Investec Bank plc annual financial statements 2013

Out of the Ordinary®

Investec

Corporate information

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About this report

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

For the year ended 31 March 2013, Investec plc and Investec Bank plc were regulated by the UK Financial Services Authority (FSA). However, on 1 April 2013 the FSA was abolished and the majority of its functions transferred to two new regulators: the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). On the same date, the Bank of England (BoE) took over the FSA's responsibilities for financial market infrastructures and a Financial Policy Committee (FPC) was established on a statutory basis in the UK. Going forward, Investec Bank plc will be authorised by the PRA and regulated by the FCA and the PRA. Kensington, Investec Wealth & Investment and Investec Asset Management will be authorised and regulated by the FCA. Accordingly, all references to the UK regulator in this annual report are to the FCA and PRA.

Contents

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 plc
in perspective

1

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

Investec Bank plc (referred to in this report as the bank) is the main banking subsidiary of Investec plc.

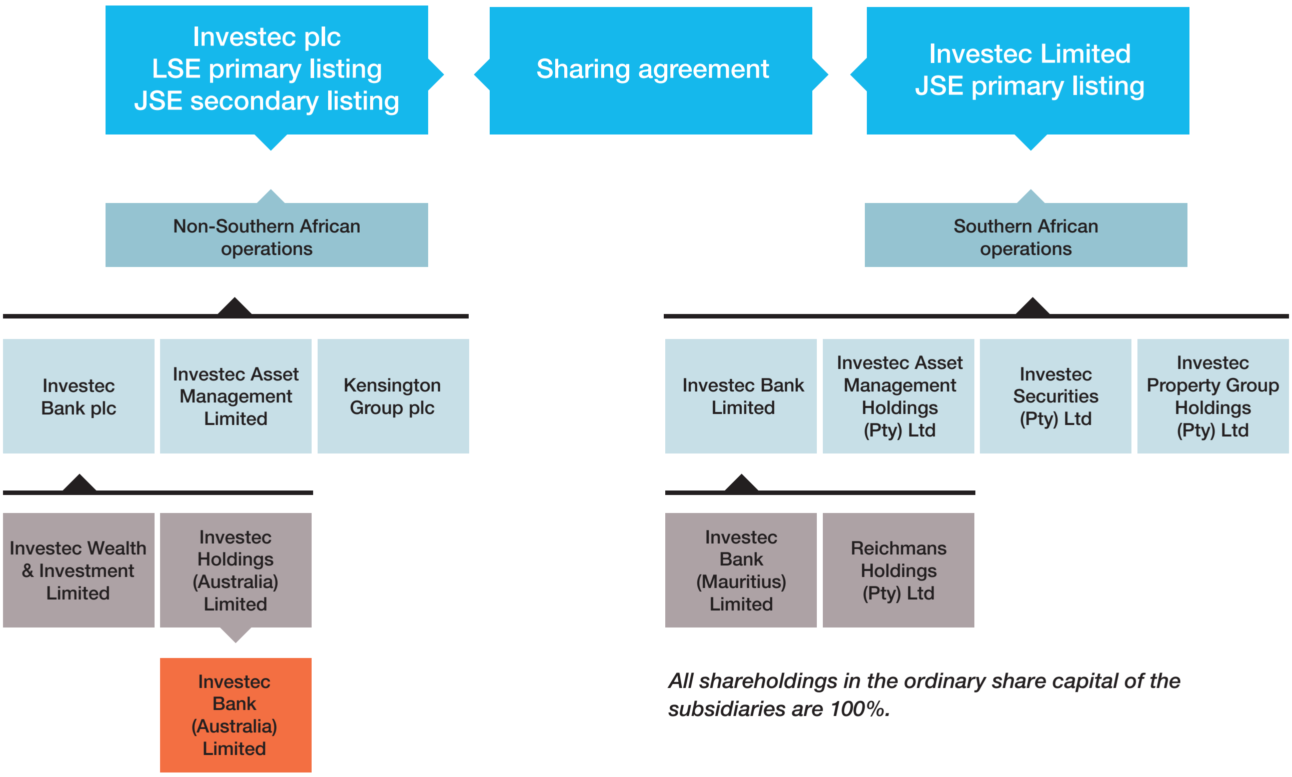
Operating structure

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.

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 plc

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

What we do . . . Specialist Banking

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

Corporates/government/institutional clients		High income and high net worth private clients
Corporate Advisory and Investment Activities	**Corporate and Institutional Banking Activities**	**Private Banking Activities**
Advisory Institutional, research, sales and trading Principal investments Property activities	Treasury and trading services Specialised finance Debt capital markets	Transactional banking Lending Deposits Investments
Australia Hong Kong India UK and Europe USA	Australia Canada India UK and Europe	Australia UK and Europe
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; institutional research, sales and trading and principal investments. Our target market includes: listed and unlisted companies, fund managers, government and parastatals. Our Property business focuses on property fund management and property investments.	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 positions itself as the 'investment bank for private clients', offering both credit and investment services to our select clientele. Through strong partnerships, we have created a community of clients who thrive on being part of an entrepreneurial and innovative environment. Our target market includes ultra high net worth individuals, active wealthy entrepreneurs, high income professionals, owner managers in mid-market companies and sophisticated investors.

Integrated systems and infrastructure

What we do . . .
Wealth & Investment

United Kingdom

Investments and savings

- Discretionary and advisory portfolio management services for private clients
- Specialist investment management services for charities, pension schemes and trusts
- Independent financial planning advice for private clients and businesses
- Specialist portfolio management services for international clients, including resident and non-domiciled clients.

Pensions and retirement

- Discretionary investment management for company pension and Self Invested Personal Pension (SIPP) schemes
- Advice and guidance on pension schemes, life assurance and income protection schemes.

Tax planning and mitigation

- Individual and corporate tax planning services, including ISAs and Venture Capital Trusts
- Inheritance tax planning.

The European operations are conducted through NCB, which operates from Ireland, and European Wealth Management, which operates predominantly from Switzerland but also has a presence in Guernsey.

Over 1 000 staff operate from offices located throughout the UK and Europe, with combined funds under management of £24.7 billion. Investec Wealth & Investment is one of the UK's leading providers of private client investment management services.

Investec Bank (Australia) Limited

Established in Australia in 1997, Investec Bank (Australia) Limited has grown through a combination of organic growth and strategic acquisitions. In 2001 it acquired Wentworth Associates, one of Australia's leading corporate finance boutiques. This acquisition provided a platform to expand activities into the investment banking arena in Australia.

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

The group obtained a banking licence in 2002 to become a fully registered Australian bank.

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

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

Growth in servicing the corporate and institutional market followed in early 2010 with the recruiting of a specialist resources research and brokerage team to form Investec Securities, which obtained an ASX trading licence to provide institutional equities research, sales and trading and equity capital markets solutions focusing on resources.

In 2012 Investec Bank (Australia) Limited acquired Alliance Equipment Finance (later named Investec Asset Finance and Leasing) to establish a platform for its specialised asset and equipment leasing business.

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

Investec Bank (Australia) Limited employed approximately 487 staff in Australia as at March 2013, and has offices in Sydney, Melbourne, Brisbane, Perth and Adelaide. Investec Bank (Australia) Limited is subject to regulation by the Australian Prudential Regulatory Authority.

Investec Bank plc's structure comprises two principal business units: Wealth & Investment and Specialist Banking

Business leaders

David van der Walt	Specialist Banking UK and CEO of Investec Bank plc
David Clark (outgoing)	Specialist Banking Australia
Ciaran Whelan (Acting)	Specialist Banking Australia
Steve Elliott	Wealth & Investment

Further information on the Specialist Banking and Wealth & Investment management structures is available on our website.

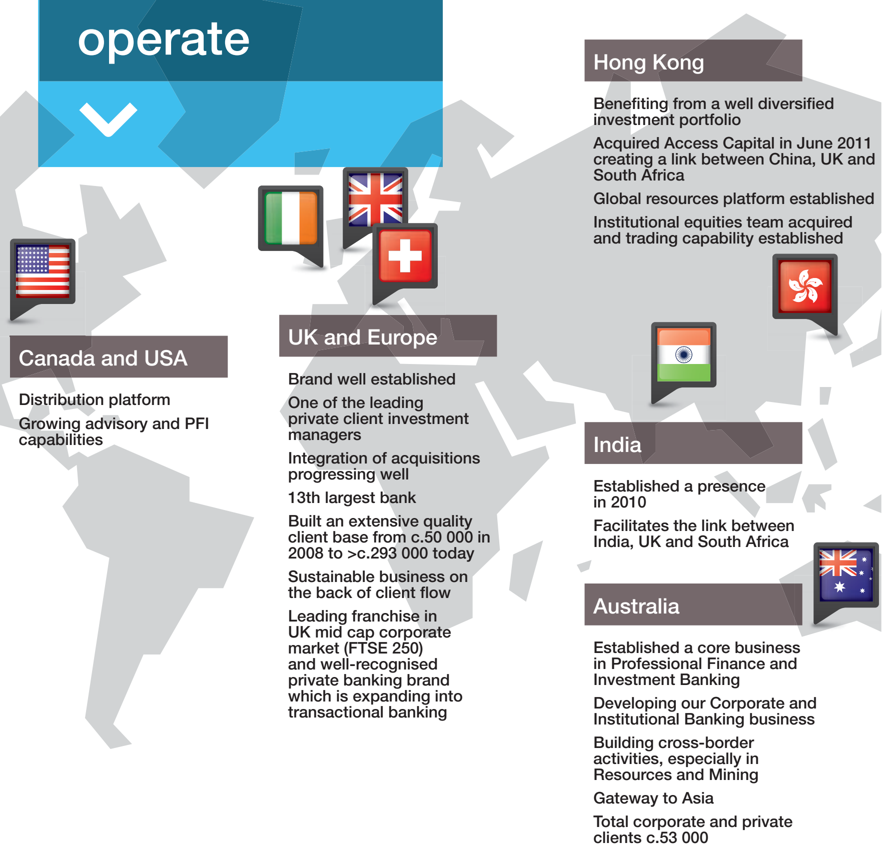
Wealth & Investment value proposition

- Investec Wealth & Investment has been built via acquisition of businesses and organic growth over a long period of time
- Well established platforms in the UK and Switzerland. The new Guernsey business is expected to be fully operational during the second half of 2013
- Focus is on internationalising the business, development of online capabilities and organic growth in our key markets
- c.70 000 clients.

Specialist Banking 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

Where we operate



Highlights

A diversified business model continues to support a large recurring revenue base, totalling 56.0% of operating income

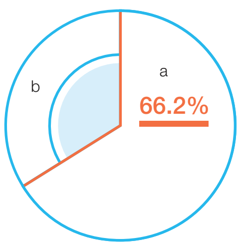
(2012: 48.3%)

We have built a strong franchise that supports a solid revenue base

Operating profit before taxation* increased 89.4% to £97.1 million

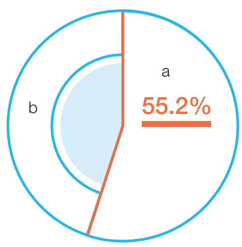
(2012: £51.3 million)

Contribution to operating profit before taxation*



31 March 2013

a	Specialist Banking	66.2%
b	Wealth & Investment	33.8%



31 March 2012

a	Specialist Banking	55.2%
b	Wealth & Investment	44.8%

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

Our financial performance

Investec Bank plc recorded a 4.7% increase in total operating income

2012	2013
£811.7mn	£849.4mn

Earnings attributable to ordinary shareholders increased >100.0%

2012	2013
£18.7mn	£42.1mn

Improving credit loss ratio

2012	2013
1.66%	1.20%

Cash and near cash balances up 1.3%

2012	2013
£4 485mn	£4 543mn

Our financial performance

Core loans and advances increased 6.8%

2012 £7 712mn
2013 £8 237mn

Customer deposits increased by 2.9%

2012 £11 103mn
2013 £11 427mn

Funds under management increased by 76.2%

2012 £14 219mn
2013 £25 054mn

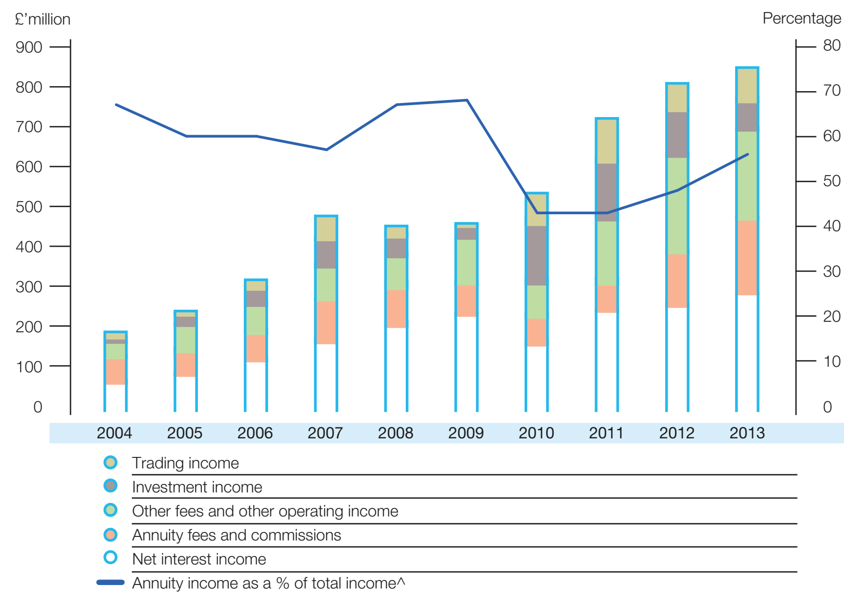
Low gearing ratios, core loans and advances to equity decreased

2012 4.5 times
2013 4.3 times

Other financial features

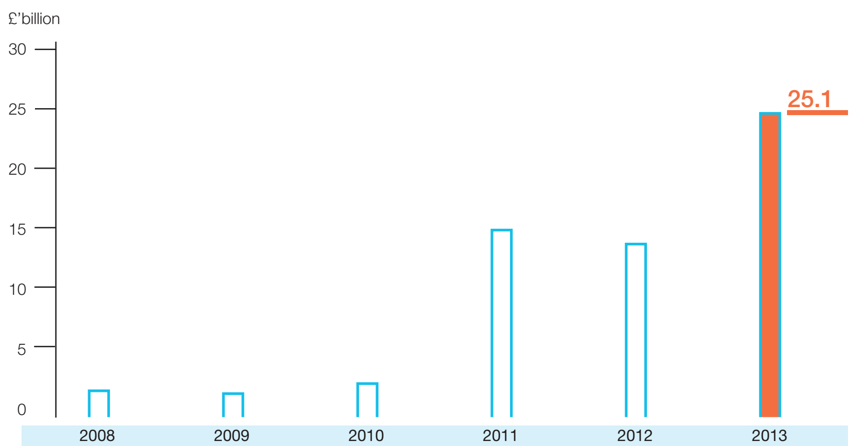
	31 March 2013	31 March 2012	% change
Total capital resources (including subordinated liabilities) (£'000)	2 593 359	2 369 408	9.5%
Total shareholders' equity (£'000)	1 914 617	1 726 246	10.9%
Total assets (£'000)	21 068 284	20 246 249	4.1%
Capital adequacy ratio	16.3%	16.8%	
Tier 1 ratio	11.1%	11.5%	

Total operating and annuity income



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

Momentum in building our third party assets under management continues



Credit quality on core loans and advances has improved

Core loans and advances increased by 6.8% to £8 237 million

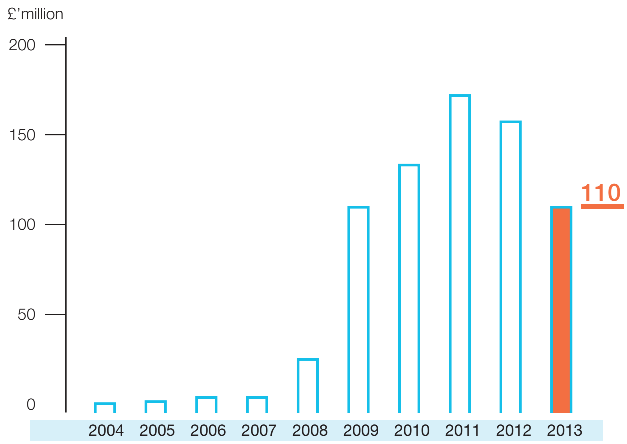
Default loans (net of impairments) as a percentage of core loans and advances decreased from 4.11% to 3.76%

Impairments have decreased significantly since 31 March 2012, with a substantial improvement reported in the Australian business and a moderate increase reported in the UK business

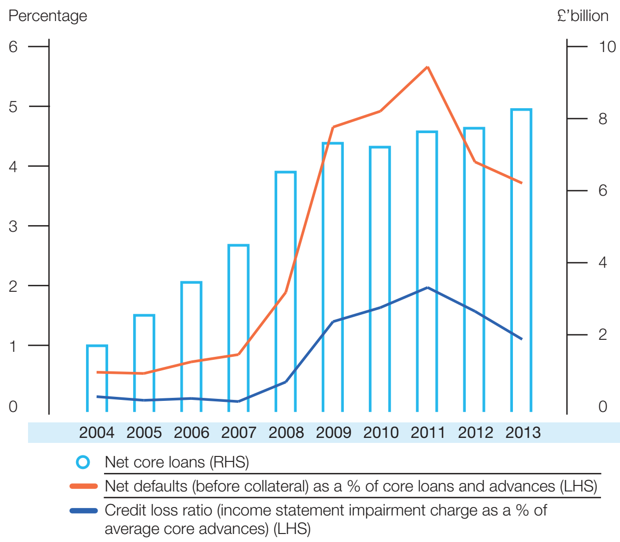
The credit loss ratio improved from 1.66% to 1.20%

Net defaults (after impairments) remain adequately collateralised.

Impairments



Default and core loans



Stable 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 67.8% (2012: 64.6%)

Continue to focus on:

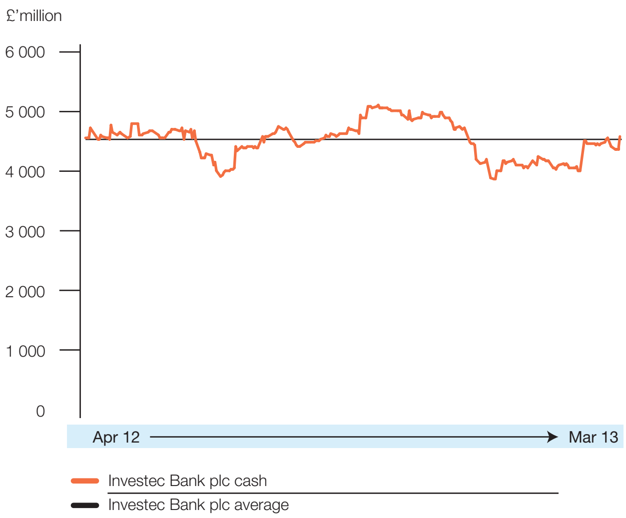
- Maintaining a high level of readily available, high quality liquid assets – approximately 32.3% of its liability base
- Diversifying funding sources
- Limiting concentration risk
- Reduced reliance on wholesale funding.

Capital adequacy and tier 1 ratios

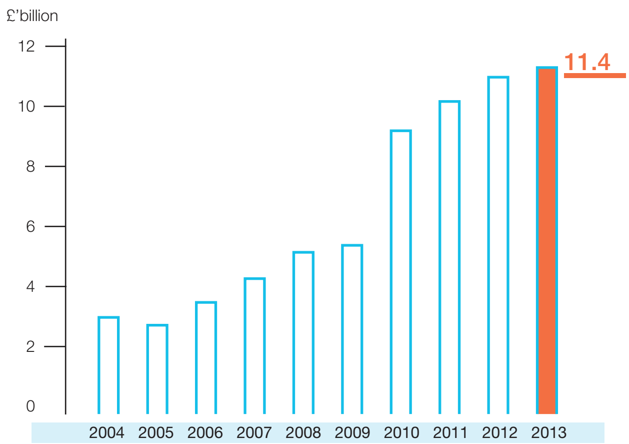
	31 March 2013 (Basel II)			31 March 2012 (Basel II)		
	Capital adequacy ratio	Tier 1 ratio	Common equity tier 1 ratio	Capital adequacy ratio	Tier 1 ratio	Common equity tier 1 ratio
Investec Bank plc	16.3%	11.1%	11.1%	16.8%	11.5%	11.5%
Investec plc	16.9%	11.0%	8.8%	17.5%	11.6%	9.3%

Sound retail deposit franchise…

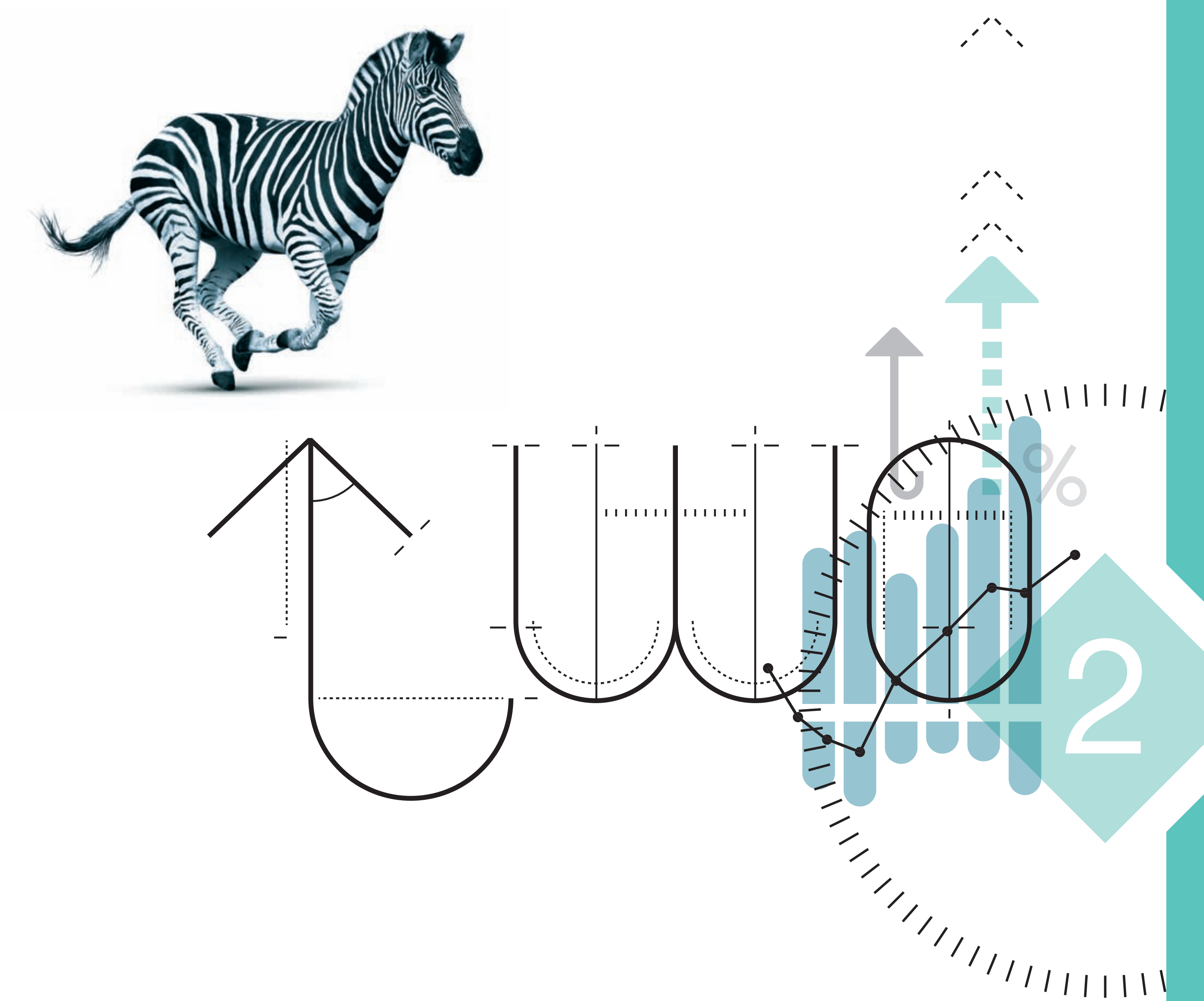
Cash and near cash trend



Customer accounts (deposits)



Financial review



An overview of the operating environment impacting our business

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.

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
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%
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%	
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 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 the 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.

34 – 61

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

84 – 88

Legal and regulatory risks are substantial in our businesses.

87

Liquidity risk may impair our ability to fund our operations.

76 – 83

Reputational, strategic and **business risk.**

87

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

73 – 75

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

84 – 88

We may be exposed to **pension risk** in our UK operations.

87

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

62 – 71

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

88 – 91

Employee misconduct could cause harm that is difficult to detect.

84 – 88

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

12 – 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.

87 and 88

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

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

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.

Key income drivers

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

There are therefore a number of key income drivers for our business which are discussed below and alongside.

Specialist Banking

Wealth & Investment

Key income drivers

- Investment management fees levied as a percentage of assets under management
- Commissions earned for executing transactions for clients

Income statement – primarily reflected as

- Fees and commissions

Income impacted primarily by

- Movement in the value of assets underlying client portfolios
- The level of investment activity undertaken on behalf of clients, which, in turn, is affected by, among other things, the performance of the global stock markets (which drives investment opportunities), the equity investment risk appetite of our clients, tax considerations and market liquidity

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

Overview

The bank reported a significant increase in operating profit before non-operating items and taxation to £97.1 million for the year ended 31 March 2013 (2012: £51.3 million). The balance sheet remains strong, supported by sound capital and liquidity ratios.

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

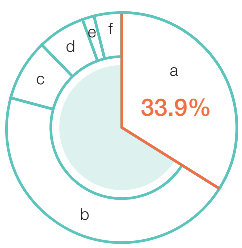
Total operating income before impairment losses on loans and advances of £849.4 million is 4.7% higher than the prior year. The various components of total operating income are analysed below.

£'000	31 March 2013	% of total income	31 March 2012	% of total income	% change
Net interest income	287 840	33.9%	258 203	31.8%	11.5%
Net fee and commission income	386 293	45.5%	313 326	38.6%	23.3%
Investment income	71 517	8.4%	110 719	13.6%	(35.4%)
Trading income arising from					
– Customer flow	57 867	6.8%	54 043	6.7%	7.1%
– Balance sheet management and other trading activities	14 569	1.7%	14 860	1.8%	(2.0%)
Other operating income	31 345	3.7%	60 510	7.5%	(48.2%)
Total operating income before impairments	849 431	100.0%	811 661	100.0%	4.7%

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

£'000	31 March 2013	% of total income	31 March 2012	% of total income	% change
Wealth & Investment	170 380	20.1%	124 335	15.3%	37.0%
Specialist Banking	679 051	79.9%	687 326	84.7%	(1.2%)
Total operating income before impairments	849 431	100.0%	811 661	100.0%	4.7%

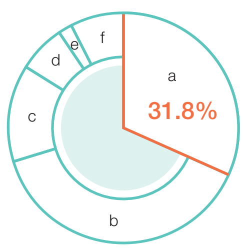
% of total operating income before impairment losses on loans and advances



31 March 2013

£849.4 million total operating income before impairment losses on loans and advances

a	Net interest income	33.9%
b	Net fee and commission income	45.5%
c	Investment income	8.4%
d	Trading income arising from customer flow	6.8%
e	Trading income arising from balance sheet management and other trading activities	1.7%
f	Other operating income	3.7%



31 March 2012

£811.7 million total operating income before impairment losses on loans and advances

a	Net interest income	31.8%
b	Net fee and commission income	38.6%
c	Investment income	13.6%
d	Trading income arising from customer flow	6.7%
e	Trading income arising from balance sheet management and other trading activities	1.8%
f	Other operating income	7.5%

Net interest income

Net interest income increased by 11.5% to £287.8 million (2012: £258.2 million) due to increased lending turnover and an improved yield earned on securitised assets, partially offset by higher costs on subordinated liabilities and less interest earned on running down legacy portfolios and higher cost of funds during the period to December 2012.

