5	8 565	–
Other trading liabilities	172	172	–	–
Repurchase agreements and cash collateral on securities lent	3 817	3 817	–	–
Customer accounts (deposits)	6 748	–	6 748	–
Liabilities arising on securitisation of other assets	492	–	492	–
Other liabilities	307	297	10	–
	20 106	4 291	15 815	–

13. Fair value hierarchy (continued)

At 31 March R'million	Total instruments at fair value	Valuation technique applied		
		Level 1	Level 2	Level 3
Company				
2013				
Financial assets				
Loans and advances to banks	789	–	789	–
Reverse repurchase agreements and cash collateral on securities borrowed	5 043	–	5 043	–
Sovereign debt securities	30 479	30 479	–	–
Bank debt securities	9 530	1 121	8 409	–
Other debt securities	1 155	1 144	11	–
Derivative financial instruments	11 883	13	11 955	(85)
Securities arising from trading activities	1 357	1 357	–	–
Investment portfolio	8 969	2 598	6 322	49
Loans and advances to customers	14 856	–	14 856	–
Other assets	1	1	–	–
Loans to group companies	(99)	(99)	–	–
	83 963	36 614	47 385	(36)
Financial liabilities				
Deposits by banks	5	–	5	–
Derivative financial instruments	9 232	–	9 232	–
Other trading liabilities	1 063	1 063	–	–
Repurchase agreements and cash collateral on securities lent	2 205	–	2 205	–
Customer accounts (deposits)	6 252	–	6 252	–
Debt securities in issue	2 619	–	2 619	–
Other liabilities	496	–	496	–
	21 872	1 063	20 809	–

13. Fair value hierarchy (continued)

At 31 March R'million	Total instruments at fair value	Valuation technique applied		
		Level 1	Level 2	Level 3
Company				
2012				
Financial assets				
Loans and advances to banks	759	–	759	–
Reverse repurchase agreements and cash collateral on securities borrowed	5 098	3 252	1 846	–
Sovereign debt securities	28 188	27 329	859	–
Bank debt securities	14 522	1 287	13 235	–
Other debt securities	650	302	348	–
Derivative financial instruments	10 387	1	10 475	(89)
Securities arising from trading activities	1 628	867	761	–
Investment portfolio	5 897	725	5 119	53
Loans and advances to customers	14 820	–	14 820	–
Other assets	140	140	–	–
Loans to group companies	(40)	–	(40)	–
	82 049	33 903	48 182	(36)
Financial liabilities				
Derivative financial instruments	8 570	5	8 565	–
Other trading liabilities	172	172	–	–
Repurchase agreements and cash collateral on securities lent	3 817	3 817	–	–
Customer accounts (deposits)	6 748	–	6 748	–
Other liabilities	301	297	4	–
	19 608	4 291	15 317	–

13. Fair value hierarchy (continued)

Transfers between level 1 and level 2

In line with market practice, repurchase agreements have been moved from level 1 to level 2. There is no change in the level of observability, however these are based on principal pricing rather than quoted market prices.

There were no transfers between level 1 and level 2 for the year ended 31 March 2012.

The following table shows a reconciliation from the opening balances to the closing balances for net level 3 instruments measured at fair value through the income statement:

At 31 March	Group		Company	
R'million	2013	2012	2013	2012
Net level 3 instruments at fair value movements through the income statement				
Group				
Net opening balance at the beginning of the year	27	69	(36)	14
Total gains or losses recognised in the current year	46	43	(2)	12
Purchases	–	6	–	–
Sales	–	(105)	–	(4)
Issues	(9)	(57)	(10)	(57)
Transfers out of level 3	(3)	–	(3)	–
Transfers into level 3	15	63	15	–
Foreign exchange adjustments	7	8	–	(1)
Net closing balance at the end of the year	83	27	(36)	(36)
The following table quantifies the gains and losses recognised on level 3 financial instruments:				
Total gains or losses on level 3 financial instruments included in the income statement or loss for the year				
Interest income	1	1	1	1
Investment income	29	28	(19)	(3)
Trading income arising from customer flow	16	14	16	14
	46	43	(2)	12

For the year ended 31 March 2013, an instrument to the value of R3.3 million was transferred from level 3 into level 2 for the group and company. The valuation methodology of this instrument was reviewed and now uses observable inputs to determine the fair value.

There was a transfer from level 2 to the level 3 category to the value of R15.0 million because the underlying circumstances of the instrument changed and as a result, the significant valuation inputs became unobservable in the market.

For the year ended 31 March 2012, instruments were transferred from level 2 to level 3 due to certain significant inputs no longer being observable in the market.

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:

At 31 March R'million	2013 Reflected in income statement Favourable changes	2013 Reflected in income statement Unfavourable changes	2012 Reflected in income statement Favourable changes	2012 Reflected in income statement Unfavourable changes
Group				
Assets				
Other debt securities	2	2	3	2
Derivative financial instruments	132	20	119	6
Investment portfolio	21	22	27	52
	155	44	149	60
Company				
Assets				
Derivative financial instruments	132	20	15	6
Investment portfolio	21	22	26	30
	153	42	41	36

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 R'million	2013 Carrying value	2013 Fair value	2012 Carrying value	2012 Fair value
14. Fair value of financial instruments at amortised cost				
Group				
Financial assets				
Cash and balances at central banks	5 677	5 677	9 303	9 303
Loans and advances to banks	22 489	22 489	18 432	18 433
Non-sovereign and non-bank cash placements	5 875	5 875	7 885	7 885
Reverse repurchase agreements and cash collateral on securities borrowed	2 625	2 625	–	–
Sovereign debt securities	3 251	3 610	2 034	2 077
Bank debt securities	11 438	12 004	13 174	12 952
Other debt securities	4 997	5 029	5 582	5 593
Loans and advances to customers	120 870	122 027	107 795	107 850
Own originated loans and advances to customers securitised	2 379	2 379	2 302	2 302
Other loans and advances	672	672	669	669
Other securitised assets	736	736	722	722
Other assets	583	583	478	522
Loans to group companies	11 730	11 730	3 845	3 845
	193 322	195 436	172 221	172 153
Financial liabilities				
Deposits by banks	17 856	17 822	13 933	13 993
Repurchase agreements and cash collateral on securities lent	15 983	15 964	14 357	14 534
Customer accounts (deposits)	179 059	179 498	169 346	169 780
Debt securities in issue	1 472	1 472	1 738	1 738
Liabilities arising on securitisation of own originated loans and advances	2 933	2 933	2 933	2 933
Other liabilities	669	751	1 309	1 311
Subordinated liabilities	12 496	12 821	8 709	8 794
	230 468	231 261	212 325	213 083

At 31 March R'million	2013 Carrying value	2013 Fair value	2012 Carrying value	2012 Fair value
14. Fair value of financial instruments at amortised cost (continued)				
Company				
Financial assets				
Cash and balances at central banks	5 635	5 635	9 274	9 274
Loans and advances to banks	19 334	19 334	16 746	16 747
Non-sovereign and non-bank cash placements	5 875	5 875	7 885	7 885
Reverse repurchase agreements and cash collateral on securities borrowed	2 625	2 625	–	–
Sovereign debt securities	3 251	3 610	2 034	2 077
Bank debt securities	10 318	10 752	12 212	11 991
Other debt securities	4 131	4 163	5 015	5 026
Loans and advances to customers	109 471	110 572	99 677	99 678
Own originated loans and advances to customers securitised	919	919	913	913
Other loans and advances	672	672	669	669
Other securitised assets	414	414	410	410
Other assets	532	532	432	475
Loans to group companies	11 939	11 939	5 273	5 273
	175 116	177 042	160 540	160 418
Financial liabilities				
Deposits by banks	17 683	17 649	13 776	13 836
Repurchase agreements and cash collateral on securities lent	14 884	14 956	14 357	14 534
Customer accounts (deposits)	172 920	173 360	166 291	166 725
Debt securities in issue	642	642	901	901
Liabilities arising on securitisation of own originated loans and advances	919	919	913	913
Other liabilities	629	711	1 200	1 200
Subordinated liabilities	12 496	12 821	8 709	8 794
	220 173	221 058	206 147	206 903