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

		UK and Other		Australia		Total group	
For the year ended 31 March 2013 £'000	Notes	Balance sheet value	Interest received	Balance sheet value	Interest received	Balance sheet value	Interest received
Cash, near cash and bank debt and sovereign debt securities	1	5 446 501	47 156	707 398	16 076	6 153 899	63 232
Core loans and advances	2	6 031 731	353 625	2 205 046	180 301	8 236 777	533 926
Private client		3 024 629	162 618	1 402 293	112 566	4 426 922	275 184
Corporate, institutional and other clients		3 007 102	191 007	802 753	67 735	3 809 855	258 742
Other debt securities and other loans and advances		1 978 818	99 727	22 506	18 205	2 001 324	117 932
Other interest earning assets	3	767 415	99 295	–	–	767 415	99 295
Total interest earning assets		14 224 465	599 803	2 934 950	214 582	17 159 415	814 385

		UK and Other		Australia		Total group	
For the year ended 31 March 2013 £'000	Notes	Balance sheet value	Interest paid	Balance sheet value	Interest paid	Balance sheet value	Interest paid
Deposits by banks and other debt related securities	4	3 111 710	46 701	470 689	32 436	3 582 399	79 137
Customer accounts		9 733 827	222 703	1 692 820	79 411	11 426 647	302 114
Other interest bearing liabilities	5	560 156	53 704	477 903	30 486	1 038 059	84 190
Subordinated liabilities		596 122	57 943	82 620	3 161	678 742	61 104
Total interest bearing liabilities		14 001 815	381 051	2 724 032	145 494	16 725 847	526 545
Net interest income			218 752		69 088		287 840

		UK and Other		Australia		Total group	
For the year ended 31 March 2012 £'000	Notes	Balance sheet value	Interest received	Balance sheet value	Interest received	Balance sheet value	Interest received
Cash, near cash and bank debt and sovereign debt securities	1	5 319 852	46 508	1 010 485	59 939	6 330 337	106 447
Core loans and advances	2	5 763 693	352 669	1 948 307	186 654	7 712 000	539 323
Private client		3 431 419	200 531	1 593 600	158 697	5 025 019	359 228
Corporate, institutional and other clients		2 332 274	152 138	354 707	27 957	2 686 981	180 095
Other debt securities and other loans and advances		2 171 109	123 958	81 860	4 310	2 252 969	128 268
Other interest earning assets	3	640 255	23 305	–	–	640 255	23 305
Total interest earning assets		13 894 909	546 440	3 040 652	250 903	16 935 561	797 343

Notes:

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

Notes:

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.*

Net fee and commission income

Net fee and commission income increased by 23.3% to £386.3 million (2012: £313.3 million). The bank benefited from higher average funds under management and the acquisitions of Williams de Broë and the NCB Group. The Specialist Banking business recorded an increase in net fees and commissions largely due to a good performance by the Corporate Advisory and Aviation Finance divisions. The Corporate and Institutional Banking and Prime Broking businesses recorded lower levels of activity.

£'000	31 March 2013	31 March 2012	Variance	% change
Wealth and Investment	158 607	116 215	42 392	36.5%
Specialist Banking	227 686	197 111	30 575	15.5%
Net fee and commission income	386 293	313 326	72 967	23.3%

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

For the year ended 31 March 2013 £'000	UK and Other	Australia	Total group
Fund management fees/fees for assets under management	127 764	3 972	131 736
Private client transactional fees	74 558	9 579	84 137
Corporate and institutional transactional and advisory services	156 401	45 880	202 281
Fee and commission income	358 723	59 431	418 154
Fee and commission expense	(27 335)	(4 526)	(31 861)
Net fee and commission income	331 388	54 905	386 293
Annuity fees (net of fees payable)	160 879	26 138	187 017
Deal fees	170 509	28 767	199 276

For the year ended 31 March 2012 £'000	UK and Other	Australia	Total group
Fund management fees/fees for assets under management	98 688	5 674	104 362
Private client transactional fees	54 653	9 251	63 904
Corporate and institutional transactional and advisory services	157 335	23 531	180 866
Fee and commission income	310 676	38 456	349 132
Fee and commission expense	(32 431)	(3 375)	(35 806)
Net fee and commission income	278 245	35 081	313 326
Annuity fees (net of fees payable)	120 363	14 114	134 477
Deal fees	157 882	20 967	178 849

Investment income

Investment income decreased by 35.4% to £71.5 million (2012: £110.7 million) due to lower income earned on the fixed income portfolio in the UK. The principal investment portfolio performed well.

£'000	31 March 2013	31 March 2012	Variance	% change
Wealth & Investment	555	(392)	947	>100.0%
Specialist Banking	70 962	111 111	(40 149)	(36.1%)
Investment income	71 517	110 719	(39 202)	(35.4%)

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

For the year ended 31 March 2013 £'000	UK and Other	Australia	Total group
Realised	28 439	1 752	30 191
Unrealised	38 268	(1 654)	36 614
Dividend income	2 949	240	3 189
Funding and other net related income	1 323	200	1 523
Investment income	70 979	538	71 517

For the year ended 31 March 2013 £'000	Investment portfolio (listed and unlisted equities)*	Debt securities (sovereign, bank and other)	Other asset categories	Total group
UK and Other	35 071	29 775	6 133	70 979
Realised	1 027	20 972	6 440	28 439
Unrealised	31 095	8 803	(1 630)	38 268
Dividend income	2 949	–	–	2 949
Funding and other net related income	–	–	1 323	1 323
Australia	(2 412)	1 617	1 333	538
Realised	64	1 617	71	1 752
Unrealised	(2 716)	–	1 062	(1 654)
Dividend income	240	–	–	240
Funding and other net related income	–	–	200	200
Total investment income	32 659	31 392	7 466	71 517

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

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

Financial review

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For the year ended 31 March 2012 £'000	Investment portfolio (listed and unlisted equities)*	Debt securities (sovereign, bank and other)	Other asset categories	Total group
UK and Other	41 806	64 355	13 032	119 193
Realised	26 141	70 940	13 083	110 164
Unrealised	13 819	(6 586)	(51)	7 182
Dividend income	1 846	1	–	1 847
Australia	1 544	(334)	(9 684)	(8 474)
Realised	1 539	(784)	(9 684)	(8 929)
Unrealised	(66)	–	–	(66)
Dividend income	71	450	–	521
Investment income: total	43 350	64 021	3 348	110 719

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

Trading income

Trading income from customer flow increased 7.1% to £57.9 million (2012: £54.0 million) whilst trading income from other trading activities remained largely in line with the prior year at £14.6 million (2012:£14.9 million).

For the year ended 31 March £'000	2013	2012	Variance	% change
Wealth & Investment	361	(386)	747	(>100.0%)
Specialist Banking	57 506	54 429	3 077	5.7%
Trading income arising from customer flow	57 867	54 043	3 824	7.1%

For the year ended 31 March £'000	2013	2012	Variance	% change
Wealth & Investment	4	(7)	11	(>100.0%)
Specialist Banking	14 565	14 867	(302)	(2.0%)
Trading income arising from balance sheet management and other trading activities	14 569	14 860	(291)	(2.0%)

Other operating income

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

Impairment losses on loans and advances

Impairments on loans and advances decreased from £157.0 million to £110.4 million. The UK reported a moderate increase whilst impairments in Australia were £50 million lower than the prior year.

Since 31 March 2012 the percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances improved from 4.11% to 3.76%. The credit loss charge as a percentage of average gross core loans and advances has improved from 1.66% at 31 March 2012 to 1.20%. The ratio of collateral to default loans (net of impairments) is at 1.15 times (2012: 1.09 times).

Further information is provided on page 50.

Operating costs and depreciation

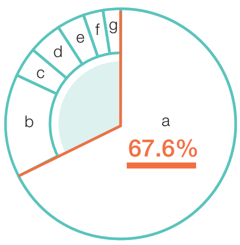
The ratio of total operating costs to total operating income amounted to 75.3% (2012: 73.1%).

Total operating expenses grew by 7.1% to £643.8 million (2012: £601.2 million) largely as a result of the acquisitions of Williams de Broë, the NCB Group and Alliance Equipment Finance.

The various components of total expenses are analysed below.

£'000	31 March 2013	% of total expenses	31 March 2012	% of total expenses	% change
Staff costs (including directors' remuneration)	435 477	67.6%	391 282	65.1%	11.3%
Business expenses	94 439	14.6%	87 428	14.6%	8.0%
Equipment expenses (excluding depreciation)	25 692	4.0%	22 391	3.7%	14.7%
Premises expenses (excluding depreciation)	31 361	4.9%	28 841	4.8%	8.7%
Marketing expenses	24 300	3.8%	27 687	4.6%	(12.2%)
Depreciation	16 503	2.6%	15 045	2.5%	9.7%
Depreciation on operating leased assets	16 072	2.5%	28 544	4.7%	(43.7%)
Total operating costs	643 844	100.0%	601 217	100.0%	7.1%

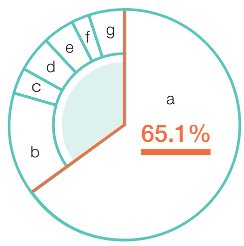
% of total expenses



31 March 2013

£643.8 million total expenses

a	Staff costs	67.6%
b	Business expenses	14.6%
c	Equipment	4.0%
d	Premises	4.9%
e	Marketing	3.8%
f	Depreciation	2.6%
g	Depreciation on operating leased assets	2.5%



31 March 2012

£601.2 million total expenses

a	Staff costs	65.1%
b	Business expenses	14.6%
c	Equipment	3.7%
d	Premises	4.8%
e	Marketing	4.6%
f	Depreciation	2.5%
g	Depreciation on operating leased assets	4.7%

Impairment of goodwill

The current year's goodwill impairment relates to the bank's Trust business.

Amortisation of acquired intangibles

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

Costs arising from integration of acquired subsidiary

As anticipated for the 2012 financial year, a further cost of £11.7 million arose on the integration of Williams de Broë and £2.0 million arose on the acquisition of the NCB Group.

Balance sheet analysis

Since 31 March 2012:

- Total shareholders' equity (including non-controlling interests) increased by 10.9% to £1.9 billion largely as a result of the issue of shares and improved retained earnings
- Total assets increased by 4.1% to £21.1 billion largely as a result of an increase in net core loans and advances.

Questions and answers

Steve Elliott

Geographical business leader United Kingdom

Wealth & Investment…

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

A Within the UK, the first three quarters of the financial year saw a continuation of challenging market conditions, driven by euro zone and other global economic concerns, which had affected a significant part of the previous financial year. A lack of investor confidence and a challenging backdrop against which to implement investment strategies led to a period of depressed transaction volumes which had an adverse impact on income. Investor optimism gradually returned during the latter part of the 2012 calendar year and a consensus grew that key economic risks had abated. This led to a significant rise in European indices in early 2013 and a significant improvement in transaction volumes for the final quarter of the financial year.

The volatility indicator, the VIX, that has declined to almost normal levels in recent months, indicates an improved investor state of mind. Cyclical rather than systemic risks are likely to dominate market movements. The global cyclical recovery may remain subdued depending as it does on further support from China. Yet coming to terms with a more or less familiar business cycle is much less inhibiting for investors than the danger of system failure of the kind that has infected financial markets since 2008.

Increasing regulatory obligations, and the related cost of compliance, continue to affect the UK investment management industry. The Retail Distribution Review (RDR), which seeks to improve pricing transparency, changes professional qualification requirements and tightens rules governing firms' abilities to promote themselves as independent advisers, became effective in the UK on 31 December 2012. While an immediate consequence of the RDR is to place downward pressure on some revenue streams of UK investment management firms, we believe that the RDR will bring a net benefit to the Investec Wealth & Investment business over the longer term; the full impact of the RDR on the UK industry will take some years to emerge. There is evidence of further consolidation in the UK sector which is, in part, driven by increasing regulatory pressures and we expect this to continue.

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

A A key focus for the UK business during the year has been to secure the successful integration of Williams de Broë. A key milestone in the integration process was achieved in August 2012. The client base of the Williams de Broë business was migrated onto the Wealth & Investment settlement platform and investment management systems and processes were unified. From that point on, the enlarged business has traded under the Investec brand. Those offices which shared common geographical locations have now been brought together within a unified office in each location.

From a financial perspective, the principal cost synergies which we expected to gain from the integration of the businesses have now been achieved. As these have arisen during the course of the 2012/13 financial year, the positive impact on profitability will not be fully reflected until the 2013/14 financial year. The costs of integrating the businesses are within the range originally anticipated. As a unified business, the stronger foundation and wider geographical base from which we now operate stands the business in good stead to meet the challenges and opportunities of the future.

Switzerland will form part of the international platform consisting of Guernsey (integration not yet complete) and the UK. Costs have been contained and resources restructured. We also have a stand-alone platform in Ireland to service the domestic base.

We are commencing the process of integrating key business areas of NCB into Investec Wealth & Investment. In May 2013, NCB Stockbrokers Limited changed its name to Investec Capital & Investments (Ireland) Limited with the Wealth & Investment business trading as Investec Wealth & Investment.

Q What are your strategic objectives for the coming year?

A With well established investment management businesses in the UK, along with an offshore platform in Switzerland, all operating under a single Investec brand, we are well placed to enhance and expand our offering to international and higher net worth clients. We see the international and higher net worth arenas as markets which provide the opportunity for new asset and revenue streams utilising our international custody capabilities and our investment management expertise which has been built in our existing businesses.

Q What is your outlook for the coming year?

A The 2013 calendar year began with a significant improvement in market conditions. As we began the new financial year, equity markets remained buoyant and there are sound reasons to be cautiously optimistic that market conditions will remain favourable throughout the 2013/14 financial year. However, recent developments in Cyprus and other parts of the world act as a reminder that the risks which affected market conditions in 2012 may yet re-emerge.

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

A The services provided by Investec Wealth & Investment assist clients to preserve and grow their wealth and to build and plan for their future financial security. As experienced, unbiased, professional advisers, we are well equipped to give clients the advice they need on all aspects of investment management as well as financial planning services. At Investec Wealth & Investment we understand that wealth is not just about money. We work in partnership with out of the ordinary organisations that share our core values.

Through these partnerships our clients gain access to a range of interesting and diverse opportunities to appreciate, learn and enjoy.

For example, we have been sponsoring the National Garden Scheme's Yellow Book for 19 years, helping garden owners to raise close to £30 million for nursing and garden charities. In 2013 there will be nearly 4 000 gardens across England and Wales opening on behalf of The National Gardens Scheme.

For further information download the sustainability report available on our website.

Questions and answers

David van der Walt

Geographical business leader United Kingdom

Specialist Banking…

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

A Budgets ahead of Investec's financial year were prepared at a time when activity levels were high following a massive injection of liquidity by the ECB. Economic activity slowed dramatically from April 2012 on the back of European uncertainty, returning slowly from November 2012.

Banks remain high on the political agenda throughout Europe. Ongoing changes in regulation drive up costs and create instability with regard to remuneration, liquidity, Basel and conduct. The cost of liquidity went up and LIBOR moved down significantly in the first eight months of Investec's financial year; subsequently costs of liquidity have reduced substantially. Credit spreads reduced dramatically during the period.

The opportunity was Europe but Investec Specialist Bank chose not to enter the market. We pre-funded asset growth which never materialised, leaving us overfunded at a large expense. Volatility hit an all time low affecting trading books. Impairments remained higher than we had anticipated but improved year-on-year.

In summary it was a difficult period for us.

Q What are your strategic objectives for the coming year?

A There have been various highlights in the UK banking business. Asset Finance and the mortgages co-located in Reading in the first quarter of 2012. NCB was purchased in Ireland in June 2012. The private client Voyage card account was launched in November 2012. Kensington Mortgages was launched in November 2012 and Investec Mortgages in February 2013.

Online capability for retail deposit activities has been significantly enhanced. An Institutional Equities team was acquired in Hong Kong and trading capability established.

Banking operations were largely restructured under functional lines and progress is underway to optimise systems, processes and people.

The business units have been refocused on our core client base.

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

A Business objectives are to grow our client base and to optimise market penetration. We aim to launch ourselves as a committed and strategic partner in the high net worth and mid corporate space. We are actively managing impairments, costs and cost of liquidity. We plan to launch a credit and overdraft function for the Voyage card account in order to complete our transactional banking offering. We wish to take advantage of a dislocated UK banking landscape.

Q What is your outlook for the coming year?

A Growth should come from a reduced cost of funds, lower impairments and modest loan growth in high margin activities. We will originate and syndicate deals actively to ensure we churn our balance sheet and maximise the return on capital while ensuring we grow our client franchise. We will grow capital light businesses where possible.

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

A Investec has a broad based approach to sustainability, which extends beyond our own footprint on the environment and our many CSI activities, to our funding and investing activities. This is based on a deeper responsibility to our environment and society as opposed to just for business purposes. As such, sustainable risk considerations are considered in the credit and investment processes when making lending or

Questions and answers

David Clarke and Ciaran Whelan

Outgoing Acting

Geographical business leaders Australia

Specialist Banking...

investment decisions. In particular, we take into account environmental, social and economic considerations when reviewing a potential transaction.

In the UK we have made substantial progress with reducing our internal operational footprint. During the period under review our energy management system at our Gresham Street offices gained ISO14001 certification and won a number of awards recognising our efforts in energy and waste management. Investec was also Highly Commended in the Community Impact category at the National Business Charity Awards for our work with Arrival Education, a social enterprise that designs and delivers programmes to young people from challenging backgrounds.

For further information download the sustainability report available on our website.

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

A The last year saw the continuation of Investec's strategy to optimise the business in Australia and focus on our core activities as a specialist bank in niche markets. With a strong, stable and de-risked business model, we have focused on delivering returns and this has been reflected in Investec Australia returning to profit in 2012.

Australia's economic environment gradually improved during the course of Investec's 2012/13 financial year. Inflation at only 2% is under control and interest rates are reasonable with the economy growing, albeit slightly below trend.

Competition for retail deposits increased all banks' cost of funds during the year however, recent increased levels of liquidity in the market saw this cost reduce as the financial year came to an end. Australia's low interest rate environment assisted a gradual increase in confidence and activity in our lending areas from both corporate and private clients.

This stable operating environment has resulted in consistent activity in our Private Banking division and strong performances from our Corporate Advisory and Corporate Lending businesses.

Q What are your strategic objectives for the coming year?

A Investec Australia is focused on selectively growing our loan portfolio, expanding the Private Banking business with new products and continuing to diversify our deposit base.

Through the year, we announced the growth of our Asset Finance and Leasing business through the 100% acquisition of Alliance Equipment Finance, a respected vendor finance business with a 20-year history in the Australian market. Asset finance and leasing is an integral part of Investec's global strategy, with established operations across South Africa and the UK. The acquisition strengthens our capabilities and provides us with a new direct offering for our existing clients as well as a broadened portfolio of new customers.

Our everyday banking offering expanded through the launch of Investec's first credit card in Australia, the Investec Visa Signature card and the Investec Visa Platinum card. We added improved functionality to our online cash management account, and have one of Australia's best value deposit products and as such were awarded Canstar's Best Value Term Deposit in 2012.

Our deal-based income streams have continued to gain momentum, particularly through our Corporate Advisory activities and their approach in providing a specialist service to some of Australasia's largest companies. This year, we have represented a number of high profile clients including managing the sale of Australia's largest poultry provider, Ingham Enterprises, to private equity firm TPG (announced in March 2013).

Questions and answers (continued)

David Clarke and Ciaran Whelan

Outgoing Acting

Geographical business leaders Australia

Specialist Banking…

As one of Australia's largest finance providers to the medical and dental industry, we continued our expansion into this niche professional market by entering a partnership with CPA Australia (the official body for Certified Practising Accountants in Australia) to target finance and accounting professionals.

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

A Our number one priority is to nurture the relationships we have with our clients while reaching out to new ones. Our people are passionate about delivering exceptional client experiences and understanding the needs of our clients.

Additionally, we will continue to maintain a prudent deposit base while minimising our cost of funds. We have built strong annuity streams across the business which places us in good stead for the coming year. We believe we are now operating in the right markets and are focused on continuing in these niches. By doing this our people are becoming known as experts in the industries in which we operate.

We are also fostering a culture of constant improvement in everything we do. We're looking to maximise efficiencies in the way we operate.

Q What is your outlook for the coming year?

A We enter the year with a good pipeline of activity and an asset book with strong credit quality, well funded by our private client deposit base.

The Australian economic landscape is stable with the only real uncertainty centred on the country's Federal election in September 2013. Optimism in the market has improved and we believe Investec is well positioned to capture identified opportunities.

During the year ahead we have a particular focus on growing our Asset Finance and Leasing business, and continuing to expand and deepen our relationships in Private Banking with our professional client base.

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

A In Australia, sustainability plays a key role in our operations. Through the Investec Foundation and other operating committees, we have a number of initiatives that are at the forefront of ensuring Investec's profitability is not achieved at a cost to the environment.

We have a team of employees who actively implement initiatives that reduce our footprint on the environment. In our tenancies, while we are not the owner of the buildings, we are committed to reducing waste year-on-year.

To maximise our recycling efforts, our offices make use of co-mingled recycling bins, eco bins for all employees and we recently introduced 'swipe to print' which has dramatically reduced our paper consumption. Where possible we utilise office furniture made from recycled materials and our tenancies feature LED sensor lighting which is shut off completely after core business hours. We also encourage our employees to use public transport to and from work and we're forging the way in making it easier for employees to work from home.

For further information download the sustainability report available on our website.

Risk management and corporate governance

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.

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 30 to 96 with further disclosures provided within the financial statements section on pages 121 to 196.

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

All references to the group relate to the combined Investec group incorporating Investec plc and Investec Limited.

The majority of the group's Pillar III risk disclosures as required in terms of BIPRU 11 pertaining to banks in the UK 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 plc consolidated basis unless otherwise stated. Investec Bank plc is a significant subsidiary of Investec plc and is required to publish certain Pillar III disclosures separately on a consolidated basis.

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 risks 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 12 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

- 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 decreased from £157.0 million to £110.4 million. The UK reported a moderate decrease whilst impairments in Australia were £50 million lower than the prior year. 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 3.76% (2012: 4.11%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.15 times (2012: 1.09 times). The credit loss charge as a percentage of average gross core loans and advances has improved from 1.66% at 31 March 2012 to 1.20%
- Limited exposure to structured credit investments; representing approximately 2.4% of total assets
- Limited private client and corporate client exposures to peripheral Europe amounting to approximately 1.4% of total assets. In addition the bank has certain branch related activities in Ireland, with total assets representing 1.7% of the bank's assets
- A low leverage (gearing) ratio of 11.0 times
- A low level of net assets and liabilities exposed to the volatility of IFRS fair value accounting; with level 3 assets amounting to 4.0% of total assets
- Low equity and investment risk exposure; within total investments comprising 2.7% of total assets
- Modest proprietary market risk within our trading portfolio. Value at risk and stress testing scenarios remain at prudent levels
- Potential losses that could arise in our trading book portfolio when stress tested under extreme market conditions (i.e. per extreme value theory) amount to less than 0.3% of total operating income
- A high level of readily available, high quality liquid assets; cash and near cash of £4.5 billion, representing 32.3% 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.

Geographic summary of the year in review from a risk perspective

Detailed information on key developments during the financial year in review is provided in the sections that follow:

Refer to page 71 and pages 82 and 83, with a high level geographic summary of the most salient aspects provided below.

UK and Other

Credit risk

Against a difficult economic background we continued to rebalance our lending portfolios in line with our risk appetite statement and in particular focusing on a reduction in property/real estate as a proportion of our total loan exposures. Non-property collateralised lending as a percentage of gross credit exposures has increased. Core loans and advances increased by 4.7% from £5.8 billion at 31 March 2012 to £6.0 billion at 31 March 2013. Default loans (net of impairments) have decreased from 4.93% as at March 2012 to 4.35% of core loans and advances. The credit loss ratio is at 1.32%.

Traded market risk

Despite the difficult environment in the UK, there has been continued growth in client activity across the interest rate and foreign exchange corporate sales desk although other trading opportunities were limited. The Structured Equity desk's retail product sales have remained strong and they continue to develop their product range. Equity market making has expanded its coverage of stocks.

Balance sheet risk

The bank entered the year with a healthy surplus liquidity position, which increased during the year mainly due to retail deposits. This was managed down over the course of the year, returning to a similar surplus as at the beginning of the year. Throughout the first portion of the year, retail one year and two year fixed rate products continued to attract significant deposit inflows. As liquidity grew, rates were reduced to stem excessive inflows. Furthermore, the bank entered the wholesale markets with a three year £178 million syndicated bank club loan in June 2012 and a £200 million UK residential mortgage securitisation in September 2012. Cash and near cash balances as at 31 March 2013 amounted to £3.9 billion (2012: £3.6 billion) with total customer deposits increasing by 1.1% during the year to £9.6 billion. The bank in the UK currently comfortably meets its regulatory liquidity requirements and will progress to implement the forthcoming liquidity proposals included in the CRD IV (Basel III) package. The bank is currently shadowing and comfortably meeting the draft Liquidity Coverage and Net Stable Funding ratios. We will continue to monitor these rules until final implementation.

Australia

Credit risk

Core loans and advances increased by 10.0% from A$3.0 billion at 31 March 2012 to A$3.3 billion at 31 March 2013. Default loans (net of impairments) increased marginally from 1.70% to 2.13% of core loans and advances, with the credit loss ratio improving significantly from 3.13% to 0.85%. Our Professional Finance business continues to show consistent growth to become the largest segment of the Investec Australia loan book, and has maintained historically low levels of arrears and defaults.

Traded market risk

Australian trading activity remains modest, with limited appetite for traded market risk exposures. Client activity is higher than in previous years on the back of improved deal activity, but remains somewhat sporadic.

Balance sheet risk

Investec Australia maintained a strong liquidity position well in excess of regulatory and internal policy requirements throughout the year, with average cash and near cash balances amounting to A$1.2 billion. Total customer deposits increased by 4.3% from 1 April 2012 to A$2.5 billion at 31 March 2013, which included an active diversification strategy across funding channels. In respect of liquidity, the Australian Prudential Regulatory Authority (APRA) is still formulating a response to recent proposed changes to the Liquidity Coverage Ratio measure recently recommended by the Basel Committee on Banking Supervision (BCBS). The bank in Australia remains committed to implementing the BCBS guidelines for liquidity risk measurement.

Salient features

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

Year to 31 March	2013	2012
Net core loans and advances (£'million)	8 237	7 712
Gross defaults as a % of gross core loans and advances	5.96%	6.11%
Defaults (net of impairments) as a % of net core loans and advances	3.76%	4.11%
Net defaults (after collateral and impairments) as a % of net core loans and advances	–	–
Credit loss ratio*	1.20%	1.66%
Structured credit investments as a % of total assets	2.43%	3.02%
Banking book investment and equity risk exposures as a % of total assets	2.70%	2.26%
Traded market risk: one-day value at risk (£'million)	0.8	0.6
Cash and near cash (£'million)	4 543	4 485
Customer accounts (deposits) (£'million)	11 427	11 103
Core loans to equity ratio	4.3x	4.5x
Total gearing/leverage ratio**	11.0x	11.7x
Core loans (excluding own originated assets which have been securitised) to customer deposits	67.8%	64.6%
Capital adequacy ratio	16.3%	16.8%
Tier 1 ratio	11.1%	11.5%

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

An overview of key risks

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

These risks have been highlighted on page 15.

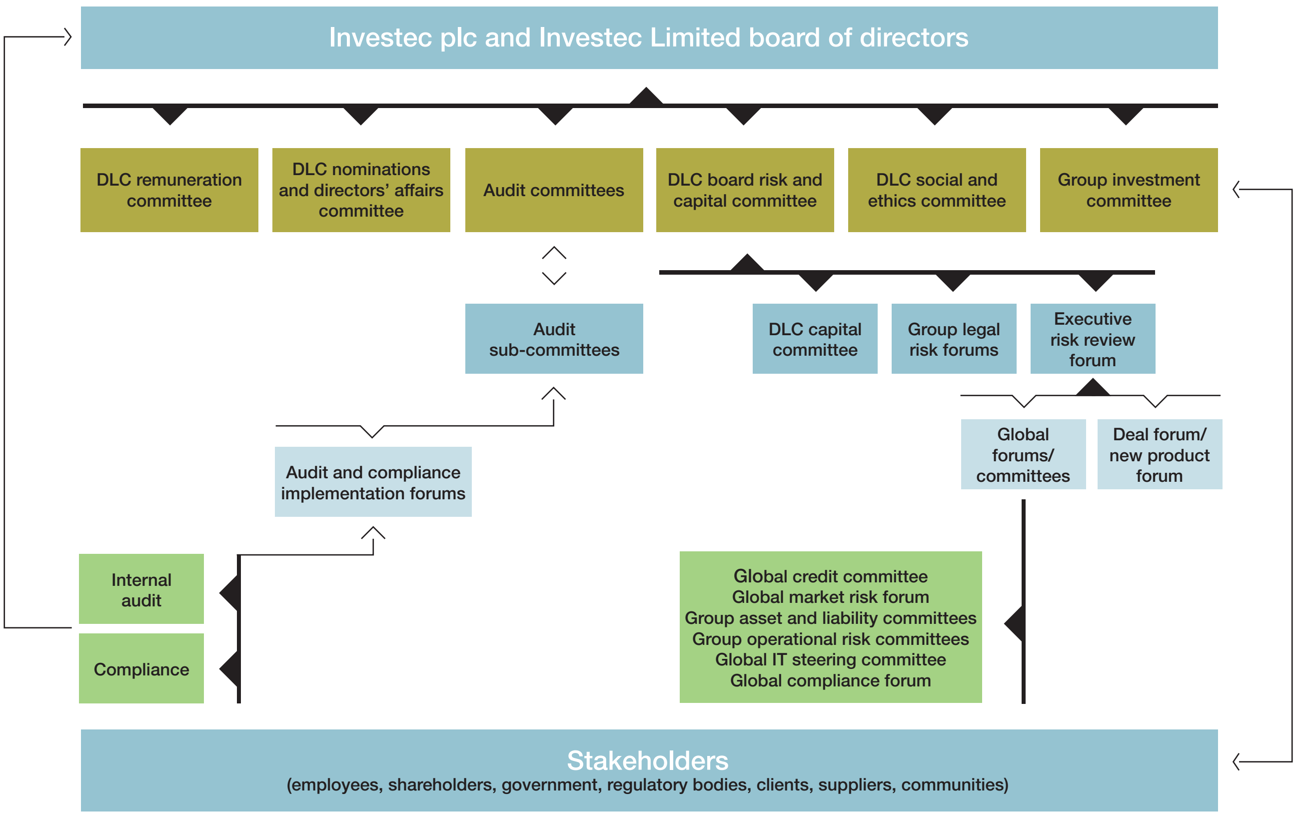
The sections that follow provide information on a number of these risk areas.

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
FSA	Financial Services Authority
APRA	Australian Prudential Regulatory Authority
ALCO	Asset and liability committee
PRA	Prudential Regulatory Authority
FCA	Financial Conduct Authority

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

There is a preference for primary exposure in the group's principal geographies i.e. UK and Australia. The group will accept exposures where we have a branch/banking business. The group will also tolerate exposures to other countries where it has core capabilities.

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

Our assessment of our clients includes consideration of their character and integrity, core competencies, track record and financial strength. A strong emphasis is placed on income and cash flow streams generated by the clients, third party income or cash flow streams derived from lease or rental agreements in support of property related transactions. In this manner, we seek comfort in mitigating our risk by thoroughly assessing the ability of our borrowers to meet their payment obligations.

Furthermore we have very little appetite for unsecured debt and ensure that good quality collateral is provided in support of obligations (refer to page 61 for further information).

Target clients include high net worth individuals, certain professionally qualified individuals, high income earning individuals, corporates, state owned enterprises and banks. Corporates must have scale, 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 65 to 67 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 our 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 and the board at the BRCC. The board regularly reviews and approves the appetite for credit and counterparty risk, which is documented in risk appetite statements and policy documents and implemented by 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 pages 58 and 59.

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 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 pages 58 and 59.

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 in the UK, Europe, Australia and the US. A rigorous internal assessment process, supported by rating agency information, is undertaken to analyse each counterparty to which we may be potentially exposed to ascertain their credit worthiness.

Our trading portfolio consists of positions in interest rates, foreign exchange and equities. 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 these assets 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
- Corporate Loans: provides mostly senior loans to mid and large cap corporates. In the UK these are usually part of a larger facility participating with other banks either as transaction leader or support
- 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 historic 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
- Fund Finance: provides bespoke credit facilities to segregated funds to facilitate investment opportunities prior to institutional cash calls which the fund has an irrevocable commitment. Fund Finance will also support management companies in their co-investment requirements
- 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 pages 58 and 59.

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.

Wealth & Investment

Investec Wealth & Investment provides investment management services to private clients, charities, intermediaries, pension schemes and trusts. Wealth & Investment is entirely an agency business that takes no principal risk. Its core business is discretionary and non-discretionary investment management services.

Settlement risk can arise due to undertaking transactions in an agency capacity on behalf of clients. However, the risk is not considered to be material as most transactions are undertaken with large institutional clients, are monitored daily, and trades are usually settled within two days.

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.

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.

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

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.

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 61.

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 minimal reliance on credit derivatives in its credit risk mitigation techniques. Periodically the bank in the UK will enter into Credit Default Swaps (CDS) in order to hedge a specific asset held or to create a more general or macro hedge against a group of exposures in one industry or geography, in these instances, the bank is deemed to be 'buying protection' against the assets. Depending on the perceived risk, or 'spread', of the underlying exposure, the CDS will fluctuate in value; increasing in value when the asset has become more risky and decreasing when risk has reduced. Occasionally, the bank will enter into trading/investment CDS positions where we buy protection or sell protection without owning the underlying asset. The total amount of credit derivatives outstanding at 31 March 2013 amounts to £8.4 million, of which £4.1 million is used for credit mitigation purposes and the balance for trading and investment. Total protection bought amounts to £3.7 million (£3.7 million relating to credit derivatives used in credit mitigation) and total protection sold amounts to £2.5 million (£0.4 million relating to credit derivatives used in credit mitigation).

Further information on credit derivatives is provided on pages 167 and 168.

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

UK and Other

Against a difficult economic background, we continued to rebalance the lending portfolios in line with our risk appetite statement and in particular focusing on a reduction in property/real estate as a proportion of our total loan exposures.

Our lending activity in structured property lending remained muted as we actively managed this portfolio down. Exposure to lending collateralised by property in the higher risk category of planning and development continued to reduce year-on-year by 14.6%. Lending supported by proven cash flows rather than asset value propositions continues to be favoured. Most property collateralised assets are located in the UK. Our exposure to Irish domiciled assets has been under intensive management for the past four years and non-performing assets have been substantially impaired (48% of the non-performing Irish assets have been impaired and we consider this level to be prudent and adequate). Non-property collateralised lending as a percentage of gross credit exposures has increased.

Core loans and advances increased by 4.7% from £5.8 billion at 31 March 2012 to £6.0 billion at 31 March 2013.

Default loans (net of impairments) have decreased from 4.93% to 4.35% of core loans and advances. The credit loss ratio is at 1.32%.

Private Client gross default loans (before collateral and impairments) increased marginally year-on-year largely due to a handful of clients experiencing financial difficulty with no other major changes in general trends reflected in the Private Client portfolio.

Defaults in corporate loans were higher than in 2012 mainly as a result of continued economic and subsequent financial stress on UK high street retailers along with print directories businesses being impacted by the structural market shift to online competition. European corporates started feeling the pressure of subdued economic activity, increased tax charges and government austerity measures (including Greece, Netherlands and Ireland) began feeding through into mainstream consumption figures, reducing spending power. Activity levels for new corporate lending in the second half of the financial year remained subdued due to the ongoing euro zone crisis.

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

Australia

Core loans and advances increased by 10.0% from A$3.0 billion at 31 March 2012 to A$3.3 billion at 31 March 2013. Default loans (net of impairments) increased marginally from 1.70% to 2.13% of core loans and advances, with the credit loss ratio improving significantly from 3.13% to 0.85%.

Our non-core property collateralised loan portfolio has continued to run down; this has been offset to some extent by an increase in defaults in our Growth and Acquisition Finance activities. Additionally, our general performing collateralised property exposures have been managed down to lower levels.

Our Professional Finance business continues to show consistent growth to become the largest segment of the Investec Australia loan book, and has maintained historically low levels of arrears and defaults.

Investec Australia's Asset Finance business continues to grow, following the acquisition of Alliance Equipment Finance in July 2012. This granular asset finance book is well diversified and shows relatively low levels of defaults.

Credit and counterparty risk information

Pages 13 to 41 describe where and how credit risk is assumed in our operations.

The tables that follow provide an analysis of the credit and counterparty exposures.

An analysis of gross credit and counterparty exposures

Credit and counterparty exposures increased by 7.6% to £18.2 billion largely as a result of an increase in core loans and advances. Cash and near cash balances increased by 1.3% to £4.5 billion and are largely reflected in the following line items in the table below: cash and balances at central banks, loans and advances to banks and sovereign debt securities.

As at 31 March £'000	2013	2012	% change	Average*
Cash and balances at central banks	1 372 812	1 835 820	(25.2%)	1 604 316
Loans and advances to banks	1 134 074	863 540	31.3%	998 807
Reverse repurchase agreements and cash collateral on securities borrowed	1 528 593	522 180	>100%	1 025 387
Sovereign debt securities	1 660 377	1 647 271	0.8%	1 653 824
Bank debt securities	455 201	824 552	(44.8%)	639 877
Other debt securities	192 248	166 062	15.8%	179 155
Derivative financial instruments	692 675	653 160	6.0%	672 918
Securities arising from trading activities	468 000	250 071	87.1%	359 036
Loans and advances to customers (gross)	7 938 213	7 340 042	8.1%	7 639 128
Own originated loans and advances to customers (gross)	491 753	536 297	(8.3%)	514 025
Other loans and advances (gross)	1 268 102	1 293 498	(2.0%)	1 280 800
Other securitised assets (gross)	27 544	34 800	(20.9%)	31 172
Other assets	61 291	2 390	>100%	31 841
Property and equipment	4 726	19 761	(76.1%)	12 244
Total on-balance sheet exposures	17 295 609	15 989 444	8.2%	16 642 527
Guarantees^	208 357	204 928	1.7%	206 643
Contingent liabilities, committed facilities and other	650 918	683 075	(4.7%)	666 997
Total off-balance sheet exposures	859 275	888 003	(3.2%)	873 639
Total gross credit and counterparty exposures pre collateral or other credit enhancements	18 154 884	16 877 447	7.6%	17 516 166

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

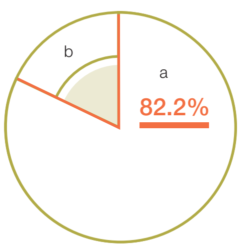
^ *Excludes guarantees provided to clients which are backed/secured by cash on deposit with the bank.*

An analysis of gross credit and counterparty exposures by geography

As at 31 March £'000	UK and Other 2013	UK and Other 2012	Australia 2013	Australia 2012	Total 2013	Total 2012
Cash and balances at central banks	1 228 289	1 655 796	144 523	180 024	1 372 812	1 835 820
Loans and advances to banks	1 048 898	795 073	85 176	68 467	1 134 074	863 540
Reverse repurchase agreements and cash collateral on securities borrowed	1 528 593	522 180	–	–	1 528 593	522 180
Sovereign debt securities	1 365 463	1 415 447	294 914	231 824	1 660 377	1 647 271
Bank debt securities	275 173	294 383	180 028	530 169	455 201	824 552
Other debt securities	169 742	84 202	22 506	81 860	192 248	166 062
Derivative financial instruments	618 462	519 391	74 213	133 769	692 675	653 160
Securities arising from trading activities	459 731	243 187	8 269	6 884	468 000	250 071
Loans and advances to customers (gross)	6 207 293	5 914 481	1 730 920	1 425 561	7 938 213	7 340 042
Own originated loans and advances to customers (gross)	–	1 296	491 753	535 001	491 753	536 297
Other loans and advances (gross)	1 268 102	1 293 498	–	–	1 268 102	1 293 498
Other securitised assets (gross)	27 544	34 800	–	–	27 544	34 800
Other assets	61 291	2 390	–	–	61 291	2 390
Property and equipment	4 726	19 761	–	–	4 726	19 761
Total on-balance sheet exposures	14 263 307	12 795 885	3 032 302	3 193 559	17 295 609	15 989 444
Guarantees^	169 282	172 931	39 075	31 997	208 357	204 928
Contingent liabilities, committed facilities and other	488 157	518 543	162 761	164 532	650 918	683 075
Total off-balance sheet exposures	657 439	691 474	201 836	196 529	859 275	888 003
Total gross credit and counterparty exposures pre collateral or other credit enhancements	14 920 746	13 487 359	3 234 138	3 390 088	18 154 884	16 877 447

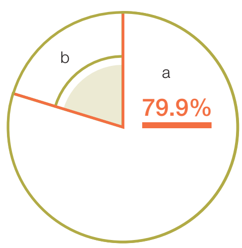
^ *Excludes guarantees provided to clients which are backed/secured by cash on deposit with the bank.*

An analysis of gross credit and counterparty exposures by geography



31 March 2013
£18 155 million

a	UK and Other	82.2%
b	Australia	17.8%



31 March 2012
£16 877 million

a	UK and Other	79.9%
b	Australia	20.1%

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.

£'000	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note reference	Total balance sheet
As at 31 March 2013				
Cash and balances at central banks	1 372 812	2 842		1 375 654
Loans and advances to banks	1 134 074	–		1 134 074
Reverse repurchase agreements and cash collateral on securities borrowed	1 528 593	–		1 528 593
Sovereign debt securities	1 660 377	–		1 660 377
Bank debt securities	455 201	–		455 201
Other debt securities	192 248	5 447		197 695
Derivative financial instruments	692 675	255 353		948 028
Securities arising from trading activities	468 000	205 763		673 763
Investment portfolio	–	364 762	1	364 762
Loans and advances to customers	7 938 213	(192 630)	2	7 745 583
Own originated loans and advances to customers securitised	491 753	(559)	2	491 194
Other loans and advances	1 268 102	535 527	3	1 803 629
Other securitised assets	27 544	739 871	4	767 415
Interest in associated undertakings	–	16 989		16 989
Deferred taxation assets	–	112 172		112 172
Other assets	61 291	1 139 005	5	1 200 296
Property and equipment	4 726^	74 314		79 040
Investment properties	–	11 500		11 500
Goodwill	–	326 841		326 841
Intangible assets	–	175 478		175 478
Total on-balance sheet exposures	17 295 609	3 772 675		21 068 284

^ *Reflects future receivables in respect of assets subject to operating lease contracts.*
1. *Largely relates to exposures that are classified as equity risk in the banking book. Further information is provided on pages 62 to 64.*
2. *Largely relates to impairments and the impact of hedge accounting.*
3. *Largely intergroup lending which is deemed to have no credit exposure.*
4. *Whilst the group manages all risks (including credit risk) from a day-to-day operational perspective, these assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicles that the group has reflected in the 'total credit and counterparty exposure' with the maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'.*
5. *Other assets include settlement debtors where we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

£'000	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note reference	Total balance sheet
As at 31 March 2012				
Cash and balances at central banks	1 835 820	16		1 835 836
Loans and advances to banks	863 540	–		863 540
Reverse repurchase agreements and cash collateral on securities borrowed	522 180	636 958	3	1 159 138
Sovereign debt securities	1 647 271	–		1 647 271
Bank debt securities	824 552	–		824 552
Other debt securities	166 062	19 281		185 343
Derivative financial instruments	653 160	213 248		866 408
Securities arising from trading activities	250 071	122 499		372 570
Investment portfolio	–	317 313	1	317 313
Loans and advances to customers	7 340 042	(163 050)	2	7 176 992
Own originated loans and advances to customers securitised	536 297	(1 289)	2	535 008
Other loans and advances	1 293 498	774 128	3	2 067 626
Other securitised assets	34 800	605 455	4	640 255
Interest in associated undertakings	–	17 780		17 780
Deferred taxation assets	–	89 490		89 490
Other assets	2 390	1 114 436	5	1 116 826
Property and equipment	19 761^	102 941		122 702
Investment properties	–	11 500		11 500
Goodwill	–	278 574		278 574
Intangible assets	–	117 525		117 525
Total on-balance sheet exposures	15 989 444	4 256 805		20 246 249

^ *Reflects future receivables in respect of assets subject to operating lease contracts.*
1. *Largely relates to exposures that are classified as equity risk in the banking book. Further information is provided on pages 62 to 64.*
2. *Largely relates to impairments and the impact of hedge accounting.*
3. *Largely intergroup lending which is deemed to have no credit exposure.*
4. *Whilst the group manages all risks (including credit risk) from a day-to-day operational perspective, these assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicles that the group has reflected in the 'total credit and counterparty exposure' with the maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'.*
5. *Other assets include settlement debtors 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

£'000	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	1 372 812	–	–	–	–	–	1 372 812
Loans and advances to banks	1 059 058	–	–	75 016	–	–	1 134 074
Reverse repurchase agreements and cash collateral on securities borrowed	1 528 593	–	–	–	–	–	1 528 593
Sovereign debt securities	349 996	284 638	133 998	212 548	103 573	575 624	1 660 377
Bank debt securities	65 148	13 590	17 028	213 073	146 362	–	455 201
Other debt securities	16 052	–	7 270	14 292	23 583	131 051	192 248
Derivative financial instruments	160 115	37 501	25 515	387 435	30 073	52 036	692 675
Securities arising from trading activities	117 967	–	–	264 195	242	85 596	468 000
Loans and advances to customers (gross)	1 674 037	939 153	830 160	3 700 088	591 350	203 425	7 938 213
Own originated loans and advances to customers (gross)	29 095	16 350	50 811	363 342	14 012	18 143	491 753
Other loans and advances (gross)	57	4 312	–	21 523	11 895	1 230 315	1 268 102
Other securitised assets (gross)	–	–	–	–	–	27 544	27 544
Other assets	61 291	–	–	–	–	–	61 291
Property and equipment	953	743	846	2 184	–	–	4 726
Total on-balance sheet exposures	6 435 174	1 296 287	1 065 628	5 253 696	921 090	2 323 734	17 295 609
Guarantees	33 997	98	18 658	155 377	227	–	208 357
Contingent liabilities, committed facilities and other	275 064	42 243	62 874	242 636	28 101	–	650 918
Total off-balance sheet exposures	309 061	42 341	81 532	398 013	28 328	–	859 275
Total gross credit and counterparty exposures pre collateral or other credit enhancements	6 744 235	1 338 628	1 147 160	5 651 709	949 418	2 323 734	18 154 884

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 36, and a more detailed analysis of the private client loan portfolio is provided on pages 58 and 59.

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 pages 36 and 37, and a more detailed analysis of the corporate client loan portfolio is provided on pages 58 and 59.

Private client loans account for 54.3% of total gross core loans and advances, as represented by the industry classification 'HNW and professional individuals'.

Breakdown of gross credit exposure by industry

As at 31 March £'000	Gross core loans and advances		Other credit and counterparty exposures		Total	
	2013	2012	2013	2012	2013	2012
HNW and professional individuals	4 575 916	5 167 269	242 036	289 361	4 817 952	5 456 630
Agriculture	9 620	13 559	26	517	9 646	14 076
Electricity, gas and water (utility services)	355 389	368 128	60 441	64 349	415 830	432 477
Public and non-business services	189 498	148 830	3 502 318	3 347 309	3 691 816	3 496 139
Business services	416 214	218 778	65 242	17 958	481 456	236 736
Finance and insurance	523 242	303 584	4 347 015	3 966 235	4 870 257	4 269 819
Retailers and wholesalers	313 682	247 068	43 989	33 702	357 671	280 770
Manufacturing and commerce	453 329	414 704	68 377	70 494	521 706	485 198
Construction	36 964	47 732	35 605	47 869	72 569	95 601
Commercial real estate	593 371	384 277	81 326	78 318	674 697	462 595
Residential mortgages	–	–	1 090 145	852 950	1 090 145	852 950
Mining and resources	107 813	89 032	53 181	66 912	160 994	155 944
Leisure, entertainment and tourism	128 593	117 694	10 797	24 834	139 390	142 528
Transport and communication	726 335	355 684	124 420	140 300	850 755	495 984
Total	8 429 966	7 876 339	9 724 918	9 001 108	18 154 884	16 877 447

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

£'000	HNW and professional individuals	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services	Finance and insurance
2013						
Cash and balances at central banks	–	–	–	1 372 812	–	–
Loans and advances to banks	–	–	–	–	–	1 134 074
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	–	1 528 593
Sovereign debt securities	–	–	–	1 660 377	–	–
Bank debt securities	–	–	–	–	–	455 201
Other debt securities	–	–	–	–	–	138 842
Derivative financial instruments	2 355	26	20 846	4 674	6 692	591 864
Securities arising from trading activities	–	–	3	458 545	593	8 743
Loans and advances to customers (gross)	4 084 163	9 620	355 389	189 498	416 214	523 242
Own originated loans and advances to customers (gross)	491 753	–	–	–	–	–
Other loans and advances (gross)	–	–	–	–	–	177 901
Other securitised assets (gross)	–	–	–	–	–	27 544
Other assets	–	–	24	–	–	56 605
Property and equipment	–	–	8	32	2 191	810
Total on-balance sheet exposures	4 578 271	9 646	376 270	3 685 938	425 690	4 643 419
Guarantees	22 057	–	118	–	883	150 508
Contingent liabilities, committed facilities and other	217 624	–	39 442	5 878	54 883	76 330
Total off-balance sheet exposures	239 681	–	39 560	5 878	55 766	226 838
Total gross credit and counterparty exposures pre collateral or other credit enhancements	4 817 952	9 646	415 830	3 691 816	481 456	4 870 257
2012						
Cash and balances at central banks	–	–	–	1 655 761	–	180 059
Loans and advances to banks	–	–	–	–	–	863 540
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	–	522 180
Sovereign debt securities	–	–	–	1 470 206	–	177 065
Bank debt securities	–	–	–	–	–	824 552
Other debt securities	–	–	–	–	–	86 644
Derivative financial instruments	907	119	15 702	–	3 884	561 465
Securities arising from trading activities	–	–	–	202 558	–	47 513
Loans and advances to customers (gross)	4 630 972	13 559	368 128	148 830	218 778	303 584
Own originated loans and advances to customers securitised (gross)	536 297	–	–	–	–	–
Other loans and advances (gross)	–	–	–	–	–	440 548
Other securitised assets (gross)	–	–	–	–	–	34 800
Other assets	–	–	–	–	–	2 390
Property and equipment	–	398	442	1 101	5 390	1 035
Total on-balance sheet exposures	5 168 176	14 076	384 272	3 478 456	228 052	4 045 375
Guarantees	5 857	–	4 395	–	–	155 613
Contingent liabilities, committed facilities and other	282 597	–	43 810	17 683	8 684	68 831
Total off-balance sheet exposures	288 454	–	48 205	17 683	8 684	224 444
Total gross credit and counterparty exposures pre collateral or other credit enhancements	5 456 630	14 076	432 477	3 496 139	236 736	4 269 819

Retailers and wholesalers	Manufacturing and commerce	Construction	Commercial real estate	Residential mortgages	Mining and resources	Leisure, entertainment and tourism	Transport and communication	Total
–	–	–	–	–	–	–	–	1 372 812
–	–	–	–	–	–	–	–	1 134 074
–	–	–	–	–	–	–	–	1 528 593
–	–	–	–	–	–	–	–	1 660 377
–	–	–	–	–	–	–	–	455 201
–	–	7 270	46 136	–	–	–	–	192 248
7 676	14 628	24 268	10 712	–	1 993	3 497	3 444	692 675
–	–	–	–	–	–	–	116	468 000
313 682	453 329	36 964	593 371	–	107 813	128 593	726 335	7 938 213
–	–	–	–	–	–	–	–	491 753
–	–	–	–	1 090 145	–	–	56	1 268 102
–	–	–	–	–	–	–	–	27 544
–	187	–	3 707	–	593	–	175	61 291
528	426	65	248	–	11	1	406	4 726
321 886	468 570	68 567	654 174	1 090 145	110 410	132 091	730 532	17 295 609
687	4 174	–	994	–	28 586	350	–	208 357
35 098	48 962	4 002	19 529	–	21 998	6 949	120 223	650 918
35 785	53 136	4 002	20 523	–	50 584	7 299	120 223	859 275
357 671	521 706	72 569	674 697	1 090 145	160 994	139 390	850 755	18 154 884
–	–	–	–	–	–	–	–	1 835 820
–	–	–	–	–	–	–	–	863 540
–	–	–	–	–	–	–	–	522 180
–	–	–	–	–	–	–	–	1 647 271
–	–	–	–	–	–	–	–	824 552
–	–	6 831	56 368	–	–	12 313	3 906	166 062
7 846	17 707	17 010	17 472	–	5 020	4 528	1 500	653 160
–	–	–	–	–	–	–	–	250 071
247 068	414 704	47 732	384 277	–	89 032	117 694	355 684	7 340 042
–	–	–	–	–	–	–	–	536 297
–	–	–	–	852 950	–	–	–	1 293 498
–	–	–	–	–	–	–	–	34 800
–	–	–	–	–	–	–	–	2 390
2 569	4 375	553	1 633	–	–	330	1 935	19 761
257 483	436 786	72 126	459 750	852 950	94 052	134 865	363 025	15 989 444
1 614	–	–	–	–	33 828	500	3 121	204 928
21 673	48 412	23 475	2 845	–	28 064	7 163	129 838	683 075
23 287	48 412	23 475	2 845	–	61 892	7 663	132 959	888 003
280 770	485 198	95 601	462 595	852 950	155 944	142 528	495 984	16 877 447

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

Calculation of core loans and advances to customers

As at 31 March £'000	2013	2012
Loans and advances to customers as per the balance sheet	7 745 583	7 176 992
Add: own originated loans and advances securitised as per the balance sheet	491 194	535 008
Net core loans and advances to customers	8 236 777	7 712 000

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 40 to 41.

£'000	31 March 2013	31 March 2012
Gross core loans and advances to customers	8 429 966	7 876 339
Total impairments	(193 189)	(164 339)
Portfolio impairments	(6 694)	(3 210)
Specific impairments	(186 495)	(161 129)
Net core loans and advances to customers	8 236 777	7 712 000
Average gross core loans and advances to customers	8 153 153	7 844 614
Current loans and advances to customers	7 767 954	7 154 105
Past due loans and advances to customers (1 – 60 days)	131 348	230 038
Special mention loans and advances to customers	27 943	10 794
Default loans and advances to customers	502 721	481 402
Gross core loans and advances to customers	8 429 966	7 876 339
Current loans and advances to customers	7 767 954	7 154 105
Default loans that are current and not impaired	8 005	–
Gross core loans and advances to customers that are past due but not impaired	177 909	256 569
Gross core loans and advances to customers that are impaired	476 098	465 665
Gross core loans and advances to customers	8 429 966	7 876 339
Total income statement charge for core loans and advances	(97 729)	(156 976)
Gross default loans and advances to customers	502 721	481 402
Specific impairments	(186 495)	(161 129)
Portfolio impairments	(6 694)	(3 210)
Defaults net of impairments	309 532	317 063
Collateral and other credit enhancements	356 321	346 560
Net default loans and advances to customers (limited to zero)	–	–
Ratios		
Total impairments as a % of gross core loans and advances to customers	2.29%	2.09%
Total impairments as a % of gross default loans	38.43%	34.14%
Gross defaults as a % of gross core loans and advances to customers	5.96%	6.11%
Defaults (net of impairments) as a % of net core loans and advances to customers	3.76%	4.11%
Net defaults as a % of gross core loans and advances to customers	–	–
Credit loss ratio (i.e. income statement impairment charge as a % of average gross core loans and advances)	1.20%	1.66%

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

£'000	UK and Other 31 March 2013	UK and Other 31 March 2012	Australia 31 March 2013	Australia 31 March 2012	Total group 31 March 2013	Total group 31 March 2012
Gross core loans and advances to customers	6 207 293	5 915 778	2 222 673	1 960 561	8 429 966	7 876 339
Total impairments	(175 562)	(152 085)	(17 627)	(12 254)	(193 189)	(164 339)
Specific impairments	(170 564)	(150 418)	(15 931)	(10 711)	(186 495)	(161 129)
Portfolio impairments	(4 998)	(1 667)	(1 696)	(1 543)	(6 694)	(3 210)
Net core loans and advances to customers	6 031 731	5 763 693	2 205 046	1 948 307	8 236 777	7 712 000
% of total	73.2%	74.7%	26.8%	25.3%	100.0%	100.0%
% change since 31 March 2012	4.7%		13.2%		6.8%	
Average gross core loans and advances to customers	6 061 535	5 812 499	2 091 618	2 032 115	8 153 153	7 844 614
Current loans and advances to customers	5 628 594	5 254 569	2 139 360	1 899 536	7 767 954	7 154 105
Past due loans and advances to customers (1 – 60 days)	113 723	215 743	17 625	14 295	131 348	230 038
Special mention loans and advances to customers	26 948	9 370	995	1 424	27 943	10 794
Default loans and advances to customers	438 028	436 096	64 693	45 306	502 721	481 402
Gross core loans and advances to customers	6 207 293	5 915 778	2 222 673	1 960 561	8 429 966	7 876 339
Current loans and advances to customers	5 628 594	5 254 569	2 139 360	1 899 536	7 767 954	7 154 105
Default loans that are current and not impaired	8 005	–	–	–	8 005	–
Gross core loans and advances to customers that are past due but not impaired	146 014	230 433	31 895	26 136	177 909	256 569
Gross core loans and advances to customers that are impaired	424 680	430 776	51 418	34 889	476 098	465 665
Gross core loans and advances to customers	6 207 293	5 915 778	2 222 673	1 960 561	8 429 966	7 876 339
Total income statement charge for core loans and advances	(79 880)	(89 104)	(17 849)	(67 872)	(97 729)	(156 976)
Gross default loans and advances to customers	438 028	436 096	64 693	45 306	502 721	481 402
Specific impairments	(170 564)	(150 418)	(15 931)	(10 711)	(186 495)	(161 129)
Portfolio impairments	(4 998)	(1 667)	(1 696)	(1 543)	(6 694)	(3 210)
Defaults net of impairments	262 466	284 011	47 066	33 052	309 532	317 063
Collateral and other credit enhancements	306 490	310 777	49 831	35 783	356 321	346 560
Net default loans and advances to customers (limited to zero)	–	–	–	–	–	–