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

At 31 March R'million	Carrying value	Fair value adjustment Year to date	 Cumulative	Maximum exposure to credit risk
15. Designated at fair value: loans and receivables and financial liabilities				
Group				
Loans and receivables				
2013				
Loans and advances to banks	789	93	103	789
Bank debt securities	93	15	24	93
Other debt securities	79	17	(140)	79
Loans and advances to customers	14 856	174	928	14 856
	15 817	299	915	15 817
2012				
Loans and advances to banks	759	77	(86)	759
Bank debt securities	149	1	5	149
Other debt securities	77	(21)	(133)	77
Loans and advances to customers	14 820	(180)	850	14 820
	15 805	(123)	636	15 805

At 31 March R'million	Group and company 2013	 2012
Fair value adjustments to loans and receivables attributable to credit risk		
Year to date	16.8	(21.1)
Cumulative	(140.0)	(133.6)

At 31 March R'million	Carrying value	Remaining contractual amount to be repaid at maturity	Fair value adjustment Year to date	 Cumulative
Group				
Financial liabilities				
2013				
Deposits by banks	5	5	–	–
Customer accounts (deposits)	6 252	5 972	47	280
Debt securities in issue	2 619	2 772	3	(153)
Liabilities arising on securitisation of other assets	588	588	–	–
	9 464	9 337	50	127
2012				
Customer accounts (deposits)	6 748	6 508	59	240
Liabilities arising on securitisation of other assets	492	492	–	–
Other liabilities	6	6	–	–
	7 246	7 006	59	240

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

Year to date and cumulative changes in fair value of financial liabilities attributable to credit risk were Rnil (2012: Rnil).

At 31 March R'million	Carrying value	Fair value adjustment Year to date	 Cumulative	Maximum exposure to credit risk
15. Designated at fair value: loans and receivables and financial liabilities (continued)				
Company				
Loans and receivables				
2013				
Loans and advances to banks	789	93	103	789
Bank debt securities	93	15	24	93
Loans and advances to customers	14 856	174	928	14 856
	15 738	282	1 055	15 738
2012				
Loans and advances to banks	759	77	(86)	759
Bank debt securities	149	1	5	149
Other debt securities	25	–	–	25
Loans and advances to customers	14 820	(180)	850	14 820
	15 753	(102)	769	15 753

Year to date and cumulative fair value adjustments to loans and receivables attributable to credit risk were Rnil (2012: Rnil).

At 31 March R'million	Carrying value	Remaining contractual amount to be repaid at maturity	Fair value adjustment Year to date	 Cumulative
Company				
Financial liabilities				
2013				
Deposits by banks	5	5	–	–
Customer accounts (deposits)	6 252	5 972	47	280
Debt securities in issue	2 619	2 772	3	(153)
	8 876	8 749	50	127
2012				
Customer accounts (deposits)	6 748	6 508	59	240
	6 748	6 508	59	240

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

Year to date and cumulative changes in fair value of financial liabilities attributable to credit risk were Rnil (2012: Rnil).

At 31 March R'million	Group 2013	 2012	Company 2013	 2012
16. Cash and balances at central banks				
The country risk of cash and balances at central banks lies in the following geographies:				
South Africa	5 635	9 300	5 635	9 274
Other	42	3	–	–
	5 677	9 303	5 635	9 274

At 31 March R'million	Group		Company	
	2013	2012	2013	2012

17. Loans and advances to banks

The country risk of loans and advances to banks lies in the following geographies				
South Africa	15 702	5 313	15 684	5 310
United Kingdom	2 111	5 030	1 934	4 089
Europe (excluding UK)	2 813	8 413	1 999	7 991
Australia	175	209	47	91
United States of America	1 727	226	450	24
Other	750	–	9	–
	23 278	19 191	20 123	17 505

At 31 March R'million	Group		Company	
	2013	2012	2013	2012

18. Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent

Assets				
Reverse repurchase agreements	4 802	3 252	4 802	3 252
Cash collateral on securities borrowed	2 866	1 846	2 866	1 846
	7 668	5 098	7 668	5 098

As part of the reverse repurchase and securities borrowing agreements, the group has received securities that it is allowed to sell or re-pledge. R2.5 billion (2012: R3.3 billion) has been re-sold or re-pledged to third parties in connection with financing activities or to comply with commitments under short sale transactions.

Liabilities				
Repurchase agreements	18 188	18 174	17 089	18 174
The assets transferred and not derecognised in the above repurchase agreements fair value is R19.9 billion (2012: R19.0 billion). They are pledged as security for the term of the underlying repurchase agreement.	18 188	18 174	17 089	18 174

At 31 March R'million	Group		Company	
	2013	2012	2013	2012

19. Sovereign debt securities

Bonds	11 690	7 116	11 690	7 116
Debentures	–	2 175	–	2 175
Liquid asset bills	22 040	20 931	22 040	20 931
	33 730	30 222	33 730	30 222
The country risk of sovereign debt securities lies in the following geography:				
South Africa	33 730	30 222	33 730	30 222
	33 730	30 222	33 730	30 222

At 31 March R'million	Group		Company	
	2013	2012	2013	2012
20. Bank debt securities				
Bonds	9 915	14 324	8 795	13 363
Debentures	309	–	309	–
Floating rate notes	10 745	10 838	10 744	10 838
Liquid asset bills	–	239	–	239
Promissory notes	–	2 294	–	2 294
	20 969	27 695	19 848	26 734
The country risk of bank debt securities lies in the following geographies:				
South Africa	9 195	14 902	9 195	14 902
United Kingdom	5 766	8 100	5 255	7 668
Europe (excluding UK)	900	670	900	670
Australia	22	18	22	18
United States of America	5 086	4 005	4 476	3 476
	20 969	27 695	19 848	26 734

At 31 March R'million	Group		Company	
	2013	2012	2013	2012
21. Other debt securities				
Bonds	3 066	3 140	2 613	2 598
Floating rate notes	362	–	362	–
Promissory notes	11	19	11	19
Other investments^	2 819	3 125	2 300	3 048
	6 258	6 284	5 286	5 665
The country risk of other debt securities lies in the following geographies:				
South Africa	2 416	1 863	1 963	1 321
United Kingdom	2 961	4 088	2 961	4 042
Europe (excluding UK)	104	31	–	–
United States of America	392	302	362	302
Australia	385	–	–	–
	6 258	6 284	5 286	5 665

^ *Largely comprises investments relating to our securitisation and principal finance activities as discussed on page 51 and 52.*

22. Derivative financial instruments

The bank enters into various contracts for derivatives both as principal for trading purposes and as customer for hedging foreign exchange rate and interest rate exposures. These include financial futures, options, swaps and forward rate agreements.

The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations.

In the tables below, notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair value of a derivative financial instrument represents the positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out by the bank in an orderly market transaction at balance sheet date.