£'000	UK and Other 31 March 2013	UK and Other 31 March 2012	Australia 31 March 2013	Australia 31 March 2012	Total group 31 March 2013	Total group 31 March 2012
Ratios						
Total impairments as a % of gross core loans and advances to customers	2.83%	2.57%	0.79%	0.63%	2.29%	2.09%
Total impairments as a % of gross default loans	40.08%	34.87%	27.25%	27.05%	38.43%	34.14%
Gross defaults as a % of gross core loans and advances to customers	7.06%	7.37%	2.91%	2.31%	5.96%	6.11%
Defaults (net of impairments) as a % of net core loans and advances to customers	4.35%	4.93%	2.13%	1.70%	3.76%	4.11%
Net defaults as a % of core loans and advances to customers	–	–	–	–	–	–
Credit loss ratio (i.e. income statement impairment charge as a % of average gross core loans and advances)	1.32%	1.23%	0.85%	3.13%	1.20%	1.66%

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

As at 31 March £'000	2013	2012
Default loans that are current	427 013	406 491
1 – 60 days	132 634	233 019
61 – 90 days	29 321	11 213
91 – 180 days	14 379	11 469
181 – 365 days	22 876	30 341
>365 days	35 789	29 701
Total past due and default core loans and advances to customers (actual capital exposure)	**662 012**	**722 234**
1 – 60 days	10 160	6 300
61 – 90 days	680	636
91 – 180 days	1 913	1 458
181 – 365 days	18 107	6 283
>365 days	23 938	27 327
Total past due and default core loans and advances to customers (actual amount in arrears)	**54 798**	**42 004**

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

£'000	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	8 005	–	–	–	–	–	8 005
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	131 544	27 747	13 396	5 057	165	177 909
Amount in arrears	–	9 284	398	1 265	2 566	66	13 579
Gross core loans and advances to customers that are impaired							
Total capital exposure	419 008	1 090	1 574	983	17 819	35 624	476 098
Amount in arrears		876	282	648	15 541	23 872	41 219
As at 31 March 2012							
Watchlist loans neither past due nor impaired							
Total capital exposure	–	–	–	–	–	–	–
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	230 996	9 836	6 727	4 187	4 823	256 569
Amount in arrears	–	5 374	262	193	3 499	4 388	13 716
Gross core loans and advances to customers that are impaired							
Total capital exposure	406 491	2 032	1 377	4 742	26 154	24 878	465 674
Amount in arrears	–	926	374	1 265	2 784	22 939	28 288

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

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	131 348	–	–	–	–	131 348
Special mention	–	195	27 748	–	–	–	27 943
Special mention (1 – 90 days)	–	195	398	–	–	–	593
Special mention (61 – 90 days and item well secured)	–	–	27 350	–	–	–	27 350
Default	427 013	1 091	1 573	14 379	22 876	35 789	502 721
Sub-standard	142 770	–	–	13 396	5 057	13 540	174 763
Doubtful	119 190	882	1 573	890	17 793	20 390	160 718
Loss	165 053	209	–	93	26	1 859	167 240
Total	427 013	132 634	29 321	14 379	22 876	35 789	662 012

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)

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	9 278	–	–	–	–	9 278
Special mention	–	–	398	–	–	–	398
Special mention (1 – 90 days)	–	–	7	–	–	–	7
Special mention (61 – 90 days and item well secured)	–	–	391	–	–	–	391
Default	–	882	282	1 913	18 107	23 938	45 122
Sub-standard	–	–	–	1 265	2 566	2 193	6 024
Doubtful	–	765	282	625	15 515	19 886	37 073
Loss	–	117	–	23	26	1 859	2 025
Total	–	10 160	680	1 913	18 107	23 938	54 798

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

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	230 038	–	–	–	–	230 038
Special mention	–	958	9 836	–	–	–	10 794
Special mention (1 – 90 days)	–	958	128	–	–	–	1 086
Special mention (61 – 90 days and item well secured)	–	–	9 708	–	–	–	9 708
Default	406 491	2 023	1 377	11 469	30 341	29 701	481 402
Sub-standard	184 398	–	–	8 627	22 073	6 365	221 463
Doubtful	78 313	2 023	1 377	2 842	8 268	23 336	116 159
Loss	143 780	–	–	–	–	–	143 780
Total	406 491	233 019	11 213	11 469	30 341	29 701	722 234

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

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

An analysis of core loans and advances to customers

£'000	Gross core loans and advances that are neither past due nor impaired	Gross core loans and advances that are past due but not impaired	Gross core loans and advances that are impaired	Total gross core loans and advances (actual capital exposure)	Specific impairments	Portfolio impairments	Total net core loans and advances (actual capital exposure)	Actual amount in arrears
As at 31 March 2013								
Current core loans and advances	7 767 954	–	–	7 767 954	–	(6 694)	7 761 260	–
Past due (1 – 60 days)	–	131 348	–	131 348	–	–	131 348	9 278
Special mention	–	27 943	–	27 943	–	–	27 943	398
Special mention (1 – 90 days)	–	593	–	593	–	–	593	7
Special mention (61 – 90 days and item well secured)	–	27 350	–	27 350	–	–	27 350	391
Default	8 005	18 618	476 098	502 721	(186 495)	–	316 226	45 122
Sub-standard	6 005	18 618	150 140	174 763	(32 542)	–	142 221	6 024
Doubtful	2 000	–	158 718	160 718	(69 361)	–	91 357	37 073
Loss	–	–	167 240	167 240	(84 592)	–	82 648	2 025
Total	7 775 959	177 909	476 098	8 429 966	(186 495)	(6 694)	8 236 777	54 798
As at 31 March 2012								
Current core loans and advances	7 154 105	–	–	7 154 105	–	(1 542)	7 152 563	–
Past due (1 – 60 days)	–	230 038	–	230 038	–	–	230 038	5 347
Special mention	–	10 794	–	10 794	–	–	10 794	289
Special mention (1 – 90 days)	–	1 086	–	1 086	–	–	1 086	43
Special mention (61 – 90 days and item well secured)	–	9 708	–	9 708	–	–	9 708	246
Default	–	15 737	465 665	481 402	(161 129)	(1 668)	318 605	36 368
Sub-standard	–	15 737	205 726	221 463	(35 792)	–	185 671	9 243
Doubtful	–	–	116 159	116 159	(38 043)	–	78 116	27 125
Loss	–	–	143 780	143 780	(87 294)	(1 668)	54 818	–
Total	7 154 105	256 569	465 665	7 876 339	(161 129)	(3 210)	7 712 000	42 004

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

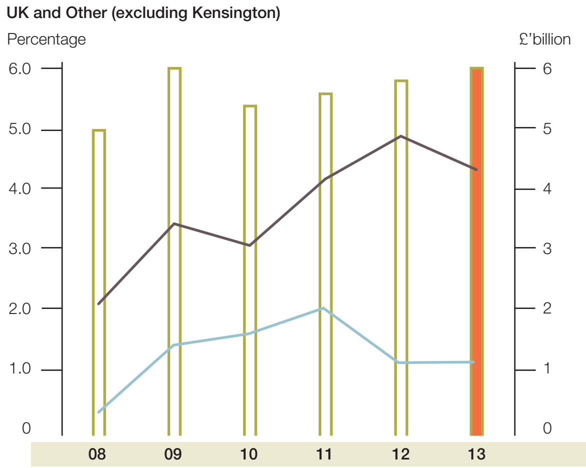
£'000	Private client, professional and HNW individuals	Corporate sector	Insurance, financial services (excluding sovereign)	Public and government sector (including central banks)	Trade finance and other	Total core loans and advances to customers
As at 31 March 2013						
Current core loans and advances	4 093 983	2 961 845	523 142	188 984	–	7 767 954
Past due (1 – 60 days)	87 298	44 050	–	–	–	131 348
Special mention	9 879	18 064	–	–	–	27 943
Special mention (1 – 90 days)	330	263	–	–	–	593
Special mention (61 – 90 days and item well secured)	9 549	17 801	–	–	–	27 350
Default	384 756	117 351	100	514	–	502 721
Sub-standard	145 993	28 770	–	–	–	174 763
Doubtful	73 514	86 590	100	514	–	160 718
Loss	165 249	1 991	–	–	–	167 240
Total gross core loans and advances to customers	4 575 916	3 141 310	523 242	189 498	–	8 429 966
Total impairments	(148 994)	(43 804)	(64)	(327)	–	(193 189)
Specific impairments	(147 298)	(38 806)	(64)	(327)	–	(186 495)
Portfolio Impairments	(1 696)	(4 998)	–	–	–	(6 694)
Net core loans and advances to customers	4 426 922	3 097 506	523 178	189 171	–	8 236 777
As at 31 March 2012						
Current core loans and advances	4 556 988	2 117 831	301 548	148 106	29 632	7 154 105
Past due (1 – 60 days)	202 916	25 334	1 788	–	–	230 038
Special mention	10 257	537	–	–	–	10 794
Special mention (1 – 90 days)	1 086	–	–	–	–	1 086
Special mention (61 – 90 days and item well secured)	9 171	537	–	–	–	9 708
Default	397 108	83 322	248	724	–	481 402
Sub-standard	203 310	18 153	–	–	–	221 463
Doubtful	50 018	65 169	248	724	–	116 159
Loss	143 780	–	–	–	–	143 780
Total gross core loans and advances to customers	5 167 269	2 227 024	303 584	148 830	29 632	7 876 339
Total impairments	(142 250)	(14 361)	(7 304)	(424)	–	(164 339)
Specific impairments	(140 707)	(14 361)	(5 637)	(424)	–	(161 129)
Portfolio Impairments	(1 543)	–	(1 667)	–	–	(3 210)
Net core loans and advances to customers	5 025 019	2 212 663	296 280	148 406	29 632	7 712 000

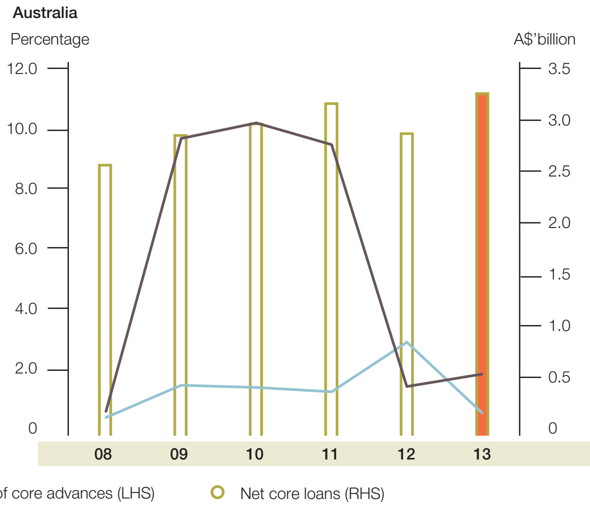
An analysis of default core loans and advances as at 31 March 2013

£'000	UK and Other Gross core loans	Gross defaults	Collateral	Balance sheet impairments
Lending collateralised by property	**2 525 667**	**346 863**	**229 758**	**(144 949)**
Commercial real estate	1 595 339	106 142	68 565	(51 624)
Commercial real estate – Investment	1 375 582	41 903	36 911	(8 761)
Commercial real estate – Development	86 692	14 805	8 276	(8 189)
Commercial vacant land and planning	133 065	49 434	23 378	(34 674)
Residential real estate	930 328	240 721	161 193	(93 325)
Residential real estate – Investment	398 610	35 842	34 489	(8 529)
Residential real estate – Development	399 586	134 205	82 452	(57 309)
Residential vacant land and planning	132 132	70 674	44 252	(27 487)
High net worth and other private client lending	**1 032 619**	**31 748**	**44 993**	**(6 629)**
Mortgages	598 644	1 587	945	(499)
High net worth and specialised lending	353 909	28 554	43 427	(5 144)
Professional finance	80 066	1 607	621	(986)
Corporate and other lending	**2 649 007**	**59 417**	**31 739**	**(23 984)**
Acquisition finance	757 001	21 098	9 166	(11 932)
Asset based lending	143 568	–	–	–
Fund finance	293 321	–	–	–
Other corporate loans	238 502	6 005	–	(1 042)
Asset finance	**772 902**	**21 120**	**15 809**	**(5 311)**
Small ticket asset finance	504 458	7 745	3 093	(4 652)
Large ticket asset finance	268 444	13 375	12 716	(659)
Project finance	407 920	11 194	6 764	(5 699)
Resource finance and commodities	35 786	–	–	–
Total	**6 207 293**	**438 028**	**306 490**	**(175 562)**

Australia				Total group			
Gross core loans	Gross defaults	Collateral	Balance sheet impair-ments	Gross core loans	Gross defaults	Collateral	Balance sheet impair-ments
223 125	39 692	27 765	(12 851)	2 748 792	386 555	257 523	(157 800)
137 053	17 831	10 264	(8 491)	1 732 392	123 973	78 829	(60 115)
133 049	17 831	10 264	(8 491)	1 508 631	59 734	47 175	(17 252)
212	–	–	–	86 904	14 805	8 276	(8 189)
3 792	–	–	–	136 857	49 434	23 378	(34 674)
86 072	21 861	17 501	(4 360)	1 016 400	262 582	178 694	(97 685)
1 888	1 350	1 350	–	400 498	37 192	35 839	(8 529)
49 645	–	–	–	449 231	134 205	82 452	(57 309)
34 539	20 511	16 151	(4 360)	166 671	91 185	60 403	(31 847)
1 405 697	7 835	6 259	(3 403)	2 438 316	39 583	51 252	(10 032)
9 262	–	–	–	607 906	1 587	945	(499)
77 101	3 542	3 022	(651)	431 010	32 096	46 449	(5 795)
1 319 334	4 293	3 237	(2 752)	1 399 400	5 900	3 858	(3 738)
593 851	17 166	15 807	(1 373)	3 242 858	76 583	47 546	(25 357)
203 945	17 083	15 710	(1 373)	960 946	38 181	24 876	(13 305)
–	–	–	–	143 568	–	–	–
49 578	–	–	–	342 899	–	–	–
150 323	–	–	–	388 832	6 005	–	(1 042)
56 221	**58**	**58**	**–**	**829 123**	**21 178**	**15 867**	**(5 311)**
34 609	58	58	–	539 067	7 803	3 151	(4 652)
21 612	–	–	–	290 056	13 375	12 716	(659)
85 369	–	–	–	493 289	11 194	6 764	(5 699)
48 415	25	39	–	84 201	25	39	–
2 222 673	64 693	49 831	(17 627)	8 429 966	502 721	356 321	(193 189)

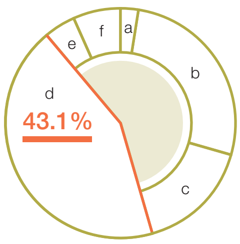
Asset quality ratios





Additional information

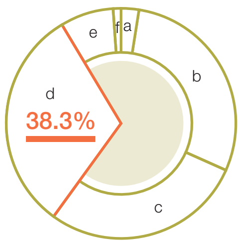
An analysis of gross core loans and advances to customers by country of exposures



31 March 2013

£8 430 million

a	Asia	2.7%
b	Australia	27.0%
c	Europe (excluding UK)	16.1%
d	United Kingdom	43.1%
e	North America	4.5%
f	Other	6.6%



31 March 2012

£7 876 million

a	Asia	2.4%
b	Australia	26.1%
c	Europe (excluding UK)	25.6%
d	United Kingdom	38.3%
e	North America	6.8%
f	Other	0.8%

Collateral

A summary of total collateral

£'000	Collateral held against: Core loans and advances	Collateral held against: Other credit and counterparty exposures*	Total
As at 31 March 2013			
Eligible financial collateral	513 644	1 754 519	2 268 163
Listed shares	429 158	596 579	1 025 737
Cash	84 486	824 311	908 797
Debt securities issued by sovereigns	–	333 629	333 629
Mortgage bonds	5 155 339	880 017	6 035 356
Residential mortgages	1 850 593	880 017	2 730 610
Residential development	727 057	–	727 057
Commercial property development	242 977	–	242 977
Commercial property investments	2 334 712	–	2 334 712
Other collateral	3 970 962	11 378	3 982 340
Unlisted shares	281 074	–	281 074
Bonds other than mortgage bonds	34 128	–	34 128
Debtors, stock and other corporate assets	2 437 885	–	2 437 885
Guarantees	587 428	–	587 428
Credit derivatives	–	4 050	4 050
Other	630 447	7 328	637 775
Total collateral	9 639 945	2 645 914	12 285 859
As at 31 March 2012			
Eligible financial collateral	455 745	11 477	467 222
Listed shares	354 050	–	354 050
Cash	101 695	11 477	113 172
Mortgage bonds	5 789 609	–	5 789 609
Residential mortgages	1 822 665	–	1 822 665
Residential development	868 833	–	868 833
Commercial property development	317 894	–	317 894
Commercial property investments	2 780 217	–	2 780 217
Other collateral	3 985 788	1 444	3 987 232
Unlisted shares	183 496	–	183 496
Bonds other than mortgage bonds	42 813	–	42 813
Debtors, stock and other corporate assets	2 790 217	–	2 790 217
Guarantees	155 533	1 444	156 977
Other	813 729	–	813 729
Total collateral	10 231 142	12 921	10 244 063

* *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 represents a moderate percentage of our total assets and is managed within appropriate risk limits.

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
- 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.

Management of equity and investment risk

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

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

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

Valuation and accounting methodologies

For a description of our valuation principles and methodologies refer to pages 132 to 135 and pages 160 to 164 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 4.0% of total assets.

Refer to page 161 for further information.

Risk management and corporate governance

3

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

£'000 Country/category	Income (pre-funding costs) Unrealised	Realised	Dividends	Total	Fair value through equity
For the year ended 31 March 2013					
Unlisted investments	7 415	1 130	2 141	10 686	(2 620)
UK and Other	7 919	1 113	2 141	11 173	(2 620)
Australia	(504)	17	–	(487)	–
Listed equities	(8 858)	(38)	1 048	(7 848)	(3 560)
UK and Other	(6 646)	(85)	808	(5 923)	(4 800)
Australia	(2 212)	47	240	(1 925)	1 240
Investment and trading properties	(1 089)	450	–	(639)	–
UK and Other	–	202	–	202	–
Australia	(1 089)	248	–	(841)	–
Warrants, profit shares and other embedded derivatives	29 821	–	–	29 821	–
UK and Other	29 821	–	–	29 821	–
Australia	–	–	–	–	–
Total	27 289	1 542	3 189	32 020	(6 180)
For the year ended 31 March 2012					
Unlisted investments	16 819	25 673	1 458	43 950	1 690
UK and Other	16 885	24 482	1 303	42 670	2 286
Australia	(66)	1 191	155	1 280	(596)
Listed equities	(3 065)	2 007	513	(545)	(1 858)
UK and Other	(3 065)	1 659	597	(809)	828
Australia	–	348	(84)	264	(2 686)
Investment and trading properties	(11)	(7 580)	779	(6 812)	–
UK and Other	(11)	2 737	779	3 505	–
Australia	–	(10 317)	–	(10 317)	–
Warrants, profit shares and other embedded derivatives	–	–	1 648	1 648	–
UK and Other	–	–	1 648	1 648	–
Australia	–	–	–	–	–
Total	13 743	20 100	4 398	38 241	(168)

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

Revaluations that are posted directly to equity are included in tier 2 capital within Investec Bank plc. The amount included in tier 2 capital for Investec Bank plc is £8 million.

Summary of investments held and stress testing analyses

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

£'000 Country/category	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	311 590	46 739	284 272	42 641
UK and other	304 852	45 728	279 168	41 875
Australia	6 738	1 011	5 104	766
Listed equities	53 172	13 293	33 041	8 260
UK and other	48 380	12 095	26 060	6 515
Australia	4 792	1 198	6 981	1 745
Investment and trading properties	131 040	25 058	102 029	20 406
UK and other	59 439	10 738	58 336	11 667
Australia	71 601	14 320	43 693	8 739
Warrants, profit shares and other embedded derivatives	72 187	25 265	35 979	12 593
UK and other	72 187	25 265	35 979	12 593
Australia	–	–	–	–
Total	567 989	110 355	455 321	83 900

* *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 £110 million reversal in revenue (which assumes a year in which there is a 'severe stress scenario'). The probability of all these asset classes in all geographies in which we operate being negatively impacted at the same time is very low, although the probability of listed equities being negatively impacted at the same time is very high.

Capital requirements

In terms of Basel II capital requirements for Investec Bank plc unlisted and listed equities within the banking book are considered in the calculation of capital required for credit risk.

Refer to page 92 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 44 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.

UK and Other

The bank plays an originator role in the securitisation of assets it has originated. To date these have largely been residential mortgages. For regulatory purposes, special purpose entities (SPEs) are not consolidated where significant risk has been transferred to third parties. The positions we continue to hold in the securitisation will be either risk-weighted and/or deducted from capital. All of these transactions have been considered traditional securitisations. Historically, we also assisted in and on occasion, acted as a sponsor in the development of select securitisation platforms with external third party originating intermediaries, providing limited warehouse funding lines to these intermediaries.

The bank has a portfolio of residential mortgages amounting to approximately £952 million, which could be earmarked for securitisation and are included in the numbers as presented on page 66.

The bank has no securitisations backed by revolving exposures.

Fitch Ratings, Moody's, Standard and Poor's and DBRS have been involved in rating these above-mentioned transactions.

During the year we undertook two securitisation transactions. Gemgarto 2012-1 is a £240 million securitisation of prime UK residential mortgages which closed in April 2012. The £201.6 million A1 tranche (rated AAA(sf)/AAA(sf)/AAA (S&P/Fitch/DBRS)) was placed with investors and the remainder of the rated notes were retained. RMS26 is a £200 million securitisation of seasoned UK non-conforming mortgages which closed in September 2012. The £150 million A1 tranche (rated AAA(sf)/AAA(sf) (S&P/Fitch) was sold to investors and the remainder of the rated notes were retained. For regulatory purposes, the group continues to recognise these assets in the consolidated regulatory balance sheet. The group therefore does not apply the securitisation rules when calculating risk-weighted assets for the above originated transactions.

We have also invested in/purchased rated structured credit instruments (including resecuritisation exposures). These exposures are largely in the UK and amount to £429 million at 31 March 2013 (31 March 2012: £456 million). This is intended as an investment rather than a trading portfolio. Therefore, since our commercial intention is to hold the assets to maturity, the portfolio will be valued on an amortised cost basis. These investments are risk-weighted for regulatory capital purposes.

Further information is provided on pages 66 to 67.

Australia

Investec Bank (Australia) Limited acquired Experien in October 2007 (now Investec Professional Finance). As is the case in the South African Private Client division, assets originated by the business have been securitised. These amount to A$715 million at 31 March 2013 (31 March 2012: A$825 million). Within these securitisation vehicles loans greater than 90 days in arrears amounted to A$1 million and loans less than 90 days in arrears amounted to A$2.9 million.

During the year the Impala Trust No 1 (Sub series 2012-1), an A$233 million asset backed securitisation was launched in September 2012. The loans securitised were mainly motor vehicles, equipment finance leases, commercial hire purchase agreements, and practice loans offered to medical and accounting professionals. All notes on offer were sold and oversubscribed. In March 2013, we concluded the Nyala Funding Trust CMBS (Sub series 2013-1), A$110 million, a commercial property term facility to fund a closed pool of medical and accounting commercial property loans.

Where applicable these securitisation structures have been rated by Standard and Poor's. The bank 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 local regulatory capital purposes. The group has retained an investment in all of these transactions. For local regulatory capital purposes, the majority of the positions retained in the securitisation will be treated as capital deductions. The bank has no re-securitisation exposures in Australia.

The bank has also invested in select rated instruments in Australia residential mortgage backed transactions, totalling A$22 million at 31 March 2013 (31 March 2012: A$81 million). These investments are risk-weighted for regulatory capital purposes.

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 or on an amortised cost basis. 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 re-securitisation 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 65.

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 £'million	Exposure 2012 £'million	Internal balance sheet and credit risk classification	Asset quality – relevant comments
Structured credit investments*	513	611	Other debt securities and other loans and advances.	
Rated	444	510		
Unrated	69	101		
Loans and advances to customers and investment in third party intermediary originating platforms (mortgage and auto loans) (with the potential to be securitised)	952	803	Other loans and advances.	
Private Client division assets which have been securitised	491	535	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 50.

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

As at 31 March £'million	2013 Rated**	2013 Unrated	2013 Total	2012 Rated**	2012 Unrated	2012 Total
US corporate loans	18	–	18	15	–	15
US ABS	–	–	–	1	–	1
UK and European ABS	3	7	10	8	5	13
UK and European RMBS	327	55	382	311	88	399
UK and European CMBS	15	4	19	56	5	61
UK and European corporate loans	66	3	69	67	3	70
Australian RMBS	15	–	15	52	–	52
Total	444	69	513	510	101	611

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

£'million	AAA	AA	A	BBB	BB	B	C and below	Total
US corporate loans	–	–	–	6	10	–	2	18
UK and European ABS	–	–	–	3	–	–	–	3
UK and European RMBS	127	51	44	37	23	23	22	327
UK and European CMBS	–	–	–	7	8	–	–	15
UK and European corporate loans	18	25	13	3	–	7	–	66
Australian RMBS	15	–	–	–	–	–	–	15
Total	160	76	57	56	41	30	24	444

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 the UK, the market risk capital requirement is measured using an internal risk management model, approved by the PRA, for netting certain parts of the portfolio, whilst the capital requirements of the whole portfolio are calculated using standard rules.

VaR

	31 March 2013				31 March 2012			
	Year end	Average	High	Low	Year end	Average	High	Low
UK and Other 95% (one-day)								
Commodities (£'000)	–	–	–	–	– ^	1	64	–
Equity derivatives (£'000)	663	793	1 557	391	549	1 029	1 677	536
Foreign exchange (£'000)	11	25	82	5	31	34	105	9
Interest rates (£'000)	426	386	513	265	288	231	424	115
Consolidated (£'000)*	720	855	1 548	455	624	1 060	1 742	610
Australia 95% (one-day)								
Commodities (A$'000)	–	–	3	–	–	–	8	–
Equity derivatives (A$'000)	–	–	–	–	–	–	–	–
Foreign exchange (A$'000)	21	34	135	1	2	31	192	1
Interest rates (A$'000)	90	34	130	12	31	57	116	17
Consolidated (A$'000)*	97	53	149	12	31	68	184	19

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

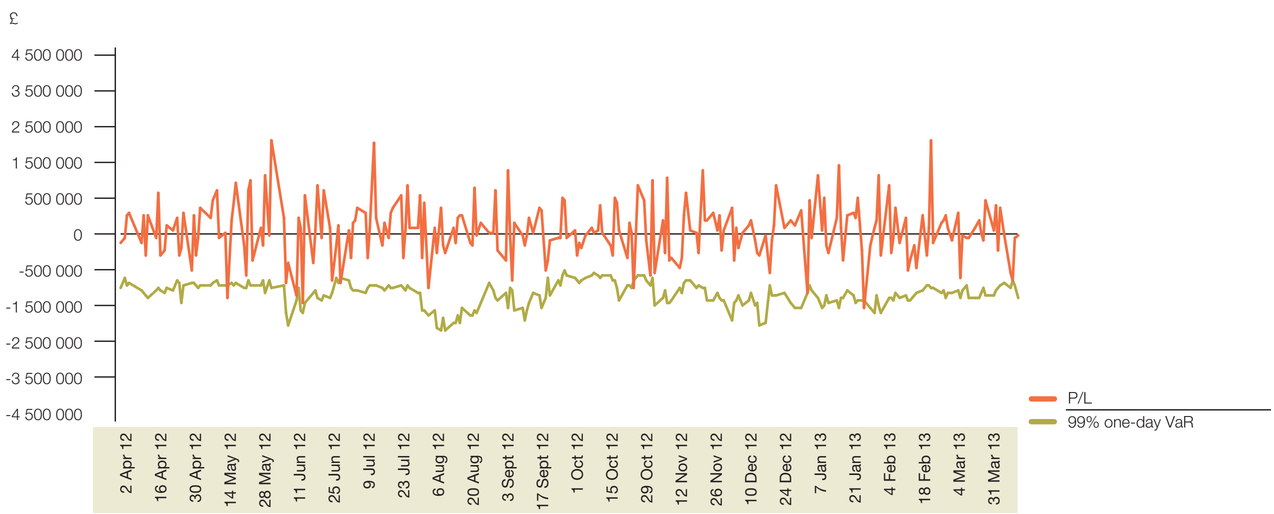
^ *The UK Commodities desk was closed and all residual positions were unwound.*

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

UK and Other

The average VaR utilisation was lower than that in 2012, mainly as a result of a reduction in risk on the Structured Equity Derivatives desk. Using hypothetical (clean) profit and loss data for backtesting resulted in five exceptions over the year i.e. where the loss was greater than the 99% one-day VaR. This is more than expected at the 99% level and was largely due to a worsening in the correlation offset between desks compared to that implied from the historical data used in our VaR scenarios. As can be seen from the graph below some of these exceptions were marginal and as such have not raised any concerns with our VaR model.