At 31 March R'million	Group					
	Notional principal amounts 2013	Positive fair value 2013	Negative fair value 2013	Notional principal amounts 2012	Positive fair value 2012	Negative fair value 2012
Foreign exchange derivatives						
Forward foreign exchange contracts	15 781	179	276	12 520	267	251
Currency swaps	114 767	2 002	972	114 726	2 338	515
OTC options	7 365	45	31	3 989	49	86
Other foreign exchange contracts	14 671	74	82	6 249	13	10
	152 584	2 300	1 361	137 484	2 667	862
Interest rate derivatives						
Caps and floors	7 686	25	24	8 325	34	34
Swaps	409 544	6 076	5 468	367 228	5 724	6 892
Forward rate agreements	687 230	311	328	23 642	249	165
OTC options	3 270	29	28	9 620	34	34
Other interest rate contracts	480	222	146	189	13	–
	1 108 210	6 663	5 994	409 004	6 054	7 125
Equity and stock index derivatives						
OTC options	27 992	2 376	639	15 825	1 281	472
Equity swaps and forwards	4 660	5	1	1	1	5
OTC derivatives	32 652	2 381	640	15 826	1 282	477
Exchange traded futures	15 249	2	–	18 706	1	–
Exchange traded options	56 468	5	–	77 481	2	–
Warrants	5 224	–	705	1 666	–	–
	109 593	2 388	1 345	113 679	1 285	477
Commodity derivatives						
OTC options	500	15	243	–	–	–
Commodity swaps and forwards	1 200	322	289	4 105	195	103
	1 700	337	532	4 105	195	103
Credit derivatives						
Credit swaps	253	7	–	664	8	3
Credit linked notes	651	7	–	–	–	–
	904	14	–	664	8	3
Embedded derivatives*		459	–		386	–
Derivatives per balance sheet		12 161	9 232		10 595	8 570

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

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22. Derivative financial instruments (continued)

	Company					
At 31 March R'million	Notional principal amounts 2013	Positive fair value 2013	Negative fair value 2013	Notional principal amounts 2012	Positive fair value 2012	Negative fair value 2012
Foreign exchange derivatives						
Forward foreign exchange contracts	13 104	177	276	12 520	267	251
Currency swaps	113 455	2 004	972	114 713	2 334	515
OTC options	7 365	45	31	3 989	49	86
Other foreign exchange contracts	14 671	74	82	6 245	13	10
	148 595	2 300	1 361	137 467	2 663	862
Interest rate derivatives						
Caps and floors	7 686	25	24	8 325	34	34
Swaps	408 474	6 060	5 468	367 228	5 724	6 892
Forward rate agreements	687 230	311	328	23 642	248	165
OTC options	3 270	29	28	9 620	34	34
Other interest rate contracts	480	222	146	–	–	–
	1 107 140	6 647	5 994	408 815	6 040	7 125
Equity and stock index derivatives						
OTC options	27 992	2 376	639	15 825	1 281	472
Equity swaps and forwards	4 660	5	1	–	1	5
OTC derivatives	32 652	2 381	640	15 825	1 282	477
Exchange traded futures	15 249	2	–	18 706	1	–
Exchange traded options	56 468	5	–	77 481	2	–
Warrants	5 224	–	705	1 666	–	–
	109 593	2 388	1 345	113 678	1 285	477
Commodity derivatives						
OTC options	500	15	243	–	–	–
Commodity swaps and forwards	1 200	322	289	4 105	195	103
	1 700	337	532	4 105	195	103
Credit derivatives						
Credit swaps	253	7	–	664	8	3
Credit linked notes	651	7	–	–	–	–
	904	14	–	664	8	3
Embedded derivatives*		197	–		196	–
Derivatives per balance sheet		11 883	9 232		10 387	8 570

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

At 31 March R'million	Group		Company	
	2013	2012	2013	2012
23. Securities arising from trading activities				
Listed equities	281	110	281	110
Bonds	953	1 395	953	1 395
Floating rate notes	123	123	123	123
	1 357	1 628	1 357	1 628

At 31 March R'million	Group		Company	
	2013	2012	2013	2012
24. Investment portfolio				
Listed equities	2 613	734	2 610	730
Unlisted equities	6 489	5 302	6 359	5 167
	9 102	6 036	8 969	5 897

At 31 March R'million	Group		Company	
	2013	2012	2013	2012
25. Loans and advances to customers and other loans and advances				
Gross loans and advances to customers	137 075	123 920	125 537	115 679
Impairments of loans and advances to customers	(1 349)	(1 305)	(1 210)	(1 182)
Net loans and advances to customers	135 726	122 615	124 327	114 497
Gross other loans and advances	684	680	684	680
Impairments of other loans and advances	(12)	(11)	(12)	(11)
Net other loans and advances	672	669	672	669

For further analysis on loans and advances refer to pages 27 to 48 in the risk management section.

At 31 March R'million	Group		Company	
	2013	2012	2013	2012
25. Loans and advances to customers and other loans and advances (continued)				
Specific and portfolio impairments				
Reconciliation of movements in specific and portfolio impairments				
Loans and advances to customers				
Specific impairment				
Balance at the beginning of the year	1 101	1 137	1 031	1 083
Charge to the income statement	1 085	965	1 057	906
Recoveries	(118)	(27)	(118)	(23)
Utilised	(841)	(982)	(816)	(935)
Exchange adjustment	–	8	–	–
Balance at the end of the year	**1 227**	**1 101**	**1 154**	**1 031**
Portfolio impairment				
Balance at the beginning of the year	204	318	151	284
Charge to the income statement	(95)	(116)	(95)	(133)
Exchange adjustment	13	2	–	–
Balance at the end of the year	**122**	**204**	**56**	**151**
Other loans and advances				
Specific impairment				
Balance at the beginning of the year	11	–	11	–
Charge to the income statement	1	11	1	11
Balance at the end of the year	**12**	**11**	**12**	**11**
Total specific impairments	1 239	1 112	1 166	1 042
Total portfolio impairments	122	204	56	151
Total impairments	**1 361**	**1 316**	**1 222**	**1 193**

At 31 March R'million	Group 2013	Group 2012	Company 2013	Company 2012
25. Loans and advances to customers and other loans and advances (continued)				
Reconciliation of income statement charge:				
Loans and advances to customers	872	822	844	750
Specific impairment charged to income statement	967	938	939	883
Portfolio impairment charged to income statement	(95)	(116)	(95)	(133)
Securitised assets (refer to note 26)	(5)	–	(1)	1
Specific impairment charged to income statement	(4)	–	(1)	1
Portfolio impairment charged to income statement	(1)	–	–	–
Other loans and advances	1	11	1	11
Specific impairment charged to income statement	1	11	1	11
Total income statement charge	868	833	844	762

At 31 March R'million	Group 2013	Group 2012	Company 2013	Company 2012
26. Securitised assets and liabilities arising on securitisation				
Gross own originated loans and advances to customers securitised	2 381	2 305	921	916
Impairments of own originated loans and advances to customers securitised	(2)	(3)	(2)	(3)
Net own originated loans and advances to customers securitised	2 379	2 302	919	913
Other securitised assets are made up of the following categories of assets:				
Cash and cash equivalents	498	483	–	–
Loans and advances to customers	589	158	–	–
Other debt securities	81	416	414	410
Total other securitised assets	1 168	1 057	414	410

At 31 March R'million	Group		Company	
	2013	2012	2013	2012
26. Securitised assets and liabilities arising on securitisation (continued)				
The associated liabilities are recorded on balance sheet in the following line items:				
Liabilities arising on securitisation of own originated loans and advances	2 933	2 933	919	913
Liabilities arising on securitisation of other assets	588	492	–	–
Specific and portfolio impairments				
The impairments below relate only to own originated loans and advances to customers securitised.				
Specific impairment				
Balance at the beginning of the year	1	2	2	1
Charge to the income statement	(4)	–	(1)	1
Utilised	–	(1)	–	–
Disposals	4	–	–	–
Balance at the end of the year	1	1	1	2
Portfolio impairment				
Balance at the beginning of the year	2	2	1	1
Charge to the income statement	(1)	–	–	–
Balance at the end of the year	1	2	1	1
Total impairments	2	3	2	3