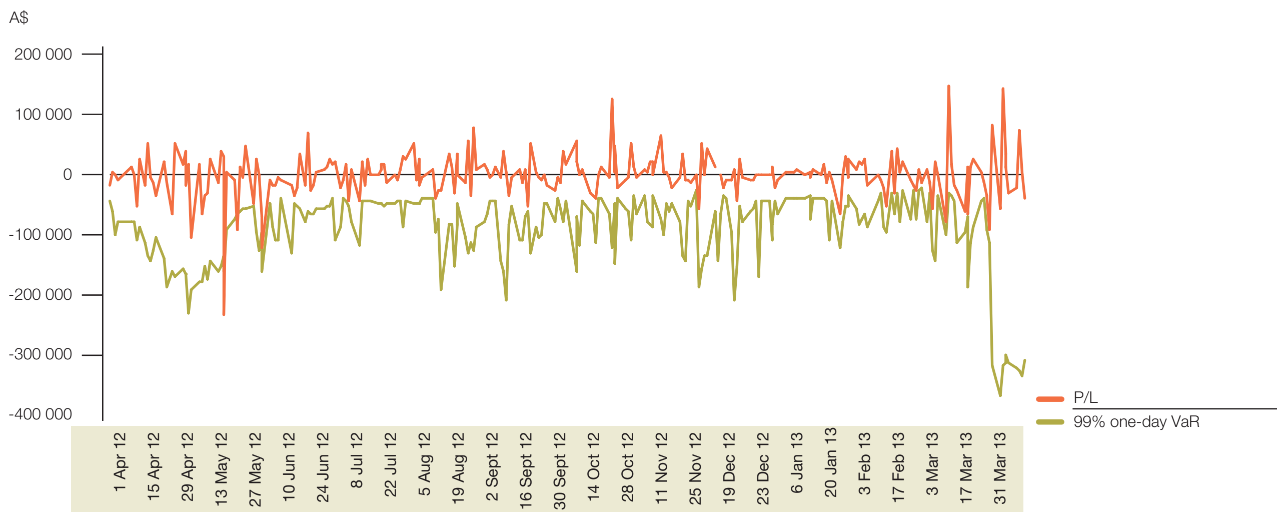
99% one-day VaR backtesting



Australia

Average VaR utilisation for 2013 remained at the moderate levels experienced in 2012. There have been two exceptions i.e. where the daily loss is greater than the VaR. This is in line with the expected number of exceptions at the 99% level. The exceptions were a result of daily losses in interest rate positions due to high levels of market volatility. The spike in the 99% one-day VaR was due to the basis risk associated with a position which was unwound on 5 April 2013, at which point 99% one-day VaR fell from A$307 000 to A$55 000. It has remained at low levels since.

99% one-day VaR backtesting



ETL

	UK and Other 95% (one-day) £'000	Australia 95% (one-day) A$'000
31 March 2013		
Commodities	–	1
Equity derivatives	877	–
Foreign exchange	20	29
Interest rates	635	202
Consolidated*	976	208
31 March 2012		
Equity derivatives	846	–
Foreign exchange	48	2
Interest rates	367	40
Consolidated*	876	40

* *The consolidated ETL for each desk and each entity 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
	Year end	Average	High	Low	Year end
UK and Other 99% (using 99% EVT)					
Equity derivatives (£'000)	1 554	1 497	2 207	1 132	2 467
Foreign exchange (£'000)	45	64	116	30	119
Interest rates (£'000)	1 820	1 251	2 607	701	659
Consolidated (£'000)	1 813	1 699	2 280	1 158	2 230
Australia (using 99% EVT)					
Commodities (A$'000)	4	2	34	–	–
Foreign exchange (A$'000)	75	95	456	3	6
Interest rates (A$'000)	456	131	710	36	70
Consolidated (A$'000)	435	167	620	32	71

Profit and loss histograms

UK and Other

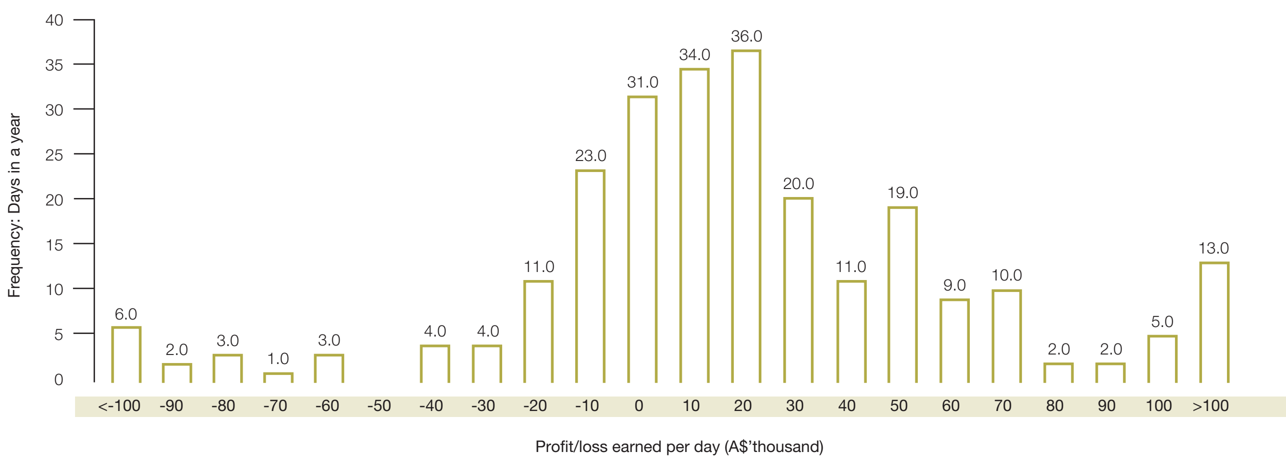
The histogram below illustrates the distribution of revenue during the financial year for our trading businesses. The distribution is skewed to the profit side and the graph shows that positive trading revenue was realised on 121 days out of a total of 250 days in the trading business. The average daily trading revenue generated for the year ended 31 March 2013 was £102 733 (2012: £120 635).

Profit and loss

Australia

The histogram below illustrates the distribution of daily revenue during the financial year for our trading businesses. The graph shows that negative trading revenue was realised on 88 days out of a total of 249 days in the trading business. The average daily trading revenue generated for the year ended 31 March 2013 was A$17 157 (2012: loss of A$6 056).

Profit and loss



Traded market risk mitigation

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

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

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

Traded market risk year in review

Despite the difficult environment in the UK, there has been continued growth in client activity across the Interest Rate and Foreign Exchange Corporate Sales desk although other trading opportunities were limited. The Structured Equity desk's retail product sales have remained strong and they continue to develop their product range. Equity market making has expanded its coverage of stocks.

Australian trading activity remains modest, with limited appetite for traded market risk exposures. Client activity is higher than in previous years on the back of improved deal activity, but remains somewhat sporadic.

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 168 and 220.

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 of funding, liquidity, concentration and non-trading interest rate risk within parameters defined by the board approved risk appetite policy. Most non-trading interest rate risk and asset funding requirements are transferred from the originating business to the treasury function.

The group's central treasury function directs pricing for all deposit products (including deposit products offered to the private clients), establishes and maintains access to stable wholesale funds with the appropriate tenor and pricing characteristics, and manages liquid securities and collateral, thus providing for a controlled and flexible response to volatile market conditions. The central treasury function is the sole interface to the wholesale market for both cash and derivative transactions.

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

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

UK and Other – interest rate sensitivity as at 31 March 2013

£'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	3 032	1	1	–	–	–	3 034
Investment/trading assets	1 142	318	75	258	772	589	3 154
Securitised assets	603	98	56	9	–	–	766
Advances	6 224	230	211	588	98	57	7 408
Non-rate assets	3	45	1	3	–	1 533	1 585
Assets	11 004	692	344	858	870	2 179	15 947
Deposits – banks	(1 278)	(10)	(28)	(105)	–	–	(1 421)
Deposits – retail	(8 081)	(548)	(749)	(181)	(1)	(1)	(9 561)
Negotiable paper	(1 075)	(40)	(19)	(101)	(6)	–	(1 241)
Investment/trading liabilities	(369)	(21)	(5)	(300)	(110)	(106)	(911)
Securitised liabilities	(560)	–	–	–	–	–	(560)
Subordinated liabilities	–	–	–	(32)	(598)	–	(630)
Non-rate liabilities	–	–	–	–	–	(1 143)	(1 143)
Liabilities	(11 363)	(619)	(801)	(719)	(715)	(1 250)	(15 467)
Intercompany loans	107	2	137	297	116	(7)	652
Shareholders' funds	–	–	–	–	–	(1 498)	(1 498)
Balance sheet	(252)	75	(320)	436	271	(576)	(366)
Off-balance sheet	865	87	745	(625)	(887)	200	385
Repricing gap	613	162	425	(189)	(616)	(376)	19
Cumulative repricing gap	613	775	1 200	1 011	395	19	

Australia – interest rate sensitivity as at 31 March 2013

A$'million	Not >3 months	>3 months but <6 months	>6 months but <1 year	>1 year but <5 years	>5 years	Non-rate	Total non-trading
Cash and short–term funds – banks	343	–	–	–	–	–	343
Investment/trading assets	537	14	83	90	–	139	863
Securitised assets	243	51	108	311	1	–	714
Advances	1 761	99	131	452	29	24	2 496
Other assets	–	–	–	–	–	337	337
Assets	2 884	164	322	853	30	500	4 753
Deposits – non-banks	(1 575)	(415)	(176)	(203)	(11)	(85)	(2 465)
Negotiable paper	(217)	–	(199)	(251)	–	(18)	(685)
Securitised liabilities	(697)	–	–	–	–	–	(697)
Subordinated liabilities	(119)	–	–	–	–	(1)	(120)
Other liabilities	–	–	–	–	–	(170)	(170)
Liabilities	(2 608)	(415)	(375)	(454)	(11)	(274)	(4 137)
Intercompany loans	–	–	–	–	–	(9)	(9)
Shareholders' funds	–	–	–	–	–	(607)	(607)
Balance sheet	276	(251)	(53)	399	19	(393)	–
Off-balance sheet	232	(58)	276	(425)	(21)	(4)	–
Repricing gap	508	(309)	223	(26)	(2)	(394)	–
Cumulative repricing gap	508	199	422	396	394	–	

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.

UK and Other

	Sensitivity to the following interest rates (expressed in original currencies)						
'million	GBP	USD	EUR	AUD	ZAR	Other (GBP)	All (GBP)
200bps down	(83.3)	0.4	(7.9)	(0.5)	(1.4)	(0.2)	(92.9)
200bps up	83.3	(0.4)	7.9	0.5	1.4	0.2	92.9

Australia

'million	AUD
200bps down	(0.29)
200bps up	0.29

Risk management and corporate governance

3

Liquidity risk management encompasses the ongoing management of structural, tactical day-to-day and contingent stress liquidity.

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, namely the UK Regulators, Bank of England and APRA
- The group complies with the BCBS Principles for Sound Liquidity Risk Management and Supervision
- The group has committed itself to implementation of the 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 2.3% to £11.3 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 84% of total deposits since April 2006 for Investec Bank plc, 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.

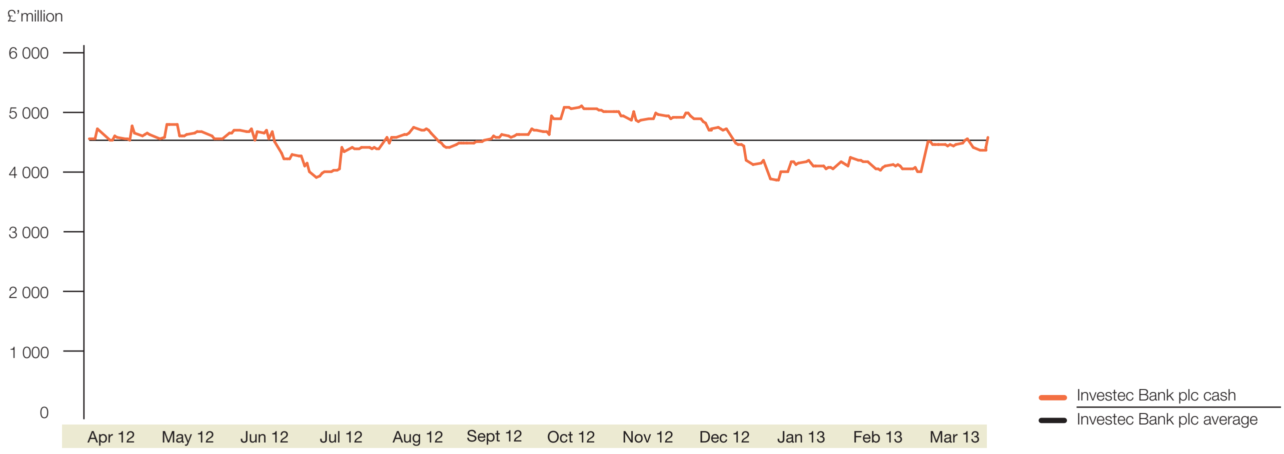
As mentioned above, we hold a liquidity buffer in the form of unencumbered readily available, high quality liquid assets, typically in the form of government or rated securities eligible for repurchase with the central bank, and near cash well in excess of the statutory requirements as protection against 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 £4.5 billion (£3.8 billion in UK and Other and A$1.2 billion in Australia).

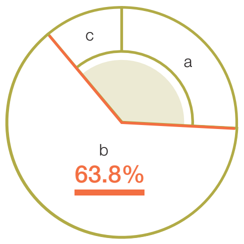
The group does not rely on committed funding lines for protection against unforeseen interruptions to cash flow. We are currently unaware of any circumstances that could significantly detract from our ability to raise funding appropriate to our needs.

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

Cash and near cash trend



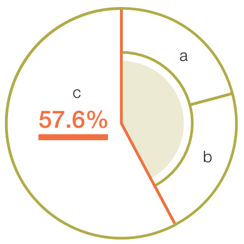
An analysis of cash and near cash



Investec Bank plc
£4 543 million

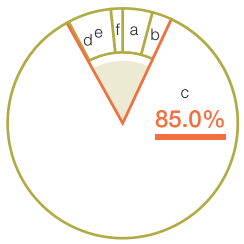
a	Cash	25.0%
b	Near cash (central bank guaranteed liquidity)	63.8%
c	Near cash (other 'monetisable' assets)	11.2%

Bank and non-bank depositor concentration by type



UK and Other
£12 081 million

a	Financial institutions/banks	21.1%
b	Corporate	21.3%
c	Private client	57.6%



Australia
A$2 465 million

a	Financial institutions/banks	4.2%
b	Corporate	2.9%
c	Private client	85.0%
d	Fund managers	0.2%
e	Public sector	6.1%
f	Other	1.6%

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.

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 euro zone 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.

UK and Other

Contractual liquidity as at 31 March 2013

£'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	2 121	748	406	1	1	75	–	3 352
Cash and short-term funds – non banks	141	–	–	–	–	–	–	141
Investment/trading assets	547	546	62	327	87	885	1 256	3 710
Securitised assets	–	2	2	4	7	79	673	767
Advances	19	653	499	745	805	2 706	1 979	7 406
Other assets	229	651	65	14	12	79	535	1 585
Assets	3 057	2 600	1 034	1 091	912	3 824	4 443	16 961
Deposits – banks	(760)	(622)	(46)	(10)	(25)	(308)	–	(1 771)
Deposits – non-banks	(1 164)^	(875)	(2 860)	(2 610)	(736)	(1 225)	(91)	(9 561)
Negotiable paper	–	(34)	(90)	(138)	(105)	(563)	(311)	(1 241)
Investment/trading liabilities	(252)	(241)	(56)	(34)	(18)	(414)	(180)	(1 195)
Securitised liabilities	–	–	–	–	–	–	(560)	(560)
Subordinated liabilities	–	–	–	–	–	(32)	(598)	(630)
Other liabilities	(199)	(707)	(57)	(15)	(77)	(21)	(81)	(1 157)
Liabilities	(2 375)	(2 479)	(3 109)	(2 807)	(961)	(2 563)	(1 821)	(16 115)
Intercompany loans	(104)	29	44	–	–	632	51	652
Shareholders' funds	–	–	–	–	–	–	(1 498)	(1 498)
Contractual liquidity gap	578	150	(2 031)	(1 716)	(49)	1 893	1 175	–
Cumulative liquidity gap	578	728	(1 303)	(3 019)	(3 068)	(1 175)	–	–

Behavioural liquidity

As discussed on page 79.

£'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	2 405	(199)	(1 006)	(12)	(50)	(1 725)	587	
Cumulative	2 405	2 206	1 200	1 188	1 138	(587)	–	

^ *The deposits in the demand column at 31 March 2013 reflect cash margin deposits held.*

Australia

Contractual liquidity as at 31 March 2013

A$'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*	343	–	–	–	–	–	–	343
Investment/trading assets**	665	3	7	27	29	91	41	863
Securitised assets	2	21	66	71	146	405	3	714
Advances	18	64	218	322	446	1 288	140	2 496
Other assets	–	–	–	–	–	–	337	337
Assets	1 028	88	291	420	621	1 784	521	4 753
Deposits – non-banks	(380)^	(339)	(918)	(423)	(180)	(214)	(11)	(2 465)
Negotiable paper	–	(5)	(12)	–	(206)	(462)	–	(685)
Securitised liabilities	(2)	(21)	(64)	(148)	(117)	(343)	(2)	(697)
Invest/trading liabilities	(1)	(6)	(3)	(7)	(13)	(36)	(18)	(84)
Subordinated liabilities	–	–	–	–	–	(120)	–	(120)
Other liabilities	–	–	–	–	–	–	(86)	(86)
Liabilities	(383)	(371)	(997)	(578)	(516)	(1 175)	(117)	(4 137)
Intercompany loans	–	4	(15)	–	–	–	1	(10)
Shareholders' funds	–	–	–	–	–	–	(606)	(606)
Contractual liquidity gap	645	(279)	(721)	(158)	105	609	(201)	–
Cumulative liquidity gap	645	366	(355)	(513)	(408)	201	–	–

Note: Contractual liquidity adjustments

As discussed on page 79.

A$'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	11	13	51	51	120	556	61	863
**Investment/trading assets and statutory liquids	159	58	206	290	381	1 262	140	2 496

Behavioural liquidity

As discussed on page 79.

A$'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	955	(331)	(621)	(365)	(36)	599	(201)	–
Cumulative	955	624	3	(362)	(398)	201	–	–

^ *Includes call deposits of A$345 million and the balance reflects term deposits which have finally reached/are reaching contractual maturity.*

Risk management and corporate governance

3

The group has committed itself to implementation of the BCBS guidelines for liquidity risk measurement standards and the enhanced regulatory framework to be established.

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.

UK and Other

The official bank rate remained at 0.5% during the period under review, such that it has been at a record low rate for four years now. Although inflation has been above target through the review period, there has been no serious discussion of an upward adjustment to rates. Indeed, the Euro crisis continued to inflict periods of volatility and UK growth outturns remained lacklustre, with 2012 growth overall amounting to just 0.3% including a 'double-dip' recession. The weakness of the economic backdrop and the persistence of Euro crisis risks has ensured the monetary policy debate has centred on whether to add more monetary accommodation in the shape of additional asset purchases. Since then the asset purchase total has remained unchanged whilst the Committee reflected on its views on the effectiveness of quantitative easing (QE) under current conditions, watched for signs of its Funding for Lending Scheme (FLS) having an impact, and awaited signs of a sharper moderation in inflation, yet to emerge. The FLS, first announced in June 2012, is aimed at increasing credit flows to non-financial corporates and households, allowing banks to borrow nine-month treasury bills from the Bank of England on eligible collateral, which they can then repurchase, generating cash to lend on. So far the scheme looks to have modestly assisted in lifting mortgage approval levels with some tentative signs of a broader boost to lending, but it is unlikely to significantly bolster UK recovery prospects. Finally note that the UK failed to retain its AAA sovereign rating with Moody's stripping it of its rating with a one notch downgrade to Aa1 (stable outlook) in February 2013. In March 2013, Fitch put the UK on ratings watch negative. Standard and Poor's also has a negative outlook placed on the UK's rating.

Through the first part of 2012, the ECB kept the main refinancing rate on hold at 1.00%. But as economic data in the Euro area's powerhouse Germany began to deteriorate and inflation pressures subsided, the ECB's Governing Council opted to reduce the main refinancing rate to 0.75% in July. As market turmoil built through the summer months and as peripheral government bonds came under pressure, ECB President Mario Draghi sought to reassure 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). Although the mechanism has not yet been used, the announcement of the backstop had a notable impact on market sentiment, helping to bring down peripheral bond yields significantly and calm Euro crisis strains. However, tensions over Greece resurfaced in the autumn, related to whether the (ECB/European Commission/IMF) Troika would be able to sign off on a revised bailout and release further urgently needed aid cash. Greece was eventually granted the aid cash, as it signed up to a refreshed reform programme. But almost as soon as Greek fears had been addressed, Cyprus came into focus in European meetings, as it sought a bailout from the Troika. Those talks eventually led to a bailout agreement in March 2013, but not before faith in the rescue backstops had been thoroughly shaken with depositors and senior bondholders both put in line for losses as part of the Cypriot agreement. From a macro perspective, the Euro area economy has remained weak through the period under review, re-entering recession from second quarter 2012 with that weakness having so far persisted into the first quarter of 2013, reviving expectations of a further downward move in the ECB's main refinancing.

The bank entered the year with a healthy surplus liquidity position, which increased during the year mainly due to retail deposits, and was managed down over the course of the year, returning to a similar surplus as at the beginning of the year. Throughout the first portion of the year retail one year and two year fixed rate products continued to attract significant deposit inflows, and as liquidity grew, rates were reduced to stem excessive inflows. Furthermore, the bank entered the wholesale markets with a three year £178 million syndicated bank club loan in June 2012 and with a £240 million UK residential mortgage securitisation in April 2012 and another £200 million UK residential mortgage securitisation in September 2012. Cash and near cash balances as at 31 March 2013 amounted to £3.9 billion (2012: £3.6 billion) with total customer deposits increasing by 1.1% during the year to £9.6 billion.

Australia

The Australian economy has remained one of the strongest advanced economies in the world, outperforming most global benchmark nations. The unemployment rate remained relatively subdued, increasing from 5.2% to 5.4%. The Australian Dollar continued to show strength, remaining near or above parity with the US Dollar throughout the financial year. Inflation remains contained, with the underlying rate remaining within the Reserve Bank of Australia's 2% – 3% target band. In response to continued global economic instability, the RBA reduced the official cash rate by a total of 125bps to 3%. The Australian banking system continued to strengthen liquidity through the year, with strong demand for retail deposits placing upward pricing pressure on funding, although recent months have seen improved pricing for major banks in global wholesale funding markets, reducing the demand for retail deposits and lowering the cost of funding.

Investec Australia maintained a strong liquidity position well in excess of regulatory and internal policy requirements throughout the year, with average cash and near cash balances amounting to A$1.2 billion. Total customer deposits increased by 6.7% from 1 April 2012 to A$2.4 billion at 31 March 2013, which included an active diversification strategy across funding channels.

Additional information

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 plc (IBP):
  - raised a multi currency three year syndicated deposit €95 million, $112 million and £30 million in August 2012
- Investec Bank (Australia) Limited:
  - undertook a further term securitisation of A$233 million Professional Finance assets from the Impala securitisation vehicle;
  - undertook an inaugural CMBS transaction of A$110 million Professional Finance assets;
  - issued an additional A$50 million of 10-year subordinated debt;
  - bought back A$301.6 million of previously issued government guaranteed term debt; and
  - redeemed A$150 million of programme term debt at contractual maturity.

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.

UK and Other

For the year ended 31 March 2013, Investec Bank plc was regulated by the FSA. On 1 April 2013, the Prudential Regulation Authority (PRA) came into being, following the dissolution of the FSA into new regulatory bodies; the PRA and the Financial Conduct Authority. Going forward, Investec Bank plc will be supervised by the PRA.

Investec Bank plc currently comfortably meets its regulatory liquidity requirements and will progress to implement the forthcoming liquidity proposals included in the CRD IV (Basel III) package. Investec Bank plc is currently shadowing and comfortably meeting the draft LCR and NSFR liquidity ratios. We will continue to monitor these rules until final implementation.

Australia

The Australian regulatory environment continues to progress, as expected, towards full introduction of Basel III standards through ongoing dialogue between APRA, ASIC and the various banking industry forums on various aspects of the standards, including the potential introduction of a notice period for early redemption of term deposits.

In respect of liquidity, APRA is still formulating a response to recent proposed changes to the LCR measure recently recommended by the BCBS.

During the year, Investec Australia undertook a material enhancement of its liquidity risk management framework to include measurement of potential liquidity requirements under various stress scenarios. As part of this process, the bank prepared an individual liquidity adequacy assessment document, which was submitted to APRA in March 2013.

The bank remains committed to implementing the BCBS guidelines for liquidity risk measurement.

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.

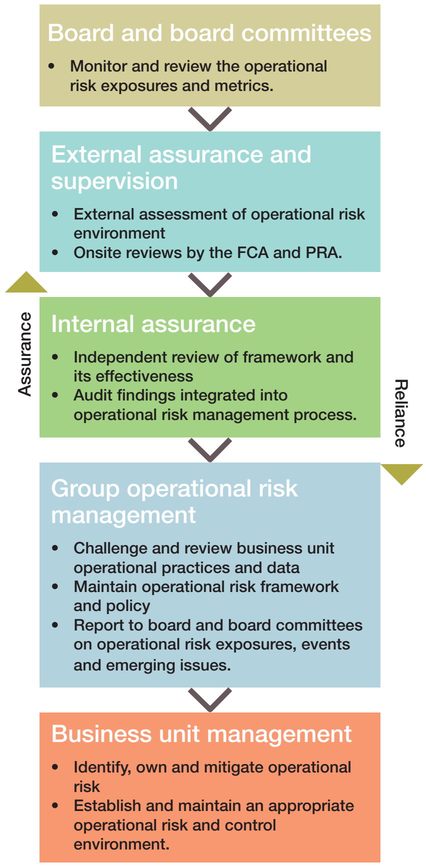
We recognise that there is a significant risk inherent in the operations of a bank. We endeavour to manage operational risk exposures and events by maintaining and embedding an operational risk management framework which supports sound operational risk management practices.

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:



The board, through the board risk and capital committee, 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.

Enhancement of the risk and control environment has remained a key area of focus.

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 to 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.

Pension risk

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

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

Primary sources at risk include:

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

Investec plc monitors the position of the funds closely and regularly assesses potential adverse movements in the schemes in close conjunction with external, independent advisers.

Further information is provided on pages 181 to 184.

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 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

As part of the regulatory restructure, the new Financial Conduct Authority (FCA) in the UK has outlined its approach to managing firms' conduct.

By conduct risk we mean the risk that detriment is caused to the bank, its customers, its counterparties or the market, We have various policies and practices to mitigate reputational risk, including strong values that are regularly and proactively reinforced.

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 FCA's strategic objectives of protecting clients, ensuring markets function effectively and promoting competition.

The group's work on conduct risk, particularly in the UK, 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 sub-committee 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 plc

Current regulatory framework

For the year ended 31 March 2013, Investec Bank plc was regulated on a solo-consolidation basis by the FSA. On 1 April 2013, the Prudential Regulation Authority (PRA) became extant, following the dissolution of the FSA into new regulatory bodies; the PRA and the Financial Conduct Authority. Going forward, Investec Bank plc will be supervised by the PRA. Investec Bank plc operates under the Basel II framework implemented in the EU via the Capital Requirements Directive (CRD). This framework was subsequently implemented by the then FSA, in its own rulebooks.

Investec Bank plc uses the Standardised approach to calculate its credit and counterparty credit risk and operational risk capital requirements. The mark to market method is used to calculate the counterparty credit risk exposure amount. The market risk capital requirement is measured using an internal risk management model, approved by the UK Regulators, for netting certain parts of the portfolio, whilst the capital requirements of the whole portfolio are calculated using standard rules.

Various subsidiaries of Investec Bank plc 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 plc 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.

Future developments

Basel III rules are in the process of being transposed into the CRD IV package, which includes a new regulation and directive. CRD IV is expected to take effect on 1 January 2014. Once the package is approved the regulation will be directly binding on Investec Bank plc. The directive will require transposition into national law by the PRA, to take effect.

Where a subsidiary of Investec Bank plc is subject to local regulatory requirements, local management is responsible for compliance with the entity's minimum regulatory requirements.

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, Investec plc and Investec Bank plc 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% (adjusted from 11% as a consequence of Basel III) 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:

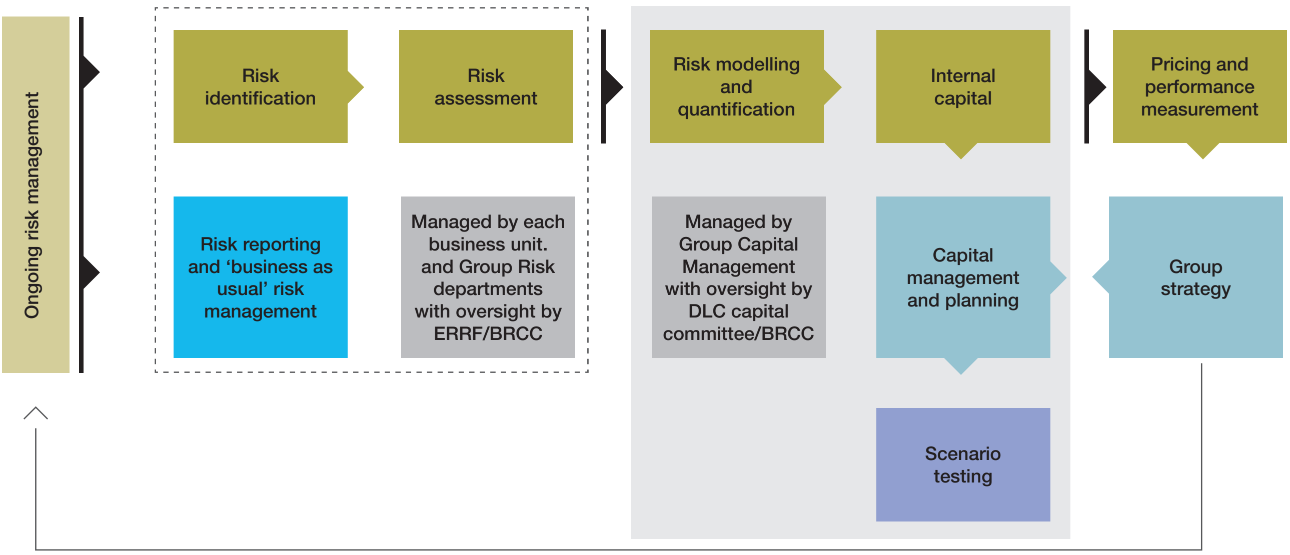
- Investment decision making and pricing that is commensurate with the risk being taken
- Allocating capital according to the greatest expected marginal risk-based return, and tracking performance on this basis
- Determining transactional risk-based returns on capital
- Rewarding performance taking into 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 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.

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 is 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
- Pension risk
- 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 II.

Accounting and regulatory treatment of group subsidiaries

Investec Bank plc (IBP) is the main banking subsidiary of Investec plc. Investec Bank (Australia) Limited (IBAL) is a subsidiary of IBP.

Internal capital requirements are quantified by analysis of the potential impact of key risks to a degree consistent with our risk appetite.

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 184 to 186.

	IBP*^ £'million	IBAL*^ A$'million
As at 31 March 2013		
Tier 1 capital		
Shareholders' equity	1 895	596
Shareholders' equity per balance sheet	1 919	596
Perpetual preference share capital and share premium	–	–
Deconsolidation of special purpose entities	(24)	–
Non-controlling interests	(5)	–
Non-controlling interests per balance sheet	(5)	–
Regulatory adjustments to the accounting basis	(10)	2
Unrealised losses on available-for-sale debt securities	2	–
Unrealised gains on available-for-sale equities	(8)	2
Prudent valuation	(16)	–
Cash flow hedging reserve	12	–
Deductions	(476)	(193)
Goodwill and intangible assets net of deferred tax	(472)	(105)
Unconsolidated investments	–	(23)
Securitisation positions	(2)	(55)
Excess of deductions from additional tier 1	(2)	(10)
Core tier 1/common equity tier 1 capital	1 404	405
Total tier 1 capital	1 404	405
Tier 2 capital		
Total qualifying tier 2 capital before deductions	685	135
Unrealised gains on available-for-sale equities	8	–
Collective impairment allowances	20	–
Tier 2 instruments	657	25
Phase out of non-qualifying tier 2 instruments	–	110
Deductions	(4)	–
Unconsolidated investments	(2)	–
Securitisation positions	(2)	–
Total tier 2 capital	681	135
Total capital deductions	(19)	–
Investments that are not material holdings or qualifying holdings	(17)	–
Connected lending of a capital nature	(2)	–
Total regulatory capital	2 066	540
Risk-weighted assets	12 657	3 422
Capital ratios		
Core tier 1 ratio/common equity tier 1 ratio	11.1%	11.8%
Tier 1 ratio	11.1%	11.8%
Total capital ratio	16.3%	15.8%

* *Where: IBP is Investec Bank plc consolidated. IBAL is Investec Bank (Australia) Limited. The information for IBP includes IBAL on a Basel II basis.*

^ *The 2013 capital information for IBP is based on Basel II capital requirements as currently applicable in the UK. The 2013 capital information for IBAL is based on Basel III capital requirements as currently applicable in Australia. Comparative information is disclosed on a Basel II basis.*

Capital management and allocation (continued)

Capital structure and capital adequacy (continued)

	IBP*^ £'million	IBAL*^ A$'million
As at 31 March 2012		
Tier 1 capital		
Shareholders' equity	1 723	589
Shareholders' equity per balance sheet	1 728	589
Perpetual preference share capital and share premium	–	–
Deconsolidation of special purpose entities	(5)	–
Non-controlling interests	(2)	–
Non-controlling interests per balance sheet	(2)	–
Regulatory adjustments to the accounting basis	(1)	–
Unrealised losses on available-for-sale debt securities	7	–
Unrealised gains on available-for-sale equities	(14)	–
Prudent valuation	(3)	–
Cash flow hedging reserve	9	–
Foreign currency translation reserve	–	–
Deductions	(401)	(155)
Goodwill and intangible assets net of deferred tax	(379)	(101)
Unconsolidated investments	–	(7)
Securitisation positions	(22)	(35)
Excess of deductions from additional tier 1	–	(12)
Core tier 1 capital	1 319	434
Total tier 1 capital	1 319	434
Tier 2 capital		
Total qualifying tier 2 capital before deductions	649	98
Unrealised gains on available-for-sale equities	14	–
Collective impairment allowances	7	–
Tier 2 instruments	628	98
Deductions	(22)	(7)
Unconsolidated investments	–	(7)
Securitisation positions	(22)	–
Total tier 2 capital	627	91
Total capital deductions	(26)	–
Investments that are not material holdings or qualifying holdings	(16)	–
Connected lending of a capital nature	(10)	–
Total regulatory capital	1 920	525
Risk-weighted assets	11 421	2 981
Capital ratios		
Core tier 1 ratio	11.5%	14.6%
Tier 1 ratio	11.5%	14.6%
Total capital ratio	16.8%	17.6%

* *Where: IBP is Investec Bank plc consolidated. IBAL is Investec Bank (Australia) Limited. The information for IBP includes IBAL on a Basel II basis.*

^ *The 2013 capital information for IBP is based on Basel II capital requirements as currently applicable in the UK. The 2013 capital information for IBAL is based on Basel III capital requirements as currently applicable in Australia. Comparative information is disclosed on a Basel II basis.*

Capital management and allocation (continued)

Capital requirements

	IBP*^ £'million	IBAL*^ A$'million
As at 31 March 2013		
Capital requirements	**1 013**	**446**
Credit risk – prescribed standardised exposure classes	797	380
Corporates	259	142
Secured on real estate property	224	16
Short-term claims on institutions and corporates	38	3
Retail	102	154
Institutions	15	9
Other exposure classes	145	55
Securitisation exposures	14	1
Equity risk – Standardised approach	32	–
Listed equities	4	–
Unlisted equities	28	–
Counterparty credit risk	26	9
Market risk	61	6
Interest rate	22	6
Foreign exchange	13	–
Equities	24	–
Options	2	–
Operational risk – Standardised approach	97	51
As at 31 March 2012		
Capital requirements	**915**	**388**
Credit risk – prescribed standardised exposure classes	732	318
Corporates	226	256
Secured on real estate property	239	4
Short-term claims on institutions and corporates	28	2
Retail	76	–
Institutions	14	14
Other exposure classes	127	39
Securitisation exposures	22	3
Equity risk – Standardised approach	26	9
Listed equities	2	2
Unlisted equities	24	7
Counterparty credit risk	21	9
Market risk	53	2
Interest rate	16	2
Foreign exchange	8	–
Equities	20	–
Options	9	–
Operational risk – Standardised approach	83	50

* *Where: IBP is Investec Bank plc consolidated. IBAL is Investec Bank (Australia) Limited. The information for IBP includes IBAL on a Basel II basis.*

^ *The 2013 capital information for IBP is based on Basel II capital requirements as currently applicable in the UK. The 2013 capital information for IBAL is based on Basel III capital requirements as currently applicable in Australia. Comparative information is disclosed on a Basel II basis.*

Capital management and allocation (continued)

Risk-weighted assets

	IBP*^ £'million	IBAL*^ A$'million
As at 31 March 2013		
Risk-weighted assets (banking and trading)	12 657	3 422
Credit risk – prescribed standardised exposure classes	9 956	2 914
Corporates	3 223	1 095
Secured on real estate property	2 799	122
Short-term claims on institutions and corporates	470	20
Retail	1 276	1 180
Institutions	193	69
Other exposure classes	1 814	424
Securitisation exposures	181	4
Equity risk – Standardised approach	396	–
Listed equities	47	–
Unlisted equities	349	–
Counterparty credit risk	330	68
Market risk	767	47
Interest rate	275	43
Foreign exchange	166	4
Equities	296	–
Options	30	–
Operational risk – Standardised approach	1 208	393
As at 31 March 2012		
Risk-weighted assets (banking and trading)	11 421	2 981
Credit risk – prescribed standardised exposure classes	9 140	2 448
Corporates	2 819	1 971
Secured on real estate property	2 983	32
Short-term claims on institutions and corporates	355	13
Retail	950	–
Institutions	176	109
Other exposure classes	1 583	303
Securitisation exposures	274	20
Equity risk – Standardised approach	321	66
Listed equities	25	16
Unlisted equities	296	50
Counterparty credit risk	264	68
Market risk	659	16
Interest rate	195	14
Foreign exchange	98	–
Commodities	1	2
Equities	251	–
Options	114	–
Operational risk – Standardised approach	1 037	383

* *Where: IBP is Investec Bank plc consolidated. IBAL is Investec Bank (Australia) Limited. The information for IBP includes IBAL on a Basel II basis.*

^ *The 2013 capital information for IBP is based on Basel II capital requirements as currently applicable in the UK.*
The 2013 capital information for IBAL is based on Basel III capital requirements as currently applicable in Australia.
Comparative information is disclosed on a Basel II basis.

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

Internal audit

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. 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.

Investec Bank (Australia) Limited and Investec Bank plc (Irish branch) have their own internal audit functions reporting into Investec plc 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.

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.

UK and Europe – year in review

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

Structural banking reform

On 4 February 2013, the UK Government introduced the Financial Services (Banking Reform) Bill to the House of Commons. The Bill would give the UK authorities the powers to implement the key recommendations of the Independent Commission on Banking (ICB) on banking reform, which include:

- Retail ring-fence: this involves the fencing of the UK and European Economic Area (EEA) retail banking activities of a UK bank in a legally distinct, operationally separate and economically independent entity within the same group
- Higher capital and loss absorbency requirements: the increase of the loss-absorbing capacity of ring-fenced banks
- Depositor protection: the Bill gives depositors protection under the Financial Services Compensation Scheme preference if a bank enters insolvency.

The Bill contains a *de minimis* exemption from the requirement to ring-fence, which is expected to be relevant to all but the largest deposit takers. It is expected that Investec will fall within this *de minimis* exemption and will therefore be out of scope from the ring-fencing requirement.

Reforms of the UK regulatory framework

In the last year the UK financial regulator has been working towards implementing the legislative split into twin regulators. As of 1 April 2013 the FSA will be split into two organisations focusing on primarily prudential and conduct matters separately. The Prudential Regulatory Authority (PRA) will prudentially supervise large banks and insurance firms, whilst the Financial

Conduct Authority (FCA) will supervise all firms on conduct matters. The FCA will also be prudentially responsible for some smaller firms. Each regulator has set out their agenda for future regulatory activities and they have revealed a number of new supervisory tools that will enable them to regulate firms with the intention of pursuing market integrity and good consumer outcomes. Investec continues to monitor the changes to the regulatory landscape and to adapt to the shift in supervisory priorities.

Retail Distribution Review/ Mortgage Market Review

On 31 December 2012 the FSA embedded the proposals on the Retail Distribution Review (RDR), which aim to improve the quality of service provided to clients in the advice sector. By imposing minimum qualification standards for advisers; requiring firms to have more transparent charging practices; and disclosing more clearly the parameters within which advice is provided, i.e. independent or restricted, the UK Regulator hopes to rebuild trust in the IFA and investment management community as well as improve outcomes for retail clients. Whilst impact on Investec Bank plc has been limited, RDR is relevant to Investec Wealth & Investment. This is particularly regarding charging structures and the qualifications advisers have had to attain to continue to provide advice. Investec Wealth & Investment has implemented RDR and is continuing to monitor its impact on the business and client outcomes.

The Mortgage Market Review is the mortgage market equivalent of the RDR, focusing on outcomes for clients in the mortgage space. Investec is continuing to track the proposals through the consultation process and is working towards embedding necessary changes by April 2014.

Australia – year in review

Reform within the Australian regulatory framework

Consistent with many other financial centres, the velocity of regulatory change in the Australian banking and financial services sector has remained relatively high and the regulatory environment is becoming increasingly complex. A notable change is the increasing prevalence of real-time impacts of US and European regulatory reforms on the Australian market. Notable examples of these include the US Dodd-Frank Act and Foreign Account Tax Compliance Acts.

Consumer protection

Australian Securities and Investments Commission (ASIC), the Australian regulator responsible for consumer protection in relation to credit and financial products, identifies confident and informed investors and financial consumers as one of their three key priorities and it continues to attract significant resource contributions.

During the course of the year ASIC created or refreshed regulatory guidance on a number of consumer-related topics, including marketing and advertising; training for representatives who provide advice to retail clients; and market integrity rules. Although guidance is generally not prescriptive, it is indicative of the regulator's expectations and often provides a best practice standard that requires consideration by all licensed firms.

Legislation and regulations to effect the Australian government's 'Future of Financial Advice Reform' have been published and come into effect on 1 July 2013. The reforms, which modify the operation of current legislation, prohibit conflicted remuneration in the retail advice sector, create a requirement for advisers to act in the best interests of clients and aim to improve transparency of fees.

Anti-money laundering and counter-terrorism financing

During the year, the Australian Government introduced an amended funding model for Australia's AML/CTF regulator, Australian Transaction Reports and Analysis Centre (AUSTRAC), which includes a supervisory levy for reporting entities.

Investec Australia has updated triggers on transaction reporting and implemented new external monitoring arrangements with the introduction of transaction banking through the launch of a credit card product.

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

Introduction

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

Investec plc and Investec Limited, together with their subsidiaries, are managed as a single economic enterprise as a result of the dual listed companies (DLC) structure. Investec Bank plc is a major subsidiary of Investec plc and due to the DLC operational structure, compliance with many of the specific corporate governance requirements is 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 the Investec 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, sub-committees that specifically oversee the governance and control processes of Investec Bank plc's operations.

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

A diagram of the group's governance framework can be found on page 33 and reports of the various board committees can be found in the corporate governance section of Investec group's 2013 annual report

The Investec plc group audit committee acts as the audit committee for both the group and Investec Bank plc.

The DLC remuneration committee acts as the remuneration committee for the group (including Investec Bank plc) and the statement of the remuneration committee, explaining the group's policies and processes, as well as required disclosures can be found on pages 107 to 119.

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

The board of Investec Bank plc takes comfort from the group's corporate governance process as well as the fact that the board of Investec Bank plc includes common membership with the boards of Investec plc and Investec Limited.

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 and conduct themselves 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, as ever, to provide the group with a strong foundation that will enable the board and group to meet these challenges going forward.

Sir David J Prosser
Chairman

Board statement

The composition of the board of Investec Bank plc is set out on page 105.

The board seeks to exercise leadership, integrity and judgement in pursuit of strategic goals and objectives, to achieve long-term sustainability, growth and prosperity. The board is accountable for the performance and affairs of Investec Bank plc. It provides leadership for the bank within a framework of prudent and effective controls which allows risks to be assessed and managed.

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

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

Board committees

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

Financial reporting and going concern

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

- Budgeting and forecasts
- Profitability
- Capital
- Liquidity.

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

Our financial statements are prepared on a going concern basis.

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

Further information on our liquidity and capital position is provided on pages 76 to 83 and pages 92 to 95.

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

Management and succession planning

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

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

Matters of succession are considered regularly by the nominations and directors' affairs committee (NOMDAC).

Internal control

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

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

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

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

Internal financial controls

Internal financial controls are based on established policies and procedures.

Management is responsible for implementing internal financial controls, ensuring that personnel are suitably qualified, that appropriate segregation exists between duties, and that there is suitable independent review. These areas are monitored by the board through the audit committee 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 plc. The board meets 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 plc. Together with the boards of Investec plc and Investec Limited, 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 plc, as included with the functions of the boards of Investec plc and Investec Limited, 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 nine non-executive directors.

Biographical details of the directors are set out on page 105.

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

We further appointed Haruko Fukuda as an independent non-executive director as well as appointing Kevin McKenna, Alexander Snow and Allen Zimbler as executive directors. Alexander Snow resigned on 6 June 2013.

The names of the directors at the date of this report and the dates of their appointments are set out in the table below.

	Date of appointment
Executive directors	
DM van der Walt	5 February 2002
K McKenna	10 May 2012
A Snow*	1 March 2013
IR Wohlman	23 June 1999
A Zimbler	10 May 2012
Non-executive directors	
Sir DJ Prosser	7 July 2011
GFO Alford	5 April 2000
PKO Crosthwaite	10 November 2010
D Friedland	1 March 2013
H Fukuda OBE	3 December 2012
B Kantor	16 November 1992
IR Kantor	16 November 1992
S Koseff	16 November 1992
F Titi	3 August 2011

* *A Snow resigned from the board of directors on 6 June 2013.*

Board meetings

The board of Investec Bank plc met seven 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 seven held during the year
Executive directors	
DM van der Walt	6
K McKenna**	6
A Snow^	1
IR Wohlman	5
A Zimbler**	7

** *K McKenna and A Zimbler were appointed to the board of directors on 10 May 2012 and were therefore eligible to attend all the meetings held from that date.*

^ *A Snow was appointed to the board of directors on 1 March 2013 and was therefore eligible to attend only the meeting held on 28 March 2013. He resigned from the board of directors on 6 June 2013.*

	Number of meetings attended of the seven held during the year
Non-executive directors	
Sir DJ Prosser	6
GFO Alford	5
PKO Crosthwaite	4
D Friedland**	1
H Fukuda OBE*	2
B Kantor	5
IR Kantor	5
S Koseff	7
F Titi	6

* *H Fukuda was appointed to the board of directors on 3 December 2012 and was therefore eligible to attend only the meeting held on 28 March 2013.*

** *D Friedland was appointed to the board of directors on 1 March 2013 and was therefore eligible to attend only the meeting held on 28 March 2013.*

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 DLC nominations and directors' affairs committee, 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 DLC nominations and directors' affairs committee.

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, including meeting with 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 board meetings.

Independent advice

Through the 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.

Remuneration

Details of the directors' remuneration and remuneration process are set out on pages 114 to 117.

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 directors can perform their duties effectively.

Details of the chairman's external directorships are set out in the Investec group's 2013 annual report.

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.

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,
  - the chairman of the audit committee reports to shareholders on its statutory duties. The audit committee of Investec plc performs the necessary functions required on behalf of Investec Bank plc.

The report by the chairman of the audit committee can be found in the Investec group's 2013 annual report on pages 90 to 92.

Directorate

Executive directors

(details as at the date of this report)

David M van der Walt (48)
Chief executive officer
BCom (Hons), CA(SA)

Global head of corporate and institutional banking activities for the Investec group.

Kevin McKenna (46)
BCom, BAcc, CA(SA)

Chief operating officer of the bank.

Alexander Snow (43)*
MA (Management and International Relations)

Executive chairman of Investec Investment Banking and Securities.

Ian R Wohlman (58)
ACIB

Head of risk management for the bank.

Allen Zimbler (63)
BA (Hons), MBA, PhD

Chief integration officer for the Investec group.

Non-executive directors

(details as at the date of this report)

Sir David J Prosser (69)
Non-executive chairman
BSc (Hons), FIA

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

George FO Alford (64)
BSc (Econ), FCIS, FIPD, MSI

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

Perry KO Crosthwaite (64)
MA (Hons)

Non-executive director of Investec plc and Investec Limited.

David Friedland (59)
BCom, CA(SA)

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

Haruko Fukuda OBE (66)
MA (Cantab), DSc

Non-executive director of Investec plc and Investec Limited.

Bernard Kantor (63)
CTA

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

Ian R Kantor (66)
BSc (Eng), MBA

Non-executive director of Investec plc and Investec Limited.

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

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

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

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

* *A Snow resigned from the board of directors on 6 June 2013.*

Remuneration report

Remuneration report

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

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

Remuneration philosophy, principles and 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

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

- 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
  - 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 of the Investec group, the remuneration committee benchmarks against a bespoke peer group comprising: Aberdeen Asset Management, Alliance Bernstein, Close Brothers Group, Invesco, Jefferies, Julius Baer, Macquarie Group, Man Group, Rathbone Brothers, Schroders and Tullett Prebon
- For employees and executive directors of the bank, the FTSE350 General Finance sector 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 executive directors are currently the subject of a consultation with shareholders and will be the subject of a separate 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. The structure of short-term incentives varies between employees of our two operating divisions; Wealth & Investment and the Specialist Banking. This reflects differing regulatory requirements on the different legal entities and also differing competitive pressures in each distinct market.

Specialist Banking: variable short-term incentives

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 15.

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 88 to 95.

- 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, persons discharging managerial responsibilities, and PRA Code staff. 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 – non-UK PRA Code staff within the Specialist Bank

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.

Deferral of annual bonus awards – UK PRA Code staff within the Specialist Bank

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

Investec Wealth & Investment: variable short-term incentives

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

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

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

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

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

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

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

- The first element is a bonus pool which is calculated based on a formula that is directly related to the profitability of the business unit. The entire bonus pool, which is not subject to an upper limit, is distributed to the employees of the business unit on a discretionary basis. A proportion of the annual discretionary bonus payable to such executive directors may be awarded as a pension contribution, at the discretion of the committee

- The second element rewards participating employees on an individual basis for new business that is gained and then retained for a period of three years following the end of the year in which the new business is gained. The amount payable is based on a formula which is directly related to the income generated as a result of the new business and is not subject to an upper limit. All awards under this scheme are cash awards. This latter scheme represents a long-term incentive scheme in accordance with the regulations and amounts earned and paid under this scheme are separately disclosed in the financial statements of IW&I.

Other information on deferred awards and clawback provisions within Investec Bank plc

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

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

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.

Other remuneration structures

Guaranteed variable remuneration

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

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

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

Retention awards

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

Severance awards

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

Discretionary extended pension benefits policy

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

Non-executive directors' remuneration

Policy on non-executive directors' remuneration

Non-executive directors receive fees for being a member of the Investec Bank plc board and fees are also payable for any additional time committed to the bank including attendance at certain meetings.

Furthermore, non-executive directors may not participate in our share option plans or our long-term share incentive and pension plans.

Governance

Compliance and governance statement

The remuneration report complies with the provisions of the UK Corporate Governance Code 2012, section 420 of the UK Companies Act 2006, the UK Financial Conduct Authority listing rules and the PRA Remuneration Code.

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. This is relevant to Investec plc and its subsidiary companies that are subject to the PRA Remuneration Code (as a level 2 organisation as defined therein), and in particular in relation to PRA Code staff. Additionally, where any aspect of our remuneration policy contravenes local laws or regulations, the local laws or regulations shall prevail.

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

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

- Investec Wealth & Investment Limited
- Hargreave Hale Limited.

Under the PRA Remuneration Code, Investec Bank plc is classified as being level 2. It should be noted that our Wealth Management business has been classified as a level 3 entity under the proportionality rules of the PRA Remuneration Code.

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.

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

Name	Beneficial and non-beneficial interest Investec plc[2] 1 April 2012	31 March 2013	% of shares in issue[1] 31 March 2013	Beneficial and non-beneficial interest Investec Limited[3] 1 April 2012	31 March 2013	% of shares in issue[1] 31 March 2013
Executive directors						
DM van der Walt (chief executive officer)	–	–	–	690 140	690 140	0.2%
K McKenna[4]	40 967	112 147	–	–	–	–
A Snow[4]	–	9 119	–	–	–	–
IR Wohlman	41 597	60 172	–	100 000	80 000	–
A Zimbler[4]	–	–	–	–	–	–
Total number	82 564	181 438	–	790 140	770 140	0.2%
Non-executive directors						
Sir DJ Prosser (chairman)	10 000	10 000	–	–	–	–
GFO Alford	10 000	10 000	–	–	–	–
PKO Crosthwaite	132 908	132 908	–	–	–	–
D Friedland[4]	–	–	–	–	–	–
H Fakuda OBE[4]	5 000	5 000	–	–	–	–
B Kantor	63 980	57 980	–	3 801 000	4 201 000	1.5%
IR Kantor	3 509 545	3 509 545	0.6%	325	325	–
S Koseff	4 839 133	4 589 355	0.8%	1 809 330	1 809 399	0.6%
F Titi	–	–	–	–	–	–
Total number	8 570 566	8 314 788	1.4%	5 610 955	6 010 724	2.1%
Total number	8 653 130	8 496 226	1.4%	6 401 095	6 780 864	2.3%

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.*
4. *Information on directors appointments and resignations can be found on page 102.*

Directors' interest in preference shares as at 31 March 2013

Name	Investec plc 1 April 2012	Investec plc 31 March 2013	Investec Limited 1 April 2012	Investec Limited 31 March 2013	Investec Bank Limited 1 April 2012	Investec Bank Limited 31 March 2013
Non-executive directors						
S Koseff	101 198	101 198	3 000	3 000	4 000	4 000

- *The market price of an Investec plc preference share as at 31 March 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' interests in options at 31 March 2013

Investec plc shares

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

No new option grants were made to executive directors during the financial year.

Investec Limited shares

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

No new option grants were made to executive directors during the financial year.

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

Investec plc shares

Name	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
Executive directors									
DM van der Walt	25 June 2007	Nil	200 000	(50 000)	–	150 000	£3.95	£197 255	The remaining awards are exercisable on or before 25 June 2013
	25 June 2009	Nil	300 000	–	–	300 000	–	–	75% is exercisable on 25 June 2013 and 25% on 25 June 2014
	1 July 2010	Nil	750 000	–	–	750 000	–	–	75% is exercisable on 1 July 2014 and 25% on 1 July 2015
K McKenna	25 June 2008	Nil	25 000	(18 750)	–	6 250	£3.88	£72 750	The remaining awards are exercisable on 25 June 2013
	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	75 000	–	–	75 000	–	–	75% is exercisable on 1 July 2014 and 25% on 1 July 2015
	31 May 2011	Nil	50 000	–	–	50 000	–	–	75% is exercisable on 31 May 2015 and 25% on 31 May 2016
IR Wohlman	25 June 2007	Nil	12 500	(12 500)	–	–	£4.00	£50 000	
	25 June 2009	Nil	75 000	–	–	75 000	–	–	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
	31 May 2011	Nil	100 000	–	–	100 000	–	–	75% is exercisable on 31 May 2015 and 25% on 31 May 2016
A Zimbler	25 June 2007	Nil	125 000	(125 000)	–	–	£3.81	£476 250	
	25 June 2009	Nil	180 000	–	–	180 000	–	–	75% is exercisable on 25 June 2013 and 25% on 25 June 2014
	1 July 2010	Nil	275 000	–	–	275 000	–	–	75% is exercisable on 1 July 2014 and 25% on 1 July 2015

The above awards are not subject to performance conditions and were made prior to the directors being classified as Code staff in terms of the PRA requirements.

Conditional awards to Code staff as at 31 March 2013

Investec plc shares

Name	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
Executive directors									
K McKenna	29 May 2012	Nil	40 000	–	–	40 000	–	–	75% is exercisable on 29 November 2015 and subject to 6 months retention thereafter and 25% on 29 November 2016 and subject to six months retention thereafter
A Snow	29 May 2012	Nil	300 000	–	–	300 000	–	–	75% is exercisable on 29 November 2015 and subject to six months retention thereafter and 25% on 29 November 2016 and subject to six months retention thereafter
	11 December 2012	Nil	385 000	–	–	385 000	–	–	75% is exercisable on 11 December 2016 and subject to six months retention thereafter and 25% on 11 June 2017 and subject to six months retention thereafter

The above awards to Code staff are subject to performance conditions and a six month retention period after the award vests. In addition, these awards are subject to clawback in respect of some or all of the unvested portion of the award in terms of the PRA Remuneration Code.

The performance conditions will be assessed by the directors, in accordance with the rules and requirements of the PRA from time to time, at the end of each financial year of the performance period (ending 31 March 2013, 31 March 2014, 31 March 2015 and 31 March 2016 respectively). For each year within the performance period that the RoRWA (Return on Risk Weighted Assets) is equal to or greater than 0.3%, the performance condition for 25% of the award is satisfied in which case 25% of the award will vest on the relevant vesting date (subject to clawback).

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

Name	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
Non-executive directors									
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

^ *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 were not 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.

No additional matching awards were made during the year.