At 31 March R'million	Group 2013	Group 2012
27. Interest in associated undertakings		
Analysis of the movement in our share of net assets of associate:		
At the beginning of the year	38	135
Share of associate losses	–	(1)
Exchange differences	7	5
Disposal of associate	–	(101)
Share of net asset value at the end of the year	45	38
Associated undertakings comprise unlisted investments		
The group's holding in Dolphin Coast Marina Estate Limited is 34.54% (2012: 34.54%). The directors' valuation of the investment in associate approximates its carrying value.		
Summarised financial information at 31 March		
Dolphin Coast Marina Estate Limited		
Total assets	198	184
Total liabilities	68	81
Total revenue for the year	162	31
Total loss before taxation for the year	(3)	(3)

At 31 March R'million	Group 2013	Group 2012	Company 2013	Company 2012
28. Deferred taxation				
Deferred taxation assets	55	46	–	–
Deferred taxation liabilities	(61)	(9)	(54)	(3)
Net deferred taxation (liabilities)/assets	(6)	37	(54)	(3)
The net deferred taxation (liabilities)/assets consists of:				
Income and expenditure accruals	520	647	500	620
Unrealised fair value adjustments on financial instruments	(555)	(612)	(540)	(623)
Finance lease accounting	34	–	–	–
Tax relief from assessed losses brought forward	5	2	–	–
Impairment of loans and advances to customers	3	–	–	–
Fair value movements on available-for-sale assets	(13)	–	(14)	–
	(6)	37	(54)	(3)
Reconciliation of net deferred taxation (liabilities)/assets				
Opening balance	37	(307)	(3)	(186)
(Charge)/credit to the income statement	(31)	342	(37)	183
Charge directly to other comprehensive income	(14)	–	(14)	–
Other	2	–	–	–
Foreign exchange adjustments	–	2	–	–
Closing balance	(6)	37	(54)	(3)

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 capital losses is uncertain.

At 31 March R'million	Group 2013	Group 2012	Company 2013	Company 2012
29. Other assets				
Settlement debtors	137	52	137	52
Dealing properties	390	384	154	153
Accruals and prepayments	134	193	111	173
Trading initial margins	112	140	112	140
Other debtors	393	305	351	257
	1 166	1 074	865	775

At 31 March R'million	Leasehold improvements	Furniture and vehicles	Equipment	Total
30. Property and equipment				
Group				
2013				
Cost				
At the beginning of the year	21	139	565	725
Additions	3	10	53	66
Disposals	–	(2)	(58)	(60)
At the end of the year	24	147	560	731
Accumulated depreciation and impairment				
At the beginning of the year	(19)	(80)	(318)	(417)
Disposals	–	1	5	6
Depreciation	–	(5)	(91)	(96)
At the end of the year	(19)	(84)	(404)	(507)
Net carrying value	5	63	156	224
2012				
Cost				
At the beginning of the year	19	135	466	620
Additions	2	10	100	112
Disposals	–	(6)	(1)	(7)
At the end of the year	21	139	565	725
Accumulated depreciation and impairment				
At the beginning of the year	(17)	(78)	(239)	(334)
Disposals	–	3	4	7
Depreciation	(2)	(5)	(83)	(90)
At the end of the year	(19)	(80)	(318)	(417)
Net carrying value	2	59	247	308

At 31 March R'million	Leasehold improvements	Furniture and vehicles	Equipment	Total
30. Property and equipment (continued)				
Company				
2013				
Cost				
At the beginning of the year	21	128	562	711
Additions	3	10	53	66
Disposals	–	(2)	(50)	(52)
At the end of the year	24	136	565	725
Accumulated depreciation and impairment				
At the beginning of the year	(19)	(85)	(311)	(415)
Disposals	–	1	1	2
Depreciation	(1)	(4)	(87)	(92)
At the end of the year	(20)	(88)	(397)	(505)
Net carrying value	4	48	168	220
2012				
Cost				
At the beginning of the year	19	127	468	614
Additions	2	7	95	104
Disposals	–	(6)	(1)	(7)
At the end of the year	21	128	562	711
Accumulated depreciation and impairment				
At the beginning of the year	(17)	(83)	(233)	(333)
Disposals	–	2	2	4
Depreciation	(2)	(4)	(80)	(86)
At the end of the year	(19)	(85)	(311)	(415)
Net carrying value	2	43	251	296

At 31 March	Group		Company	
R'million	2013	2012	2013	2012
31. Investment properties				
Balance at the beginning of the year	5	5	1	1
Disposals	(4)	–	–	–
Balance at the end of the year	1	5	1	1

Investment properties are carried at fair value.

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

At 31 March R'million	Group			Company		
	Acquired software	Internally generated software	Total	Acquired software	Internally generated software	Total

32. Intangible assets

At 31 March R'million	Group Acquired software	Group Internally generated software	Group Total	Company Acquired software	Company Internally generated software	Company Total
2013						
Cost or valuation						
At the beginning of the year	347	78	425	345	77	422
Additions	34	8	42	32	7	39
At the end of the year	381	86	467	377	84	461
Accumulated amortisation and impairments						
At the beginning of the year	(257)	(72)	(329)	(251)	(74)	(325)
Amortisation	(37)	(11)	(48)	(37)	(10)	(47)
At the end of the year	(294)	(83)	(377)	(288)	(84)	(372)
Net carrying value	87	3	90	89	–	89
2012						
Cost or valuation						
At the beginning of the year	328	63	391	326	62	388
Additions	24	15	39	24	15	39
Disposals	(5)	–	(5)	(5)	–	(5)
At the end of the year	347	78	425	345	77	422
Accumulated amortisation and impairments						
At the beginning of the year	(245)	(38)	(283)	(243)	(39)	(282)
Amortisation	(12)	(34)	(46)	(11)	(35)	(46)
At the end of the year	(257)	(72)	(329)	(254)	(74)	(328)
Net carrying value	90	6	96	91	3	94

At 31 March R'million	Group		Company	
	2013	2012	2013	2012
33. Loans to group companies				
Loans (from)/to holding company – Investec Limited	(87)	238	(87)	238
Loans to fellow subsidiaries	10 202	3 178	10 199	3 280
Preference share investment in Investec Limited	400	400	–	–
Preference share investment in fellow subsidiaries	1 215	97	1 827	1 810
Intergroup derivative instruments	(57)	(108)	(99)	(95)
	11 673	3 805	11 840	5 233

R6.8 billion (2012: Rnil) consists of amounts owing under intergroup repurchase agreements and are fully secured by rights to cash collateral. R4.9 billion (2012: R3.8 billion) is unsecured interest-bearing, with no fixed terms of repayment.

There were no subordinated loan amounts included in the loans to group companies during the current year (2012: R1.6 million).

At 31 March	Nature of business	Issued ordinary capital	Holding %	Shares at book value 2013 R'million	Shares at book value 2012 R'million	Net indebtedness 2013 R'million	Net indebtedness 2012 R'million
34. Investment in subsidiaries							
Direct subsidiaries of Investec Bank Limited							
Investec Bank (Mauritius) Limited	Banking institution	$56 478 463	100	535	535	2 150	3 452
Reichmans Holdings (Pty) Ltd	Trade and asset financing	R15	100	112	112	1 745	1 519
Sechold Finance Services (Pty) Ltd	Investment holding	R1 000	100	*	*	232	(666)
KWJ Investments (Pty) Ltd	Investment holding	R100	100	*	*	395	4
AEL Investment Holdings (Pty) Ltd	Investment holding	R1 000	100	*	*	116	(1 321)
Investpref Limited	Investment holding	R1 000	100	*	*	26	(7)
Grayston Conduit 1 (RF) Limited	Securitised vehicle	R1	∂	*	*	32	32
Copperleaf Country Estate (Pty) Ltd	Leisure activities	R100	100	*	*	289	284
Other				80	*	43	(62)
				727	647	5 028	3 235

Details of subsidiary and associated companies which are not material to the financial position of the group are not reflected above.