Additional remuneration disclosures (unaudited)

PRA Remuneration Code disclosures

In terms of the PRA's Chapter on Disclosure Requirements (BIPRU 11.5.18) the bank in the UK is required to make certain quantitative and qualitative remuneration disclosures on an annual basis with respect to PRA Code staff. Code staff are defined as those employees (including directors) whose professional activities could have a material impact on the bank's risk profile. A total of 45 individuals were PRA Code staff in 2013 and all were employees of the Specialist Bank.

The bank's qualitative remuneration disclosures are provided on pages 107 to 113 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 in respect of PRA Code staff for the year ended 31 March 2013.

Aggregate remuneration by remuneration type

£'million	Senior management	Other Code staff	Total
Fixed remuneration	4.2	5.6	9.8
Variable remuneration*			
– Cash	2.1	2.7	4.8
– Deferred cash	1.9	1.9	3.8
– Deferred shares	4.4	7.4	11.8
– Deferred shares – long-term incentive awards	3.3	1.0	4.3
Other			
– Options – long-term incentive awards made in current year**	0.3	0.1	0.4
– Options – long-term incentive awards made in prior years**	1.8	(1.7)	0.1
Total aggregate remuneration and deferred incentives	18.0	17.0	35.0

* *Total number of employees receiving variable remuneration was 33.*

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

Additional disclosure on deferred variable remuneration

£'million	Senior management	Other Code staff	Total
Deferred unvested remuneration outstanding at the beginning of the year	20.0	12.7	32.7
Deferred unvested remuneration adjustment – employees no longer Code staff	(6.8)	(2.6)	(9.4)
Deferred remuneration awarded in year	9.6	10.3	19.9
Deferred remuneration reduced in year through performance adjustments	–	–	–
Deferred remuneration vested in year	(4.6)	(2.1)	(6.7)
Deferred unvested remuneration outstanding at the end of the year	18.2	18.3	36.5

£'million	Senior management	Other Code staff	Total
Deferred unvested remuneration outstanding at the end of the year			
– Equity	13.7	10.9	24.6
– Cash	2.9	3.7	6.6
– Other	1.6	3.7	5.3
	18.2	18.3	36.5

£'million	Senior management	Other Code staff	Total
Deferred remuneration vested in year			
– For awards made in 2012 financial year	–	–	–
– For awards made in 2011 financial year	(4.6)	(2.1)	(6.7)
– For awards made in 2010 financial year	–	–	–
	(4.6)	(2.1)	(6.7)

Other remuneration disclosures

	Senior management	Other Code staff	Total
Sign-on payments			
Made during the year (£'million)	0.1	–	0.1
Number of beneficiaries	1	–	1
Severance payments			
Made during the year (£'million)	–	–	–
Number of beneficiaries	–	–	–
Guaranteed bonuses			
Made during the year (£'million)	–	–	–
Number of beneficiaries	–	–	–

Annual financial **statements**

Directors' report

The directors present their report and financial statements for the year ended 31 March 2013.

Business and principal activities

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

Review of the business and future developments

A review of the bank's business for the year and future proposed activities can be found in the financial review on pages 12 to 28.

Accounting policies and disclosures

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

These policies are set out on pages 130 to 138.

The accounts of the bank itself continue to be drawn up under UK Generally Accepted Accounting Practice.

The accounting policies for the bank's own accounts are set out on pages 201 to 207.

Authorised and issued share capital

Details of the share capital as at 31 March 2013 are set out in note 41 of the bank's consolidated financial statements.

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

Date of issue	Number of ordinary shares	Price per share
30 July 2012	17 800 000	£1.54
23 August 2012	72 313 000	£1.54
20 December 2012	12 987 000	£1.54

Results and dividends

The results for the year are shown on page 124. Movements in reserves are shown in the reconciliation of equity on pages 128 and 129 of the financial statements.

An interim dividend of £7 500 000 was paid on 31 May 2012 and a further interim dividend of £5 000 000 was paid on 12 November 2012.

Directors and their interests

The directors of the bank for the year ended 31 March 2013 are shown on page 105.

There have been the following changes in the composition of the board:

Kevin McKenna and Allen Zimbler were appointed to the board as executive directors on 10 May 2012. Haruko Fukuda was appointed as a non-executive director on 3 December 2012 and David Friedland was appointed as a non-executive director on 1 March 2013. Alexander Snow was appointed as an executive director on 1 March 2013.

Alexander Snow resigned as a director on 6 June 2013.

The interests of the directors are set out in the remuneration report on pages 114 to 117.

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

Environment

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

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

Employees

The bank's policy is to recruit and promote on the basis of aptitude and ability, without discrimination of any kind. Applications for employment by disabled people are always considered bearing in mind the qualifications and abilities of the applicants. In the event of employees becoming disabled, every effort is made to ensure their continued employment. The 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 and option schemes.

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

Creditor payment policy

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

Going concern

Refer to page 101 for the directors' statement in relation to going concern.

Post-balance sheet events

The directors confirm that there were no significant events occurring after the balance sheet date to the date of this report that would meet the criteria to be disclosed in the financial statements for the year ended 31 March 2013.

Auditors

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

By order of the board

David Miller
Company secretary

24 June 2013

Directors' responsibility statement

The following statement, which should be read in conjunction with the auditor's report set out on page 123, is made with a view to distinguishing for stakeholders the respective responsibilities of the directors and of the auditors in relation to the consolidated financial statements.

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

To enable the directors to meet these responsibilities:

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

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

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

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

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

It is the responsibility of the independent auditors to report on the consolidated financial statements. Their report to the members of the bank is set out on page 123 of this report. As far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. All steps which ought to have been taken as directors have been completed in order to be aware of the relevant audit information and to establish that the company's auditors are aware of that information.

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

Approval of financial statements

The directors' report and the financial statements of the bank, which appear on page 121 and pages 124 to 196, were approved by the board of directors on 24 June 2013.

Signed on behalf of the board

David van der Walt
Chief executive officer

24 June 2013

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

We have audited the group financial statements of Investec Bank plc for the year ended 31 March 2013 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity, the accounting policies set out on pages 130 to 138, and the related notes 1 to 50. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement set out on page 122, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion, the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 March 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinions on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the parent company financial statements of Investec Bank plc for the year ended 31 March 2013.

Ernst & Young LLP

Michael-John Albert
Senior statutory auditor

For and on behalf of Ernst & Young LLP
Statutory Auditor

London
25 June 2013

Notes:

1. *The maintenance and integrity of the Investec Bank plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.*
2. *Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.*

Consolidated income statement

For the year to 31 March £'000	Notes	2013	2012
Interest income	2	814 385	797 343
Interest expense	2	(526 545)	(539 140)
Net interest income		**287 840**	**258 203**
Fee and commission income	3	418 154	349 132
Fee and commission expense	3	(31 861)	(35 806)
Investment income	4	71 517	110 719
Trading income arising from			
– customer flow		57 867	54 043
– balance sheet management and other trading activities		14 569	14 860
Other operating income	5	31 345	60 510
Total operating income before impairment losses on loans and advances		**849 431**	**811 661**
Impairment losses on loans and advances	26	(110 403)	(156 976)
Operating income		**739 028**	**654 685**
Operating costs	6	(627 772)	(572 673)
Depreciation on operating leased assets	6/31	(16 072)	(28 544)
Operating profit before goodwill and acquired intangibles		**95 184**	**53 468**
Impairment of goodwill	33	(13 409)	–
Amortisation of acquired intangibles	34	(11 262)	(8 168)
Cost arising from integration of acquired subsidiaries		(12 462)	(7 110)
Operating profit		**58 051**	**38 190**
Non-operational costs arising from acquisition of subsidiary		(1 219)	(835)
Profit before taxation		**56 832**	**37 355**
Taxation on operating profit before goodwill	8	(22 541)	(17 787)
Taxation on acquired intangibles and acquisition/disposal/integration of subsidiaries	8	5 853	1 361
Profit after taxation		**40 144**	**20 929**
Operating loss/(income) attributable to non-controlling interests		1 932	(2 184)
Earnings attributable to shareholder		**42 076**	**18 745**

Consolidated statement of comprehensive income

For the year to 31 March £'000	Notes	2013	2012
Profit after taxation		40 144	20 929
Other comprehensive income:			
Fair value movements on cash flow hedges taken directly to other comprehensive income	8	(1 663)	(4 522)
Losses/(gains) on realisation of available-for-sale assets recycled through the income statement	8	407	(40 760)
Fair value movements on available-for-sale assets taken directly to other comprehensive income	8	(1 747)	25 829
Foreign currency adjustments on translating foreign operations		8 770	4 101
Total comprehensive income		45 911	5 577
Total comprehensive (loss)/income attributable to non-controlling interests		(2 168)	2 072
Total comprehensive income attributable to ordinary shareholder		48 079	3 505
Total comprehensive income		45 911	5 577

Consolidated balance sheet

At 31 March £'000	Notes	2013	2012
Assets			
Cash and balances at central banks	17	1 375 654	1 835 836
Loans and advances to banks	18	1 134 074	863 540
Reverse repurchase agreements and cash collateral on securities borrowed	19	1 528 593	1 159 138
Sovereign debt securities	20	1 660 377	1 647 271
Bank debt securities	21	455 201	824 552
Other debt securities	22	197 695	185 343
Derivative financial instruments	23	948 028	866 408
Securities arising from trading activities	24	673 763	372 570
Investment portfolio	25	364 762	317 313
Loans and advances to customers	26	7 745 583	7 176 992
Own originated loans and advances to customers securitised	27	491 194	535 008
Other loans and advances	26	1 803 629	2 067 626
Other securitised assets	27	767 415	640 255
Interests in associated undertakings	28	16 989	17 780
Deferred taxation assets	29	112 172	89 490
Other assets	30	1 200 296	1 116 826
Property and equipment	31	79 040	122 702
Investment properties	32	11 500	11 500
Goodwill	33	326 841	278 574
Intangible assets	34	175 478	117 525
		21 068 284	20 246 249
Liabilities			
Deposits by banks		926 267	633 024
Derivative financial instruments	23	817 689	732 510
Other trading liabilities	36	372 762	271 627
Repurchase agreements and cash collateral on securities lent	19	942 396	1 020 670
Customer accounts (deposits)		11 426 647	11 103 365
Debt securities in issue	37	1 713 736	2 046 651
Liabilities arising on securitisation of own originated loans and advances	27	477 903	526 946
Liabilities arising on securitisation of other assets	27	560 156	508 668
Current taxation liabilities		82 630	57 783
Deferred taxation liabilities	29	44 945	32 487
Other liabilities	38	1 109 794	943 110
		18 474 925	17 876 841
Subordinated liabilities	40	678 742	643 162
		19 153 667	18 520 003
Equity			
Ordinary share capital	41	1 173 800	1 070 700
Share premium		136 267	129 255
Capital reserve		162 789	114 128
Other reserves		84 647	76 767
Retained income		361 666	337 541
Shareholder's equity excluding non-controlling interests		1 919 169	1 728 391
Non-controlling interests in partially held subsidaries	42	(4 552)	(2 145)
Total equity		1 914 617	1 726 246
Total liabilities and equity		21 068 284	20 246 249

Consolidated cash flow statement

For the year to 31 March £'000	Notes	2013	2012
Profit before taxation adjusted for non-cash items	44	222 308	245 453
Tax repayment/(tax paid)		3 399	(24 769)
Increase in operating assets	44	(1 241 681)	(1 130 777)
Increase in operating liabilities	44	441 651	1 570 584
Net cash (outflow)/inflow from operating activities		(574 323)	660 491
Cash inflow/(outflow) on acquisition of subsidiaries	35	23 071	(3 563)
Cash flow on acquisition of non-controlling interest		(3 813)	–
Cash flow on acquisition of property, equipment and intangible assets		(22 822)	(67 076)
Cash flow on disposal of property, equipment and intangible assets		39 467	71 038
Cash flow from acquisition and disposal of associated undertakings		3 323	(4 042)
Net cash inflow/(outflow) from investing activities		39 226	(3 643)
Dividends paid to ordinary shareholders		(12 500)	(16 000)
Proceeds on issue of ordinary shares		20 000	68 838
Proceeds from subordinated debt raised		31 926	75 000
Reduction of subordinated debt		–	(14 797)
Net cash inflow from financing activities		39 426	113 041
Effects of exchange rates on cash and cash equivalents		47 693	53 931
Net (decrease)/increase in cash and cash equivalents		(447 978)	823 820
Cash and cash equivalents at the beginning of the year		2 616 993	1 793 173
Cash and cash equivalents at the end of the year		2 169 015	2 616 993
Cash and cash equivalents is defined as including:			
Cash and balances at central banks		1 375 654	1 835 836
On demand loans and advances to banks		793 361	781 157
Cash and cash equivalents at the end of the year		2 169 015	2 616 993

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

Consolidated statement of changes in equity

£'000	Ordinary share capital	Share premium
At 31 March 2011	1 026 000	105 117
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	–	–
Gains on realisation of available-for-sale assets recycled through the income statement	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–
Foreign currency adjustments on translating foreign operations directly	–	–
Total comprehensive income for the year	–	–
Dividends paid to ordinary shareholder	–	–
Issue of ordinary shares	44 700	24 138
Non-controlling interest relating to disposal of subsidiary	–	–
Transfer from regulatory general risk reserve	–	–
At 31 March 2012	1 070 700	129 255
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	–	–
Losses on realisation of available-for-sale assets recycled through the income statement	–	–
Fair value movements on available-for-sale assets taken to other comprehensive income	–	–
Foreign currency adjustments on translating foreign operations	–	–
Total comprehensive income for the year	–	–
Dividends paid to ordinary shareholder	–	–
Issue of ordinary shares	103 100	7 012
Acquisition of non-controlling interest	–	–
Transfer to regulatory general risk reserve	–	–
At 31 March 2013	1 173 800	136 267

Other reserves								
Capital reserve account	Available-for-sale reserve	Regulatory general risk reserve	Cash flow hedge reserve	Foreign currency reserves	Retained income	Shareholder's equity excluding non-controlling interests	Non-controlling interests	Total equity
114 128	21 539	19 729	(4 748)	60 913	329 370	1 672 048	(23 794)	1 648 254
–	–	–	–	–	18 745	18 745	2 184	20 929
–	–	–	(4 522)	–	–	(4 522)	–	(4 522)
–	(40 760)	–	–	–	–	(40 760)	–	(40 760)
–	25 829	–	–	–	–	25 829	–	25 829
–	18	111	(27)	4 144	(33)	4 213	(112)	4 101
–	(14 913)	111	(4 549)	4 144	18 712	3 505	2 072	5 577
–	–	–	–	–	(16 000)	(16 000)	–	(16 000)
–	–	–	–	–	–	68 838	–	68 838
–	–	–	–	–	–	–	(325)	(325)
–	–	(5 459)	–	–	5 459	–	19 902	19 902
114 128	6 626	14 381	(9 297)	65 057	337 541	1 728 391	(2 145)	1 726 246
–	–	–	–	–	42 076	42 076	(1 932)	40 144
–	–	–	(1 663)	–	–	(1 663)	–	(1 663)
–	407	–	–	–	–	407	–	407
–	(1 747)	–	–	–	–	(1 747)	–	(1 747)
–	(91)	849	(549)	8 797	–	9 006	(236)	8 770
–	(1 431)	849	(2 212)	8 797	42 076	48 079	(2 168)	45 911
–	–	–	–	–	(12 500)	(12 500)	–	(12 500)
48 661	–	–	–	–	–	158 773	–	158 773
–	–	–	–	–	(3 574)	(3 574)	(239)	(3 813)
–	–	1 877	–	–	(1 877)	–	–	–
162 789	5 195	17 107	(11 509)	73 854	361 666	1 919 169	(4 552)	1 914 617

Significant accounting policies

Basis of presentation

The group financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU) which comply with IFRSs as issued by the International Accounting Standards Board (IASB). At 31 March 2013, IFRS as endorsed by the EU are identical to current IFRS applicable to the group.

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

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 30 to 97.

Certain disclosures required under IAS 24 Related Party Disclosures have been included in the section marked as audited in the remuneration report on pages 107 to 119.

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

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

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

Segmental reporting

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

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

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

For further detail on the group's segmental reporting basis refer to pages 18 to 23 of the divisional review section of the annual report.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at 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 re-measured 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 and in certain limited circumstances cash-settled share-based payments in respect of services received from employees.

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

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

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

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

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

Foreign currency transactions and foreign operations

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

Foreign operations are subsidiaries, interests in associated undertakings 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 are 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 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, income from interests in associated undertakings, income from assurance activities and revenue from consolidated private equity investments. Operating costs associated with these investments are included in operating costs in the income statement.

Financial instruments

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

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

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

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

Financial instruments classified as held-for-trading or designated as held at fair value through profit or loss are recorded at fair value on the balance sheet with changes in fair value recognised in the income statement. Financial instruments are classified as trading when they are held with the intention of short-term disposal, held with the 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 a 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 group 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 special purpose entities (SPEs), and the SPEs issue debt securities to external investors to fund the purchase of the securitised assets. The group's exposure to the SPEs are 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 (within the Specialist Banking business segment) that takes into account macro-economic factors, mainly driven by data related to the prevailing credit markets and which indicate incurred but not specifically identified losses across the loan portfolios (that is, exposures in all business segments). Assets specifically identified as impaired are excluded from the collective assessment.

Impairments are credited to an allowance account which is carried against the carrying value of financial assets. Interest continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or 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 certain 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 largely entered into 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 current market price or re-measured 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 hedged 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 stand-alone derivative if and only if:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; and
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset when there is both an intention to settle on a net basis (or simultaneously) and a legal right to offset exists.

Issued debt and equity financial instruments

Financial instruments issued by the group are classified as liabilities if they contain a contractual obligation to deliver cash or another financial asset.

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

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

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

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

Sale and repurchase agreements (including securities borrowing and lending)

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

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

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

Financial guarantees

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

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

Instalment credit, leases and rental agreements

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

Where classified as a finance lease, amounts outstanding on these contracts, net of unearned finance charges, are included in loans and advances where Investec is the lessor and included in liabilities where Investec is the lessee. Finance charges on finance leases and instalment credit transactions are credited or debited to income in proportion to the capital balances outstanding at the rate implicit in the agreement.

Where classified as operating leases, rentals payable/receivable are charged/credited in the income statement on a straight-line basis over the lease term. Contingent rentals (if any) are accrued to the income statement when incurred.

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and impairments.

Cost is the cash equivalent paid, or the fair value of the consideration given to acquire an asset and includes other expenditures that are directly attributable to the acquisition of the asset.

Depreciation is provided on the depreciable amount of each component on a straight-line basis over the anticipated useful life of the asset. The depreciable amount related to each asset is determined as the difference between the cost and the residual value of the asset. The residual value is the estimated amount, net of disposal costs, that the group would currently obtain from the disposal of an asset in similar age and condition as expected at the end of its useful life.

The current and comparative annual depreciation rates for each class of property and equipment are 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 for group 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 fifteen years). The depreciable amount related to each intangible asset is determined as the difference between the cost and the residual value of the asset. The residual value is the estimated amount, net of disposal costs, which the group would currently obtain from the disposal of an intangible asset in similar age and condition as expected at the end of its useful life.

Impairment of non-financial assets

At each balance sheet date the group reviews the carrying value of non-financial assets, other than investment property and deferred tax assets, for indication of impairment. The recoverable amount, being the higher of fair value less cost to sell and value in use, is determined for any assets for which an indication of impairment is identified. If the recoverable amount of an asset is less than its carrying value, the carrying value of the asset is reduced to its recoverable value.

Impairment losses are recognised as an expense in the income statement in the period in which they are identified. Reversals of impairment losses are recognised in income in the period in which the reversals are 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 or taxable profit

- 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 bank operates various defined contribution schemes. In addition, certain employees of the bank participate in two closed defined benefit schemes along with employees of other subsidiary undertakings of Investec plc, the bank's parent.

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.

As there is no contractual agreement or stated policy for charging the net defined benefit cost for the defined benefit plans as a whole measured in accordance with IAS 19 to individual investec plc group entities, the bank accounts for these schemes on a defined contribution basis.

Borrowing costs

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

Provisions, contingent liabilities and contingent assets

Provisions are liabilities of uncertain timing or amount and are recognised as soon as the group has created a legal or constructive obligation which will lead to an outflow of economic resources to settle the obligation as a result of a past event. 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

The standard defines fair value (being a market-based measurement), sets out in a single IFRS a framework for measuring fair value and requires extensive disclosure about fair value measurements, inclusive of non-financial instruments that 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 solely arise from payment of principal and interest. The standard further provides that gains and losses on assets held at fair value are measured through the income statement unless the entity has elected to present gains and losses on non-trading equity investments (individually elected) directly through comprehensive income. 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.

IAS 19 – Employee Benefits

Proposed amendments to IAS 19 have been published for public comment in March 2013. The proposed amendments aim to simplify complex requirements that are encountered in applying the standard, specifically in relation to accounting for contributions from employees and third parties to defined benefit plans.

The proposed amendments are expected to be finalised by July 2013 and currently are not expected to have a material impact on the group.

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 25 with further analysis contained in the risk management section on pages 62 to 70.

- 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 50 to 61 in the risk management section for further analysis on impairments.

- The group's income tax charge and balance sheet provision are judgemental in nature. This arises from certain transactions for which the ultimate tax treatment can only be determined by final resolution with the relevant local tax authorities. The group recognises liabilities for taxation based on estimates of levels of taxation expected to be payable, taking into consideration expert external advice where appropriate. The final resolution may result in different amounts of cash flows to those initially provided and any necessary adjustments are taken into consideration in the period in which they are identified
- Determination of interest income and interest expense using the effective interest method involves judgement in determining the timing and extent of future cash flows.

For the year to 31 March £'000	Wealth & Investment	Specialist Banking	Total group
1. Consolidated segmental analysis			
2013			
Segmental business analysis – income statement			
Net interest income	10 079	277 761	287 840
Fee and commission income	167 027	251 127	418 154
Fee and commission expense	(8 420)	(23 441)	(31 861)
Investment income	555	70 962	71 517
Trading income arising from			
– customer flow	361	57 506	57 867
– balance sheet management and other trading activities	4	14 565	14 569
Other operating income	774	30 571	31 345
Total operating income before impairment losses on loans and advances	170 380	679 051	849 431
Impairment losses on loans and advances	–	(110 403)	(110 403)
Operating income	170 380	568 648	739 028
Operating costs	(137 535)	(490 237)	(627 772)
Depreciation on operating leased assets	–	(16 072)	(16 072)
Operating profit before goodwill and acquired intangibles	32 845	62 339	95 184
Operating loss attributable to non-controlling interests	–	1 932	1 932
Operating profit before goodwill, acquired intangibles and after non-controlling interests	32 845	64 271	97 116
Selected returns and key statistics			
Cost to income ratio	80.7%	73.9%	75.3%
Total assets (£'million)	435	20 633	21 068

For the year to 31 March £'000	Wealth & Investment	Specialist Banking	Total group
1. Consolidated segmental analysis (continued)			
2012			
Segmental business analysis – income statement			
Net interest income	8 499	249 704	258 203
Fee and commission income	122 249	226 883	349 132
Fee and commission expense	(6 034)	(29 772)	(35 806)
Investment (loss)/income	(392)	111 111	110 719
Trading (expense)/income arising from			
– customer flow	(386)	54 429	54 043
– balance sheet management and other trading activities	(7)	14 867	14 860
Other operating income	406	60 104	60 510
Total operating income before impairment losses on loans and advances	124 335	687 326	811 661
Impairment losses on loans and advances	–	(156 976)	(156 976)
Operating income	124 335	530 350	654 685
Operating costs	(101 338)	(471 335)	(572 673)
Depreciation on operating leased assets	–	(28 544)	(28 544)
Operating profit before goodwill and acquired intangibles	22 997	30 471	53 468
Operating income attributable to non-controlling interests	–	(2 184)	(2 184)
Operating profit before goodwill, acquired intangibles and after non-controlling interests	22 997	28 287	51 284
Selected returns and key statistics			
Cost to income ratio	81.5%	71.5%	73.1%
Total assets (£'million)	498	19 748	20 246

For the year to 31 March £'000	UK and Other	Australia	Total group
1. Consolidated segmental analysis (continued)			
2013			
Segmental geographic analysis – income statement			
Net interest income	218 752	69 088	287 840
Fee and commission income	358 723	59 431	418 154
Fee and commission expense	(27 335)	(4 526)	(31 861)
Investment income	70 979	538	71 517
Trading income arising from			
– customer flow	50 921	6 946	57 867
– balance sheet management and other trading activities	15 133	(564)	14 569
Other operating income	29 536	1 809	31 345
Total operating income before impairment losses on loans and advances	716 709	132 722	849 431
Impairment losses on loans and advances	(92 554)	(17 849)	(110 403)
Operating income	624 155	114 873	739 028
Operating costs	(516 300)	(111 472)	(627 772)
Depreciation on operating leased assets	(16 072)	–	(16 072)
Operating profit before goodwill and acquired intangibles	91 783	3 401	95 184
Operating loss attributable to non-controlling interests	1 932	–	1 932
Operating profit before goodwill, acquired intangibles and after non-controlling interests	93 715	3 401	97 116
Selected returns and key statistics			
Cost to income ratio	73.7%	84.0%	75.3%
Total assets (£'million)	17 822	3 246	21 068

For the year to 31 March £'000	UK and Other	Australia	Total group
1. Consolidated segmental analysis (continued)			
2012			
Segmental geographic analysis – income statement			
Net interest income	191 861	66 342	258 203
Fee and commission income	310 676	38 456	349 132
Fee and commission expense	(32 431)	(3 375)	(35 806)
Investment income/(loss)	119 193	(8 474)	110 719
Trading income arising from			
– customer flow	42 931	11 112	54 043
– balance sheet management and other trading activities	15 986	(1 126)	14 860
Other operating income	61 689	(1 179)	60 510
Total operating income before impairment losses on loans and advances	709 905	101 756	811 661
Impairment losses on loans and advances	(89 104)	(67 872)	(156 976)
Operating income	620 801	33 884	654 685
Operating costs	(472 908)	(99 765)	(572 673)
Depreciation on operating leased assets	(28 544)	–	(28 544)
Operating profit before goodwill and acquired intangibles	119 349	(65 881)	53 468
Operating income attributable to non-controlling interests	(2 184)	–	(2 184)
Operating profit before goodwill, acquired intangibles and after non-controlling interests	117 165	(65 881)	51 284
Selected returns and key statistics			
Cost to income ratio	69.4%	98.0%	73.1%
Total assets (£'million)	16 862	3 384	20 246

For the year to 31 March £'000	UK and Other	Australia	Total group
Segmental geographic and business analysis of operating profit before goodwill, acquired intangibles, non-operating items, taxation and after non-controlling interests			
2013			
Wealth & Investment	32 845	–	32 845
Specialist Banking	60 870	3 401	64 271
Total group	93 715	3 401	97 116
Non-controlling interest – equity			(1 932)
Operating profit before goodwill and acquired intangibles			95 184
2012			
Wealth & Investment	22 997	–	22 997
Specialist Banking	94 168	(65 881)	28 287
Total group	117 165	(65 881)	51 284
Non-controlling interest – equity			2 184
Operating profit before goodwill and acquired intangibles			53 468

1. Consolidated segmental analysis (continued)

Segmental analysis and geographic and business analysis – income statement

For the year to 31 March £'000	Wealth & Investment UK and Other total	Specialist Banking UK and Other	Specialist Banking Australia	Specialist Banking Total	Total group
2013					
Net interest income	10 079	208 673	69 088	277 761	287 840
Fee and commission income	167 027	191 696	59 431	251 127	418 154
Fee and commission expense	(8 420)	(18 915)	(4 526)	(23 441)	(31 861)
Investment income	555	70 424	538	70 962	71 517
Trading income arising from					
– customer flow	361	50 560	6 946	57 506	57 867
– balance sheet management and other trading activities	4	15 129	(564)	14 565	14 569
Other operating income	774	28 762	1 809	30 571	31 345
Total operating income before impairment losses on loans and advances	170 380	546 329	132 722	679 051	849 431
Impairment losses on loans and advances	–	(92 554)	(17 849)	(110 403)	(110 403)
Operating income	170 380	453 775	114 873	568 648	739 028
Operating costs	(137 535)	(378 765)	(111 472)	(490 237)	(627 772)
Depreciation on operating leased assets	–	(16 072)	–	(16 072)	(16 072)
Operating profit before goodwill and acquired intangibles	32 845	58 938	3 401	62 339	95 184
Operating income attributable to non-controlling interests	–	1 932	–	1 932	1 932
Operating profit before goodwill, acquired intangibles and after non-controlling interests	32 845	60 870	3 401	64 271	97 116
Selected returns and key statistics					
Cost to income ratio	80.7%	71.4%	84.0%	73.9%	75.3%
Total assets (£'million)	435	17 387	3 246	20 633	21 068