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

∂ *Investec Bank Limited had no equity interest in this special purpose vehicle, but it is consolidated on the basis of the group sharing in the majority of the risks and rewards associated with the entity.*

* *Less than R1 million.*

At to 31 March R'million	Group 2013	Group 2012	Company 2013	Company 2012
35. Other trading liabilities				
Short positions – gilts	1 063	172	1 063	172
	1 063	**172**	**1 063**	**172**

At 31 March R'million	Group 2013	Group 2012	Company 2013	Company 2012
36. Debt securities in issue				
Repayable in:				
Less than three months	11	533	11	513
Three months to one year	499	518	499	388
One to five years	3 581	87	2 751	–
Greater than five years	–	600	–	–
	4 091	1 738	3 261	901

At 31 March R'million	Group 2013	Group 2012	Company 2013	Company 2012
37. Current taxation liabilities				
Income taxation payable	1 135	1 113	1 306	1 120
Indirect taxes payable	7	–	9	–
	1 142	1 113	1 315	1 120

At 31 March R'million	Group 2013	Group 2012	Company 2013	Company 2012
38. Other liabilities				
Settlement liabilities	518	350	514	313
Dividends payable	2	14	2	2
Other non-interest bearing liabilities	405	790	366	756
Other creditors and accruals	1 874	1 928	1 766	1 822
	2 799	3 082	2 648	2 893

At 31 March R'million	Group		Company	
	2013	2012	2013	2012

39. Subordinated liabilities

	Group 2013	Group 2012	Company 2013	Company 2012
Issued by Investec Bank Limited				
IV03 16% unsecured subordinated bonds	–	1 508	–	1 508
IV04 10.75% subordinated unsecured callable bonds	2 062	2 062	2 062	2 062
IV07 variable rate subordinated unsecured callable bonds	941	941	941	941
IV08 13.735% subordinated unsecured callable upper tier 2 bonds	200	200	200	200
IV09 variable rate subordinated unsecured callable upper tier 2 bonds	200	200	200	200
IV012 variable rate subordinated unsecured callable bonds	250	250	250	250
IV013 variable rate subordinated unsecured callable bonds	50	50	50	50
IV014 10.545% subordinated unsecured callable bonds	125	125	125	125
IV015 variable rate subordinated unsecured callable bonds	1 350	1 350	1 350	1 350
IV016 variable rate subordinated unsecured callable bonds	325	325	325	325
IV017 indexed rate subordinated unsecured callable bonds	1 813	1 698	1 813	1 698
IV019 indexed rate subordinated unsecured callable bonds	74	–	74	–
IV019A indexed rate subordinated unsecured callable bonds	273	–	273	–
IV022 variable rate subordinated unsecured callable bonds	997	–	997	–
IV023 variable rate subordinated unsecured callable bonds	860	–	860	–
IV024 variable rate subordinated unsecured callable bonds	106	–	106	–
IV025 variable rate subordinated unsecured callable bonds	1 000	–	1 000	–
IV026 variable rate subordinated unsecured callable bonds	750	–	750	–
IV030 indexed rate subordinated unsecured callable bonds	299	–	299	–
IV030A indexed rate subordinated unsecured callable bonds	321	–	321	–
IV031 variable rate subordinated unsecured callable bonds	500	–	500	–
	12 496	8 709	12 496	8 709
All subordinated debt issued by Investec Bank Limited and its subsidiaries is denominated in South African Rand.				
Remaining maturity:				
In one year or less, or on demand	3 003	1 508	3 003	1 508
In more than one year, but not more than two years	–	3 403	–	3 403
In more than two years, but not more than five years	4 063	2 448	4 063	2 448
In more than five years	5 430	1 350	5 430	1 350
	12 496	8 709	12 496	8 709

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 issuing entity. In a winding up no amount will be paid in respect of the subordinated debt until all other creditors have been paid in full.

39. Subordinated liabilities (continued)

IV03 16% subordinated unsecured callable bonds

Rnil million (2012: R1 508 million) Investec Bank Limited locally registered unsecured subordinated bonds due in 2017. Interest is paid six monthly in arrears on 31 March and 30 September at a rate of 16% per annum until 31 March 2012, whereafter the interest rate will change to a floating rate of three-month JIBAR plus 2.00% until called/maturity. The bonds were subsequently called and settled on 2 April 2012.

IV04 10.75% subordinated unsecured callable bonds

R2 062 million (2012: R2 062 million) Investec Bank Limited IV04 locally registered unsecured subordinated bonds due in 2018. Interest is paid six monthly in arrears on 30 September and 31 March at a rate of 10.75% per annum until 31 March 2013. The settlement date is 31 March 2018, but the company has the option to call the bonds from 31 March 2013. If not called, the bonds will switch to floating rate bonds of three-month JIBAR plus 2.00% from 31 March 2013. The bonds were subsequently called and settled on 2 April 2013.

IV07 variable rate subordinated unsecured callable bonds

R941 million (2012: R941 million) Investec Bank Limited IV07 locally registered unsecured subordinated callable bonds due in 2018. Interest is payable quarterly in arrears on 31 March, 30 June, 30 September, 31 December at a rate equal to three-month JIBAR plus 1.40% until 31 March 2013. From and including 31 March 2013 up to and excluding 31 March 2018 interest is paid at a rate equal to three-month JIBAR plus 2.00%. The maturity date is 31 March 2018, but the company has the option to call the bonds from 31 March 2013. The bonds were subsequently called and settled on 2 April 2013.

IV08 13.735% subordinated unsecured callable upper tier 2 bonds

R200 million (2012: R200 million) Investec Bank Limited IV08 locally registered unsecured subordinated bonds without a maturity date. Interest is paid six monthly in arrears on 31 October and 30 April at a rate of 13.735% per annum until 30 April 2018. The company has the option to call the bonds from 30 April 2013 or on any interest payment date falling after 30 April 2018. If not called by 30 April 2018, the bonds will pay interest of 5.625% above JIBAR payable quarterly in arrears until called.

IV09 variable rate subordinated unsecured callable upper tier 2 bonds

R200 million (2012: R200 million) Investec Bank Limited locally IV09 registered unsecured subordinated bonds without a maturity date. Interest is paid quarterly in arrears on 31 July, 31 October, 31 January and 30 April at a rate equal to JIBAR plus 3.75% until 30 April 2018. The company has the option to call the bonds from 30 April 2013 or on any interest payment date falling after 30 April 2018. If not called by 30 April 2018, the bonds will pay interest of 5.625% above JIBAR payable quarterly in arrears until called.

IV012 variable rate subordinated unsecured callable bonds

R250 million (2012: R250 million) Investec Bank Limited IV012 locally registered unsecured subordinated callable bonds are due in November 2019. Interest is payable quarterly in arrears on 26 November, 26 February, 26 May and 26 August at a rate equal to three-month JIBAR plus 3.25% until 26 November 2014. From and including 26 November 2014 up to and excluding 26 November 2019 interest is paid at a rate equal to three-month JIBAR plus 4.50%. The maturity date is 26 November 2019, but the company has the option to call the bonds from 26 November 2014.

IV013 variable rate subordinated unsecured callable bonds

R50 million (2012: R50 million) Investec Bank Limited IV013 locally registered unsecured subordinated callable bonds are due in June 2020. Interest is payable quarterly in arrears on 22 March, 22 June, 22 September and 22 December at a rate equal to three-month JIBAR plus 2.75% until 22 June 2015. From and including 22 June 2015 up to and excluding 22 June 2020 interest is paid at a rate equal to three-month JIBAR plus 5.50%. The maturity date is 22 June 2020, but the company has the option to call the bonds from 22 June 2015.

IV014 10.545% subordinated unsecured callable bonds

R125 million (2012: R125 million) Investec Bank Limited IV014 locally registered unsecured subordinated callable bonds are due in June 2020. Interest is payable six monthly in arrears on 22 June and 22 December at a fixed rate of 10.545% until 22 June 2015. From and including 22 June 2015 up to and excluding 22 June 2020 interest is paid quarterly in arrears on 22 June, 22 September, 22 December and 22 March at a rate equal to three-month JIBAR plus 5.50%. The maturity date is 22 June 2020, but the company has the option to call the bonds from 22 June 2015.

39. Subordinated liabilities (continued)

IV015 variable rate subordinated unsecured callable bonds

R1 350 million (2012: R1 350 million) Investec Bank Limited IV015 locally registered unsecured subordinated callable bonds are due in September 2022. Interest is payable quarterly in arrears on 20 December, 20 March, 20 June and 20 September at a rate equal to three-month JIBAR plus 2.65% basis points until 20 September 2017. From and including 20 September 2017 up to and excluding 20 September 2022 interest is paid at a rate equal to three-month JIBAR plus 4.00%. The maturity date is 22 September 2022, but the company has the option to call the bonds upon regulatory capital disqualification or from 20 September 2017.

IV016 variable rate subordinated unsecured callable bonds

R325 million (2012: R 325 million) Investec Bank Limited IV016 locally registered unsecured subordinated callable bonds are due in December 2021. Interest is payable quarterly in arrears on 6 December, 6 March, 6 June and 6 September at a rate equal to three-month JIBAR plus 2.75% until 6 December 2021. The maturity date is 6 December 2021, but the company has the option to call the bonds upon regulatory disqualification or from 6 December 2016.

IV017 indexed rate subordinated unsecured callable bonds

R1 813 million (2012: R1 698 million) Investec Bank Limited IV017 locally registered unsecured subordinated callable bonds are due in January 2022. Interest on these inflation-linked bonds is payable semi-annually on 31 January and 31 July at a rate of 2.75%. The IV017 is a replica of the R212 South African government bond. The maturity date is 31 January 2022, but the company has the option to call the bonds upon regulatory capital disqualification or from 31 January 2017.

IV019 indexed rate subordinated unsecured callable bonds

R74 million Investec Bank Limited IV019 locally registered unsecured subordinated callable bonds are due in March 2028. Interest on these inflation-linked bonds is payable semi-annually on 31 March and 30 September at a rate of 2.60%. The IV019 is a replica of the R210 South African government bond. The maturity date is 31 March 2028, but the company has the option to call the bonds upon regulatory capital disqualification from 3 April 2023.

IV019A indexed rate subordinated unsecured callable bonds

R273 million Investec Bank Limited IV019A locally registered unsecured subordinated callable bonds are due in March 2028. Interest on these inflation-linked bonds is payable semi-annually on 31 March and 30 September at a rate of 2.60%. The IV019A is a replica of the R210 South African government bond. The maturity date is 31 March 2028, but the company has the option to call the bonds upon regulatory capital disqualification from 3 April 2023.

IV022 variable rate subordinated unsecured callable bonds

R997 million Investec Bank Limited IV022 locally registered unsecured subordinated callable bonds are due in April 2022. Interest is payable quarterly on 2 January, 2 April, 2 July and 2 October at a rate equal to the three-month JIBAR plus 2.50% up to and excluding 2 April 2022. The maturity date is 2 April 2022, but the company has the option to call the bonds upon regulatory capital disqualification from 2 April 2017.

IV023 variable rate subordinated unsecured callable bonds

R860 million Investec Bank Limited IV023 locally registered unsecured subordinated callable bonds are due in July 2022. Interest is payable quarterly on 11 January, 11 April, 11 July and 11 October at a rate equal to the three-month JIBAR plus 2.50% up to and excluding 11 July 2022. The maturity date is 11 July 2022, but the company has the option to call the bonds upon regulatory capital disqualification from 11 July 2017.

IV024 variable rate subordinated unsecured callable bonds

R106 million Investec Bank Limited IV024 locally registered unsecured subordinated callable bonds are due in July 2022. Interest is payable quarterly on 27 January, 27 April, 27 July and 27 October at a rate equal to the three-month JIBAR plus 2.70% up to and excluding 27 July 2022. The maturity date is 27 July 2022, but the company has the option to call the bonds upon regulatory capital disqualification from 27 July 2017.

IV025 variable rate subordinated unsecured callable bonds

R1 000 million Investec Bank Limited IV025 locally registered unsecured subordinated callable bonds are due in September 2024. Interest is payable quarterly on 12 December, 12 March, 12 June and 12 September at a rate equal to the three-month JIBAR plus 2.50% up to and excluding 12 September 2024. The maturity date is 12 September 2024, but the company has the option to call the bonds upon regulatory capital disqualification from 12 September 2019.

39. Subordinated liabilities (continued)

IV026 variable rate subordinated unsecured callable bonds

R750 million Investec Bank Limited IV026 locally registered unsecured subordinated callable bonds are due in September 2024. Interest is payable quarterly on 27 December, 27 March, 27 June and 27 September at a rate equal to the three-month JIBAR plus 2.45% up to and excluding 27 September 2024. The maturity date is 27 September 2024, but the company has the option to call the bonds upon regulatory capital disqualification from 27 September 2019.

IV030 indexed rate subordinated unsecured callable bonds

R299 million Investec Bank Limited IV030 locally registered unsecured subordinated callable bonds are due in January 2025. Interest on these inflation-linked bonds is payable semi-annually on 31 January and 31 July at a rate of 2.00%. The IV030 is a replica of the I2025 South African government bond. The maturity date is 31 January 2025, but the company has the option to call the bonds upon regulatory capital disqualification from 31 January 2020.

IV030A indexed rate subordinated unsecured callable bonds

R321 million Investec Bank Limited IV030A locally registered unsecured subordinated callable bonds are due in January 2025. Interest on these inflation-linked bonds is payable semi-annually on 31 January and 31 July at a rate of 2.00%. The IV030A is a replica of the I2025 South African government bond. The maturity date is 31 January 2025, but the company has the option to call the bonds upon regulatory capital disqualification from 31 January 2020.

IV031 variable rate subordinated unsecured callable bonds

R500 million Investec Bank Limited IV031 locally registered unsecured subordinated callable bonds are due in March 2025. Interest is payable quarterly on 11 December, 11 March, 11 June and 11 September at a rate equal to the three-month JIBAR plus 2.95% up to and excluding 11 March 2025. The maturity date is 11 March 2025, but the company has the option to call the bonds upon regulatory capital disqualification from 11 March 2020.

At 31 March	Group		Company	
R'million	2013	2012	2013	2012
40. Ordinary share capital				
Authorised				
105 000 000 (2012: 105 000 000) ordinary shares of 50 cents each				
Issued				
63 019 022 (2012: 58 766 956) ordinary shares of 50 cents each	32	29	32	29

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At 31 March R'million	Group		Company	
	2013	2012	2013	2012
41. Perpetual preference shares				
Authorised				
70 000 000 (2012: 70 000 000) non-redeemable, non-cumulative, non-participating preference shares of one cent each				
Issued				
15 447 630 (2012: 15 447 630) non-redeemable, non-cumulative, non-participating preference shares of one cent each, issued at a premium of R96.46 – R99.99 per share	1 534	1 534	1 534	1 534
– Perpetual preference share capital	*	–	*	–
– Perpetual preference share premium	1 534	1 534	1 534	1 534

* *Less than R1 million.*

Share premium on perpetual preference shares is included in the line item share premium on the balance sheet. Refer to note 42.

Preference shareholders will be entitled to receive dividends, if declared, at a rate limited to 83.33% of the South African prime interest rate on R100 being the deemed value of the issue price of the preference share held.

Preference shareholders receive dividends in priority to any payment of dividends to the holder of any other class of shares in the capital of the company not ranking prior or *pari passu* with the preference shares.

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

At 31 March R'million	Group		Company	
	2013	2012	2013	2012
42. Share premium				
Share premium on ordinary shares	13 366	12 008	13 366	12 008
Share premium on perpetual preference shares	1 534	1 534	1 534	1 534
Share issue expenses written off	(15)	(15)	(15)	(15)
	14 885	13 527	14 885	13 527

At 31 March R'million	Group			
	2013		2012	
	Total future minimum payments	Present value	Total future minimum payments	Present value
43. Finance lease disclosures				
Finance lease receivables included in loans and advances to customers				
Lease receivables due in:				
Less than one year	490	393	400	322
One to five years	577	506	454	396
	1 067	899	854	718

Unearned finance income amounted to R168 million (2012: R136 million). At 31 March 2013 and 31 March 2012, there were no unguaranteed residual values.

At 31 March R'million	Group		Company	
	2013	2012	2013	2012

44. Notes to cash flow statement

	Group 2013	Group 2012	Company 2013	Company 2012
Operating profit adjusted for non-cash items is derived as follows:				
Profit before taxation	2 123	2 173	1 678	1 930
Adjustments for non-cash items:				
Loss/gain on realisation of assets	7	(1)	7	(1)
Gain on realisation of available-for-sale assets recycled through the income statement	(39)	(42)	(39)	(42)
Depreciation, amortisation and impairment of property, equipment and intangibles	143	136	140	132
Impairment losses on loans and advances	868	833	844	762
Operating loss from associates	–	1	–	–
Operating profit adjusted for non-cash items	3 102	3 100	2 630	2 781
Operating assets				
Loans and advances to banks	(8 450)	(8 274)	(8 164)	(8 878)
Reverse repurchase agreements and cash collateral on securities borrowed	(2 570)	3 059	(2 570)	3 059
Sovereign debt securities	(3 420)	(1 053)	(3 420)	(1 054)
Bank debt securities	6 897	(9 465)	6 868	(8 539)
Other debt securities	66	(1 374)	374	(898)
Derivative financial instruments	(1 717)	624	(1 690)	489
Securities arising from trading activities	271	(1 003)	271	(1 003)
Investment portfolio	(3 006)	(259)	(3 037)	(192)
Loans and advances to customers	(12 837)	(8 466)	(10 674)	(7 382)
Own originated loans and advances to customers securitised	(77)	(1 368)	(6)	(8)
Other loans and advances	(3)	115	(3)	115
Other securitised assets	(111)	185	(4)	(410)
Other assets	(83)	(91)	(90)	9
Investment properties	4	–	–	–
Loans to group companies	(8 420)	2 859	(6 607)	3 078
Increase in operating assets	(33 456)	(24 511)	(28 752)	(21 614)
Operating liabilities				
Deposits by banks	3 923	2 924	3 912	3 503
Derivative financial instruments	662	(1 979)	662	(1 925)
Other trading liabilities	891	(217)	891	(217)
Repurchase agreements and cash collateral on securities lent	(68)	7 441	(1 085)	7 441
Customer accounts (deposits)	8 424	20 969	6 133	20 689
Debt securities in issue	2 353	(751)	2 360	(662)
Liabilities arising on securitisation of own originated loans and advances	–	2 002	6	8
Liabilities arising on securitisation of other assets	96	(751)	–	–
Other liabilities	(299)	596	(245)	528
Increase in operating liabilities	15 982	30 234	12 634	29 365

At 31 March R'million	Group		Company	
	2013	2012	2013	2012
45. Commitments				
Undrawn facilities	30 652	26 168	29 434	25 039
Other commitments	657	522	607	514
	31 309	26 690	30 041	25 553
The group has entered into forward foreign exchange contracts and loan commitments in the normal course of its banking for business which the fair value is recorded on balance sheet				
Operating lease commitments				
Future minimum lease payments under non-cancellable operating leases:				
Less than one year	328	294	325	294
One to five years	1 420	1 252	1 419	1 252
Later than five years	2 234	2 368	2 234	2 368
	3 982	3 914	3 978	3 914

At 31 March 2013, Investec was obligated under a number of operating leases for properties, computer equipment and office equipment for which the future minimum lease payments extend over a number of years. The annual escalation clauses range between 7% and 13.5% per annum. The majority of the leases have renewal options. Contingent rent represents payments made to landlords for operating, tax and other escalation expenses.

At 31 March R'million	Group		Company	
	2013	2012	2013	2012
46. Contingent liabilities				
Guarantees and assets pledged as collateral security:				
– Guarantees and irrevocable letters of credit	12 236	9 894	12 759	10 305
	12 236	9 894	12 759	10 305

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

Guarantees are issued by Investec Bank Limited on behalf of third parties and other group companies. The guarantees are issued as part of the banking business. In the current year there are no guarantees issued by Investec Bank Limited in favour of The South African Insurance Association (2012: R23 million).

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 a 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.

At 31 March R'million	Group and company	
	2013	2012
47. Related party transactions		
Compensation to the board of directors and other key management personnel*		
Short-term employee benefits	59	37
Share-based payments	(11)	13
	48	50
Transactions, arrangements and agreements involving directors and others		
Particulars of transactions, arrangements and agreements entered into by the bank with directors and connected persons and companies controlled by them, and with officers of the company, were as follows:		
Directors, key management and connected persons and companies controlled by them		
Loans		
At beginning of year	329	117
Increase in loans	289	330
Repayment of loans	(154)	(143)
Exchange adjustments	44	25
At end of year	508	329
Guarantees		
At beginning of year	5	–
Additional guarantees granted	75	5
Guarantees cancelled	(16)	–
Exchange adjustments	–	–
At end of year	64	5
Deposits		
At beginning of year	(382)	(476)
Increase in deposits	(75)	(126)
Repayment of deposits	121	272
Exchange adjustment	(52)	(52)
At end of year	(388)	(382)

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

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.

At 31 March R'million	Group		Company	
	2013	2012	2013	2012
47. Related party transactions (continued)				
Transactions with other related parties				
Various members of key management personnel have shareholdings in other companies. At 31 March 2013, Investec Bank Limited group had the following loans outstanding from these related parties	–	3	–	–

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

Refer to pages 86 to 95 in the directors' remuneration report for other transactions relating to directors.

Refer to note 33 for loans to group companies and note 34 for loans to/(from) subsidiary companies.

At 31 March R'million	2013	2012
Transactions with Investec plc and its subsidiaries		
Assets		
Loans and advances to banks	194	183
Loans and advances to customers	3	–
Other debt securities	4 151	3 514
Derivative financial instruments	503	119
Other assets	–	203
Liabilities		
Deposits from banks	96	73
Customer accounts (deposits)	21	28
Repurchase agreements and cash collateral on securities lent	4 256	7 818
Derivative financial instruments	318	7
Other liabilities	–	164

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 2013, interest of R227.2 million (2012: R132.7 million) was received from entities in the Investec plc group.

Interest of R400.6 million (2012: R27.3 million) was paid to entities in the Investec plc group.

In the normal course of business, services are rendered between Investec plc and Investec Bank Limited entities. In the year to 31 March 2013, this resulted in a net payment by Investec plc group of R94.1 million (2012: R106.6 million). Specific transactions of an advisory nature between group entities have resulted in a net fee payment by Investec plc group of Rnil (2012: Rnil).

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

At 31 March R'million	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
Group								
2013								
Liabilities								
Deposits by banks	1 267	1 643	204	9 999	346	4 402	–	17 861
Derivative financial instruments	9 202	–	–	–	–	5	25	9 232
– Held-for-trading	9 202	–	–	–	–	–	–	9 202
– Held as hedges	–	–	–	–	–	5	25	30
Other trading liabilities	1 063	–	–	–	–	–	–	1 063
Repurchase agreements and cash collateral on securities lent	–	9 235	14	26	20	8 126	1 120	18 541
Customer accounts (deposits)	72 672	22 587	25 555	17 582	24 990	20 205	1 749	185 340
Debt securities in issue	–	–	11	40	459	3 581	–	4 091
Liabilities arising on securitisation of own originated loans and advances	–	1	920	5	12	1 963	32	2 933
Liabilities arising on securitisation of other assets	–	156	432	–	–	–	–	588
Other liabilities	379	734	680	120	37	318	531	2 799
	84 583	34 356	27 816	27 772	25 864	38 600	3 457	242 448
Subordinated liabilities	–	3 003	107	148	300	6 168	6 075	15 801
Total on balance sheet liabilities	84 583	37 359	27 923	27 920	26 164	44 768	9 532	258 249
Commitments	1 292	3	1 165	831	4 950	7 444	15 089	30 774
Contingent liabilities	3 560	–	1 688	99	178	5 033	3 044	13 602
Total liabilities	89 435	37 362	30 776	28 850	31 292	57 245	27 665	302 625

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

For an analysis based on discounted cash flows, please refer to page 64.

48. Liquidity analysis of financial liabilities based on undiscounted cash flows
(continued)

At 31 March R'million	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
Group								
2012								
Liabilities								
Deposits by banks	515	2 849	930	131	21	9 487	–	13 933
Derivative financial instruments	8 544	–	–	–	–	–	26	8 570
– Held-for-trading	8 544	–	–	–	–	–	–	8 544
– Held as hedges	–	–	–	–	–	–	26	26
Other trading liabilities	172	–	–	–	–	–	–	172
Repurchase agreements and cash collateral on securities lent	3 817	3 869	–	–	–	3 803	6 686	18 175
Customer accounts (deposits)	53 130	26 007	41 184	17 955	18 521	18 533	764	176 094
Debt securities in issue	–	513	20	130	388	87	600	1 738
Liabilities arising on securitisation of own originated loans and advances	–	2	925	15	59	3 741	17	4 759
Liabilities arising on securitisation of other assets	–	157	335	–	–	–	–	492
Other liabilities	1 666	332	636	79	54	89	581	3 437
	67 844	33 729	44 030	18 310	19 043	35 740	8 674	227 370
Subordinated liabilities	–	1 508	–	–	–	5 851	1 350	8 709
Total on balance sheet liabilities	67 844	35 237	44 030	18 310	19 043	41 591	10 024	236 079
Commitments	–	721	161	269	3 382	10 391	15 680	30 604
Contingent liabilities	–	1 657	221	127	469	4 225	3 195	9 894
Total liabilities	**67 844**	**37 615**	**44 412**	**18 706**	**22 894**	**56 207**	**28 899**	**276 577**

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

48. Liquidity analysis of financial liabilities based on undiscounted cash flows
(continued)

At 31 March R'million	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
Company								
2013								
Liabilities								
Deposits by banks	1 127	1 611	204	9 999	346	4 401	–	17 688
Derivative financial instruments	9 202	–	–	–	–	5	25	9 232
– Held-for-trading	9 202	–	–	–	–	–	–	9 202
– Held as hedges	–	–	–	–	–	5	25	30
Other trading liabilities	1 063	–	–	–	–	–	–	1 063
Repurchase agreements and cash collateral on securities lent	–	9 230	–	–	–	7 859	–	17 089
Customer accounts (deposits)	69 394	21 891	24 343	17 441	24 580	19 774	1 749	179 172
Debt securities in issue	–	–	11	40	459	2 751	–	3 261
Liabilities arising on securitisation of own originated loans and advances	–	1	3	5	12	898	–	919
Liabilities arising on securitisation of other assets	–	–	–	–	–	–	–	–
Other liabilities	339	683	662	79	35	319	531	2 648
	81 125	33 416	25 223	27 564	25 432	36 007	2 305	231 072
Subordinated liabilities	–	3 003	107	148	300	6 168	6 075	15 801
Total on balance sheet liabilities	81 125	36 419	25 330	27 712	25 732	42 175	8 380	246 873
Commitments	1 196	–	965	559	4 829	7 331	14 622	29 502
Contingent liabilities	3 560	–	1 623	65	158	4 923	3 041	13 370
Total liabilities	85 881	36 419	27 918	28 336	30 719	54 429	26 043	289 745

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

48. Liquidity analysis of financial liabilities based on undiscounted cash flows
(continued)

At 31 March R'million	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
Company								
2012								
Liabilities								
Deposits by banks	374	2 834	930	131	20	9 487	–	13 776
Derivative financial instruments	8 544	–	–	–	–	–	26	8 570
– Held-for-trading	8 544	–	–	–	–	–	–	8 544
– Held as hedges	–	–	–	–	–	–	26	26
Other trading liabilities	172	–	–	–	–	–	–	172
Repurchase agreements and cash collateral on securities lent	3 817	3 869	–	–	–	3 803	6 686	18 175
Customer accounts (deposits)	51 814	25 235	40 788	17 863	18 326	18 250	764	173 040
Debt securities in issue	–	513	–	–	388	–	–	901
Liabilities arising on securitisation of own originated loans and advances	–	1	4	8	30	870	–	913
Liabilities arising on securitisation of other assets	–	–	–	–	–	–	–	–
Other liabilities	1 560	321	596	41	50	56	581	3 205
	66 281	32 773	42 318	18 043	18 814	32 466	8 057	218 752
Subordinated liabilities	–	1 508	–	–	–	5 851	1 350	8 709
Total on balance sheet liabilities	66 281	34 281	42 318	18 043	18 814	38 317	9 407	227 461
Commitments	–	721	161	269	2 245	10 391	15 680	29 467
Contingent liabilities	–	1 657	221	127	880	4 225	3 195	10 305
Total liabilities	66 281	36 659	42 700	18 439	21 939	52 933	28 282	267 233

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

49. Hedges

The group uses derivatives for management of financial risks relating to its asset and liability portfolios, mainly associated with non-trading interest rate risks and exposures to foreign currency risk. Most non-trading interest rate risk is transferred from the originating business to the central treasury. Once aggregated and netted, 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, Central 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 the hedging instrument. This relationship is established in limited circumstances based on the manner in which the group manages its risk exposure. Below is a description of each category of accounting hedges achieved by the group:

Fair value hedges

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

At 31 March R'million	Description of financial instrument being hedged	Fair value of hedging instrument	Cumulative gains or (losses) on hedging instrument	Current year gains or (losses) on hedging instrument	Cumulative gains or (losses) on hedged item	Current year gains or (losses) on hedged item
Group and company						
2013						
Interest rate swaps	Bonds	(752)	(120)	(115)	128	121
2012						
Interest rate swaps	Bonds	(172)	(38)	(38)	61	37

As at year end the hedges were both retrospectively and prospectively effective.

Cash flow hedges

The group is exposed to variability in cash flows 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 affects the income statement.

At 31 March R'million	Description of financial instrument being hedged	Fair value of hedging instrument	Period in which the hedged cash flows are expected to occur and affect income statement	Ineffective portion recognised in the income statement
Group and company				
2013				
Interest rate swaps	Bonds	(446)	Three months	–
2012				
Cross currency swaps	Fixed rate bonds	(636)	Three months to five years	–

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

Release to the income statement for cash flow hedges is included in net interest income.

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