1. Consolidated segmental analysis (continued)

Segmental analysis and geographic and business analysis – income statement

For the year to 31 March £'000	Wealth & Investment UK and Other total	Specialist Banking UK and Other	Specialist Banking Australia	Specialist Banking Total	Total group
2012					
Net interest income	8 499	183 362	66 342	249 704	258 203
Fee and commission income	122 249	188 427	38 456	226 883	349 132
Fee and commission expense	(6 034)	(26 397)	(3 375)	(29 772)	(35 806)
Investment income/(loss)	(392)	119 585	(8 474)	111 111	110 719
Trading income arising from					
– customer flow	(386)	43 317	11 112	54 429	54 043
– balance sheet management and other trading activities	(7)	15 993	(1 126)	14 867	14 860
Other operating income	406	61 283	(1 179)	60 104	60 510
Total operating income before impairment losses on loans and advances	124 335	585 570	101 756	687 326	811 661
Impairment losses on loans and advances	–	(89 104)	(67 872)	(156 976)	(156 976)
Operating income	124 335	496 466	33 884	530 350	654 685
Operating costs	(101 338)	(371 570)	(99 765)	(471 335)	(572 673)
Depreciation on operating leased assets	–	(28 544)	–	(28 544)	(28 544)
Operating profit before goodwill and acquired intangibles	22 997	96 352	(65 881)	30 471	53 468
Operating loss attributable to non-controlling interests	–	(2 184)	–	(2 184)	(2 184)
Operating profit before goodwill, acquired intangibles and after non-controlling interests	22 997	94 168	(65 881)	28 287	51 284
Selected returns and key statistics					
Cost to income ratio	81.5%	66.7%	98.0%	71.5%	73.1%
Total assets (£'million)	498	16 364	3 384	19 748	20 246

For the year to 31 March 2013 £'000	Notes	UK and Other Balance sheet value	UK and Other Interest received	Australia Balance sheet value	Australia Interest received	Total group Balance sheet value	Total group Interest received

2. Net interest income

For the year to 31 March 2013 £'000	Notes	UK and Other Balance sheet value	UK and Other Interest received	Australia Balance sheet value	Australia Interest received	Total group Balance sheet value	Total group Interest received
Cash, near cash and bank debt and sovereign debt securities	1	5 446 501	47 156	707 398	16 076	6 153 899	63 232
Core loans and advances	2	6 031 731	353 625	2 205 046	180 301	8 236 777	533 926
Private client		3 024 629	162 618	1 402 293	112 566	4 426 922	275 184
Corporate, institutional and other clients		3 007 102	191 007	802 753	67 735	3 809 855	258 742
Other debt securities and other loans and advances		1 978 818	99 727	22 506	18 205	2 001 324	117 932
Other interest earning assets	3	767 415	99 295	–	–	767 415	99 295
Total interest earning assets		14 224 465	599 803	2 934 950	214 582	17 159 415	814 385

For the year to 31 March 2013 £'000	Notes	UK and Other Balance sheet value	UK and Other Interest paid	Australia Balance sheet value	Australia Interest paid	Total group Balance sheet value	Total group Interest paid
Deposits by banks and other debt-related securities	4	3 111 710	46 701	470 689	32 436	3 582 399	79 137
Customer accounts		9 733 827	222 703	1 692 820	79 411	11 426 647	302 114
Other interest bearing liabilities	5	560 156	53 704	477 903	30 486	1 038 059	84 190
Subordinated liabilities		596 122	57 943	82 620	3 161	678 742	61 104
Total interest bearing liabilities		14 001 815	381 051	2 724 032	145 494	16 725 847	526 545
Net interest income			218 752		69 088		287 840

Notes:

1. *Comprises (as per the balance sheet) cash and balances at central banks; loans and advances to banks; 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.*
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 on securitisation.*

For the year to 31 March 2012 £'000	Notes	UK and Other Balance sheet value	UK and Other Interest received	Australia Balance sheet value	Australia Interest received	Total group Balance sheet value	Total group Interest received
2. Net interest income (continued)							
Cash, near cash and bank debt and sovereign debt securities	1	5 319 852	46 508	1 010 485	59 939	6 330 337	106 447
Core loans and advances	2	5 763 693	352 669	1 948 307	186 654	7 712 000	539 323
Private client		3 431 419	200 531	1 593 600	158 697	5 025 019	359 228
Corporate, institutional and other clients		2 332 274	152 138	354 707	27 957	2 686 981	180 095
Other debt securities and other loans and advances		2 171 109	123 958	81 860	4 310	2 252 969	128 268
Other interest earning assets	3	640 255	23 305	–	–	640 255	23 305
Total interest earning assets		13 894 909	546 440	3 040 652	250 903	16 935 561	797 343

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

Notes:

1. *Comprises (as per the balance sheet) cash and balances at central banks; loans and advances to banks; 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.*
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 on securitisation.*

For the year to 31 March £'000	UK and Other	Australia	Total group
3. Net fee and commission income			
2013			
Fund management fees/fees for assets under management	127 764	3 972	131 736
Private client transactional fees	74 558	9 579	84 137
Corporate and institutional transactional and advisory services	156 401	45 880	202 281
Fee and commission income	358 723	59 431	418 154
Fee and commission expense	(27 335)	(4 526)	(31 861)
Net fee and commission income	331 388	54 905	386 293
Annuity fees (net of fees payable)	160 879	26 138	187 017
Deal fees	170 509	28 767	199 276
2012			
Fund management fees/fees for assets under management	98 688	5 674	104 362
Private client transactional fees	54 653	9 251	63 904
Corporate and institutional transactional and advisory services	157 335	23 531	180 866
Fee and commission income	310 676	38 456	349 132
Fee and commission expense	(32 431)	(3 375)	(35 806)
Net fee and commission income	278 245	35 081	313 326
Annuity fees (net of fees payable)	120 363	14 114	134 477
Deal fees	157 882	20 967	178 849

Trust and fiduciary fees amounted to £11.3 million (2012: £12.2 million) and is included in private client transactional fees.

For the year to 31 March £'000	UK and Other	Australia	Total group
4. Investment income			
2013			
Realised	28 439	1 752	30 191
Unrealised	38 268	(1 654)	36 614
Dividend income	2 949	240	3 189
Funding and other net related income	1 323	200	1 523
Investment income	70 979	538	71 517
2012			
Realised	110 164	(8 929)	101 235
Unrealised	7 182	(66)	7 116
Dividend income	1 847	521	2 368
Investment income/(loss)	119 193	(8 474)	110 719

For the year to 31 March £'000	Investment portfolio (listed and unlisted equities)*	Debt securities (sovereign, bank and other)	Other asset categories	Total
4. Investment income (continued)				
2013				
UK and Other				
Realised	1 027	20 972	6 440	28 439
Unrealised	31 095	8 803	(1 630)	38 268
Dividend income	2 949	–	–	2 949
Funding and other net related income	–	–	1 323	1 323
	35 071	29 775	6 133	70 979
Australia				
Realised	64	1 617	71	1 752
Unrealised	(2 716)	–	1 062	(1 654)
Dividend income	240	–	–	240
Funding and other net related income	–	–	200	200
	(2 412)	1 617	1 333	538
Total investment income	32 659	31 392	7 466	71 517
2012				
UK and Other				
Realised	26 141	70 940	13 083	110 164
Unrealised	13 819	(6 586)	(51)	7 182
Dividend income	1 846	1	–	1 847
	41 806	64 355	13 032	119 193
Australia				
Realised	1 539	(784)	(9 684)	(8 929)
Unrealised	(66)	–	–	(66)
Dividend income	71	450	–	521
	1 544	(334)	(9 684)	(8 474)
Total investment income	43 350	64 021	3 348	110 719

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

For the year to 31 March £'000	2013	2012
5. Other operating income		
Rental income from properties	1 085	259
Unrealised gains on other investments	867	120
Income from operating leases	26 661	59 201
Operating income from associates	2 732	930
	31 345	60 510

For the year to 31 March £'000	2013	2012
6. Operating costs		
Staff costs	435 477	391 281
– Salaries and wages (including directors' remuneration)	338 547	298 733
– Training and other costs	8 848	13 220
– Share-based payment expense (note 7)	33 592	28 602
– Social security costs	37 083	34 679
– Pensions and provident fund contributions	17 407	16 047
Premises expenses (excluding depreciation)	31 361	28 841
Equipment expenses (excluding depreciation)	25 692	22 391
Business expenses*	94 439	87 428
Marketing expenses	24 300	27 687
Depreciation, amortisation and impairment on property, equipment and intangibles	16 503	15 045
	627 772	572 673
Depreciation on operating leased assets	16 072	28 544
	643 844	601 217
The following amounts were paid by the group to the auditors in respect of the audit of the financial statements and for other services provided to the group.		
Ernst & Young fees		
Fees payable to the company's auditors for the audit of the company's accounts	2 569	1 872
Fees payable to the company's auditors and its associates for other services:		
Audit of the company's subsidiaries pursuant to legislation	1 932	1 998
Audit related assurance services	751	1 103
Tax compliance services	241	254
Tax advisory services	317	397
Services related to corporate finance transactions	–	157
Other assurance services	42	511
	5 852	6 292
KPMG fees		
Fees payable to the company's auditors and its associates for other services:		
Audit of the company's subsidiaries pursuant to legislation	227	155
Audit related assurance services	174	83
Tax compliance services	3	–
Tax advisory services	20	66
	424	304
Total	6 276	6 596

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

Details of the directors' emoluments, pensions and their interests are disclosed in the remuneration report on pages 114 to 119.

7. Share-based payments

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

Further information on the group share options and long-term incentive plans is provided on page 112 of the remuneration report and on our website.

For the year to 31 March £'000	Wealth & Investment	Specialist Banking	Total group
Share-based payment expense charged to the income statement (included in operating costs):			
2013			
Equity-settled	5 237	28 355	33 592
Total income statement charge	5 237	28 355	33 592
2012			
Equity-settled	3 152	25 450	28 602
Total income statement charge	3 152	25 450	28 602

Included in the above income statement charge is an accelerated share-based payment charge as a result of modifications to certain options granted. This expense for the year was £288 850 (2012: £320 037).

For the year to 31 March £'000	2013	2012
Weighted average fair value of options granted in the year		
UK schemes	26 317	22 938

	UK schemes			
	2013		2012	
Details of options outstanding during the year	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of the year	37 600 672	0.07	35 829 639	0.08
Granted during the year	11 835 601	0.03	7 517 510	0.13
Exercised during the year*	(4 531 508)	0.01	(4 435 597)	0.17
Expired during the year	(1 355 434)	0.62	(1 310 880)	0.31
Outstanding at the end of the year	43 549 331	0.04	37 600 672	0.07
Exercisable at the end of the year	544 221	–	704 523	0.03

* *Weighted average share price during the year was £3.99 (2012: £4.15).*

7. Share-based payments (continued)

The exercise price range and weighted average remaining contractual life for the options are as follows:

For the year to 31 March £'000	UK schemes 2013	2012
Options with strike prices		
Exercise price range	£2.05 – £5.00	£1.50 – £6.52
Weighted average remaining contractual life	3.06 years	3.47 years
Long-term incentive options with no strike price		
Exercise price range	£nil	£nil
Weighted average remaining contractual life	2.73 years	3.00 years
Weighted average fair value of options and long-term incentive grants at measurement date	£2.22	£3.03
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 grant	£3.29 – £4.08	£3.34 – £5.00
– Exercise price	£nil, £3.29 – £4.08	£nil, £3.34 – £5.00
– Expected volatility	30%	30%
– Option life	4.5 – 5.25 years	5 – 5.25 years
– Expected dividend yields	5.94% – 7.67%	5.19% – 7.84%
– Risk-free rate	0.84% – 1.34%	1.48% – 2.15%

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

The expected attrition rates used were determined based on historical group data with an adjustment to actual attrition on final vesting.

For the year to 31 March £'000	2013	2012
8. Taxation		
Current taxation		
UK		
Current tax on income for the year	33 323	34 478
Adjustments in respect of prior years	(4 725)	2 849
	28 598	37 327
Europe	924	3 647
Australia	–	432
Other	(6)	125
	918	4 204
Total current taxation	29 516	41 531

For the year to 31 March £'000	2013	2012
8. Taxation (continued)		
Deferred taxation		
UK	(11 406)	(5 116)
Europe	9	7
Australia	(1 431)	(19 996)
Total deferred taxation	(12 828)	(25 105)
Total taxation charge for the year	16 688	16 426
Total taxation charge for the year comprises:		
Taxation on operating profit before goodwill	22 541	17 787
Taxation on acquired intangibles and acquisition/disposal/integration of subsidiaries	(5 853)	(1 361)
	16 688	16 426
Deferred taxation comprises:		
Origination and reversal of temporary differences	(15 923)	(28 526)
Changes in tax rates	2 471	3 041
Adjustment in respect of prior years	624	380
	(12 828)	(25 105)
Items which affect the tax rate going forward are:		
Estimated tax losses arising from trading activities available for relief against future taxable income		
UK	Nil	Nil
Europe	Nil	Nil
Australia	Nil	Nil
The rates of corporation tax for the relevant years are:	%	%
UK	24%	26%
Europe (average)	10%	10%
Australia	30%	30%
Profit before taxation	56 832	37 355
Taxation on profit before taxation	16 688	16 426
Effective tax rate	29.4%	44.0%
The taxation charge on activities for the year is different from the standard rate as detailed below:		
Taxation on profit on ordinary activities before taxation at UK rate of 24% (2012: 26%)	13 640	9 712
Taxation adjustments relating to foreign earnings	(6 063)	(18 788)
Taxation relating to prior years	(4 102)	3 228
Goodwill and non-operating items	3 351	(5 694)
Share options accounting expense	9 994	12 992
Share options exercised during the year	(5 392)	(3 833)
Unexpired share options future tax deduction	(5 305)	(5 917)
Non-taxable income	(12 614)	(504)
Utilisation of brought forward trading losses	(983)	–
Net other permanent differences	27 042	28 719
Unrealised capital losses	1 195	(6 530)
Tax losses surrendered by fellow group companies for no charge	(6 546)	–
Change in tax rate	2 471	3 041
Total taxation charge as per income statement	16 688	16 426

For the year to 31 March £'000	2013	2012
8. Taxation (continued)		
Other comprehensive income taxation effects		
Fair value movements on cash flow hedge movements taken directly to other comprehensive income	(1 663)	(4 522)
Pre-taxation	(2 376)	(6 472)
Taxation effect	713	1 950
Losses/(gains) on realisation or impairment of available-for-sale assets recycled through the income statement	407	(40 760)
Pre-taxation	535	(56 249)
Taxation effect	(128)	15 489
Fair value movements on available-for-sale assets taken directly to other comprehensive income	(1 747)	25 829
Pre-taxation	(1 964)	35 716
Taxation effect	217	(9 887)

For the year to 31 March £'000	2013	2012
9. Dividends		
Ordinary dividends		
Interim dividends for current year	12 500	16 000
Total dividends attributable to ordinary shareholder recognised in current financial year	**12 500**	**16 000**

For the year to 31 March £'000	2013	2012
10. Operating lease income and expenses		
Operating lease expenses recognised in operating costs expenses:		
Minimum lease payments	6 595	4 425
Contingent rents	–	399
	6 595	**4 824**
Operating lease income recognised in income:		
Minimum lease payments	28 484	59 122
	28 484	**59 122**

The majority of the operating lease expenses in the group relate to leases on property.

Rental income from leases included in 'Other operating income' mainly comprises leases of motor vehicles.

For the year to 31 March £'000	At fair value through profit or loss Trading	At fair value through profit or loss Designated at inception
11. Analysis of income and impairments by category of financial instruments		
2013		
Net interest income/(expense)	(18 410)	18 454
Fee and commission income	48 684	785
Fee and commission expense	(84)	–
Investment income/(loss)	–	53 494
Trading income arising from		
– customer flow	57 910	(52)
– balance sheet management and other trading activities	3 173	3 862
Other operating income	–	–
Total operating income before impairment losses on loans and advances	91 273	76 543
Impairment losses on loans and advances	–	–
Operating income	91 273	76 543
2012		
Net interest income/(expense)	3 919	10 256
Fee and commission income	48 450	9 532
Fee and commission expense	(1 561)	(453)
Investment income/(loss)	–	(8 622)
Trading income arising from		
– customer flow	55 929	(2 613)
– balance sheet management and other trading activities	16 849	243
Other operating income	–	–
Total operating income before impairment losses on loans and advances	123 586	8 343
Impairment losses on loans and advances	–	–
Operating income	123 586	8 343

Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non-financial instruments	Other fee income	Total
10 612	656 821	44 768	(433 864)	–	9 459	287 840
–	75 693	1 254	–	–	291 738	418 154
–	(6 400)	(433)	(1 398)	(98)	(23 448)	(31 861)
658	10 452	(1 355)	–	8 268	–	71 517
						–
–	–	–	9	–	–	57 867
–	12 501	(925)	(3 600)	–	(442)	14 569
–	–	–	–	31 345	–	31 345
11 270	749 067	43 309	(438 853)	39 515	277 307	849 431
(5 347)	(105 056)	–	–	–	–	(110 403)
5 923	644 011	43 309	(438 853)	39 515	277 307	739 028
14 145	683 590	76 762	(539 837)	–	9 368	258 203
–	40 092	332	24 966	9 304	216 456	349 132
–	(5 731)	(432)	(1 924)	–	(25 705)	(35 806)
(1 015)	6 456	46 128	(1 597)	60 893	8 476	110 719
						–
–	–	–	–	–	727	54 043
–	(3 701)	98	3 505	–	(2 134)	14 860
–	–	–	–	60 510	–	60 510
13 130	720 706	122 888	(514 887)	130 707	207 188	811 661
(10 495)	(148 144)	1 663	–	–	–	(156 976)
2 635	572 562	124 551	(514 887)	130 707	207 188	654 685

At 31 March £'000	At fair value through profit or loss Trading	Designated at inception	Available-for-sale
12. Analysis of financial assets and liabilities by category of financial instruments			
2013			
Assets			
Cash and balances at central banks	–	–	–
Loans and advances to banks	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	321 413	–	–
Sovereign debt securities	–	–	1 660 377
Bank debt securities	–	–	252 123
Other debt securities	1 973	86 207	101 999
Derivative financial instruments*	948 028	–	–
Securities arising from trading activities	673 763	–	–
Investment portfolio	–	288 791	75 971
Loans and advances to customers	–	24 253	–
Own originated loans and advances to customers securitised	–	–	–
Other loans and advances	–	4 612	–
Other securitised assets	–	500 492	–
Interests in associated undertakings	–	–	–
Deferred taxation assets	–	–	–
Other assets	430 276	53 234	–
Property and equipment	–	–	–
Investment properties	–	–	–
Goodwill	–	–	–
Intangible assets	–	–	–
	2 375 453	957 589	2 090 470
Liabilities			
Deposits by banks	–	–	–
Derivative financial instruments*	817 689	–	–
Other trading liabilities	372 762	–	–
Repurchase agreements and cash collateral on securities lent	350 308	–	–
Customer accounts (deposits)	1 411	–	–
Debt securities in issue	–	–	–
Liabilities arising on securitisation of own originated loans and advances	–	–	–
Liabilities arising on securitisation of other assets	–	385 154	–
Current taxation liabilities	–	–	–
Deferred taxation liabilities	–	–	–
Other liabilities	428 165	2 366	–
	1 970 335	387 520	–
Subordinated liabilities	–	–	–
	1 970 335	387 520	–

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

For more information on hedges, please refer to note 47 on pages 190 and 191.

Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
–	–	1 375 654	–	1 375 654	–	1 375 654
–	–	1 134 074	–	1 134 074	–	1 134 074
321 413	–	1 207 180	–	1 207 180	–	1 528 593
1 660 377	–	–	–	–	–	1 660 377
252 123	–	203 078	–	203 078	–	455 201
190 179	7 516	–	–	7 516	–	197 695
948 028	–	–	–	–	–	948 028
673 763	–	–	–	–	–	673 763
364 762	–	–	–	–	–	364 762
24 253	90 054	7 631 276	–	7 721 330	–	7 745 583
–	–	491 194	–	491 194	–	491 194
4 612	–	1 799 017	–	1 799 017	–	1 803 629
500 492	–	266 923	–	266 923	–	767 415
–	–	–	–	–	16 989	16 989
–	–	–	–	–	112 172	112 172
483 510	–	495 754	–	495 754	221 032	1 200 296
–	–	–	–	–	79 040	79 040
–	–	–	–	–	11 500	11 500
–	–	–	–	–	326 841	326 841
–	–	–	–	–	175 478	175 478
5 423 512	97 570	14 604 150	–	14 701 720	943 052	21 068 284
–	–	–	926 267	926 267	–	926 267
817 689	–	–	–	–	–	817 689
372 762	–	–	–	–	–	372 762
350 308	–	–	592 088	592 088	–	942 396
1 411	–	–	11 425 236	11 425 236	–	11 426 647
–	–	–	1 713 736	1 713 736	–	1 713 736
–	–	–	477 903	477 903	–	477 903
385 154	–	–	175 002	175 002	–	560 156
–	–	–	–	–	82 630	82 630
–	–	–	–	–	44 945	44 945
430 531	–	–	468 807	468 807	210 456	1 109 794
2 357 855	–	–	15 779 039	15 779 039	338 031	18 474 925
–	–	–	678 742	678 742	–	678 742
2 357 855	–	–	16 457 781	16 457 781	338 031	19 153 667

12. Analysis of financial assets and liabilities by category of financial instruments (continued)

At 31 March £'000	At fair value through profit or loss – Trading	At fair value through profit or loss – Designated at inception	Available-for-sale
2012			
Assets			
Cash and balances at central banks	–	–	–
Loans and advances to banks	7	250	–
Reverse repurchase agreements and cash collateral on securities borrowed	304 022	–	–
Sovereign debt securities	–	–	1 392 273
Bank debt securities	–	–	673 064
Other debt securities	20 578	31 846	125 966
Derivative financial instruments*	866 408	–	–
Securities arising from trading activities	372 570	–	–
Investment portfolio	–	244 374	72 939
Loans and advances to customers	–	17 760	–
Own originated loans and advances to customers securitised	–	–	–
Other loans and advances	–	175 523	–
Other securitised assets	–	65 569	–
Interests in associated undertakings	–	–	–
Deferred taxation assets	–	–	–
Other assets	470 852	–	16 259
Property and equipment	–	–	–
Investment properties	–	–	–
Goodwill	–	–	–
Intangible assets	–	–	–
	2 034 437	535 322	2 280 501
Liabilities			
Deposits by banks	–	–	–
Derivative financial instruments*	732 510	–	–
Other trading liabilities	271 627	–	–
Repurchase agreements and cash collateral on securities lent	271 721	–	–
Customer accounts (deposits)	–	–	–
Debt securities in issue	–	–	–
Liabilities arising on securitisation of own originated loans and advances	–	–	–
Liabilities arising on securitisation of other assets	–	–	–
Current taxation liabilities	–	–	–
Deferred taxation liabilities	–	–	–
Other liabilities	535 421	–	–
	1 811 279	–	–
Subordinated liabilities	–	–	–
	1 811 279	–	–

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

For more information on hedges, please refer to note 47 on pages 190 and 191.

Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
–	–	1 835 836	–	1 835 836	–	1 835 836
257	–	863 283	–	863 283	–	863 540
304 022	–	855 116	–	855 116	–	1 159 138
1 392 273	254 998	–	–	254 998	–	1 647 271
673 064	–	151 488	–	151 488	–	824 552
178 390	6 953		–	6 953	–	185 343
866 408	–	–	–	–	–	866 408
372 570	–	–	–	–	–	372 570
317 313	–	–	–	–	–	317 313
17 760	219 528	6 939 704	–	7 159 232	–	7 176 992
–	–	535 008	–	535 008	–	535 008
175 523	–	1 892 103	–	1 892 103	–	2 067 626
65 569	–	574 686	–	574 686	–	640 255
–	–	–	–	–	17 780	17 780
–	–	–	–	–	89 490	89 490
487 111	–	463 371	–	463 371	166 344	1 116 826
–	–	–	–	–	122 702	122 702
–	–	–	–	–	11 500	11 500
–	–	–	–	–	278 574	278 574
–	–	–	–	–	117 525	117 525
4 850 260	481 479	14 110 595	–	14 592 074	803 915	20 246 249
–	–	–	633 024	633 024	–	633 024
732 510	–	–	–	–	–	732 510
271 627	–	–	–	–	–	271 627
271 721	–	–	748 949	748 949	–	1 020 670
–	–	–	11 103 365	11 103 365	–	11 103 365
–	–	–	2 046 651	2 046 651	–	2 046 651
–	–	–	526 946	526 946	–	526 946
–	–	–	508 668	508 668	–	508 668
–	–	–	–	–	57 783	57 783
–	–	–	–	–	32 487	32 487
535 421	–	–	186 750	186 750	220 939	943 110
1 811 279	–	–	15 754 353	15 754 353	311 209	17 876 841
–	–	–	643 162	643 162	–	643 162
1 811 279	–	–	16 397 515	16 397 515	311 209	18 520 003

13. Reclassifications of financial instruments

During the year ended 31 March 2009 the group reclassified certain financial instruments out of fair value through profit or loss. These assets were originally classified as held-for-trading but the group's intentions in regard to these assets changed and the group reclassified £112.3 million and £7.8 million to the loans and receivables and available-for-sale classifications, respectively. The amount reclassified reflected the fair value of the financial assets at the date of reclassification.

The group did not undertake any further reclassifications under the amendment to IAS 39 in the current year.

The following table shows carrying values and fair values of the assets reclassified:

At 31 March £'000	Carrying value as at 31 March 2013	Fair value as at 31 March 2013	Carrying value as at 31 March 2012	Fair value as at 31 March 2012
Trading assets reclassified to loans and receivables	20 083	19 348	26 700	20 606

If the reclassifications had not been made, the group's income before tax in 2013 would have increased by £5.3 million (2012: an increase of £3.7 million).

In the current year the reclassified assets have contributed a £17 000 gain through the margin line and a gain of £1.4 million through impairments before taxation. In the prior year, after reclassification, the assets contributed £115 000 gain through the margin line and a loss of £2.0 million through impairments before taxation.

14. Fair value hierarchy

IFRS 7 requires that an entity disclose for each class of financial instruments measured at fair value the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety. The fair value hierarchy reflects the significance of the inputs used in making fair value measurements. The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The fair value hierarchy has the following levels:

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

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

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

14. Fair value hierarchy (continued)

At 31 March £'000	Total instruments at fair value	Valuation technique applied Level 1	Level 2	Level 3
2013				
Assets				
Reverse repurchase agreements and cash collateral on securities borrowed	321 413	–	321 413	–
Sovereign debt securities	1 660 377	1 365 463	294 914	–
Bank debt securities	252 123	72 095	180 028	–
Other debt securities	190 179	88 766	66 770	34 643
Derivative financial instruments	948 028	253 742	620 461	73 825
Securities arising from trading activities	673 763	651 768	21 995	–
Investment portfolio	364 762	58 498	79 442	226 822
Loans and advances to customers	24 253	–	18 221	6 032
Other loans and advances	4 612	–	–	4 612
Other securitised assets	500 492	–	–	500 492
Other assets	483 510	482 377	1 133	–
	5 423 512	2 972 709	1 604 377	846 426
Liabilities				
Derivative financial instruments	817 689	205 824	608 580	3 285
Other trading liabilities	372 762	372 762	–	–
Repurchase agreements and cash collateral on securities lent	350 308	–	350 308	–
Customer accounts (deposits)	1 411	–	1 411	–
Liabilities arising on securitisation of other assets	385 154	–	–	385 154
Other liabilities	430 531	428 165	–	2 366
	2 357 855	1 006 751	960 299	390 805
2012				
Assets				
Loans and advances to banks	257	7	250	–
Reverse repurchase agreements and cash collateral on securities borrowed	304 022	–	304 022	–
Sovereign debt securities	1 392 273	1 160 449	231 824	–
Bank debt securities	673 064	142 895	530 169	–
Other debt securities	178 390	22 772	99 405	56 213
Derivative financial instruments	866 408	203 825	624 341	38 242
Securities arising from trading activities	372 570	365 687	6 883	–
Investment portfolio	317 313	76 065	111 417	129 831
Loans and advances to customers	17 760	–	17 172	588
Other loans and advances	175 523	–	–	175 523
Other securitised assets	65 569	7 630	–	57 939
Other assets	487 111	478 743	8 368	–
	4 850 260	2 458 073	1 933 851	458 336
Liabilities				
Derivative financial instruments	732 510	257 858	474 652	–
Other trading liabilities	271 627	271 627	–	–
Repurchase agreements and cash collateral on securities lent	271 721	–	271 721	–
Other liabilities	535 421	451 667	83 754	–
	1 811 279	981 152	830 127	–

Transfers between level 1 and 2

There were no significant transfers between level 1 and level 2 for the current or prior years.

At 31 March £'000	Total level 3 financial instruments	Fair value movements through income statement	Fair value movements through compre-hensive income
14. Fair value hierarchy (continued)			
The following table shows a reconciliation from the opening balances to the closing balances for fair value measurements in level 3 of the fair value hierarchy:			
Balance as at 1 April 2011	401 843	334 377	67 466
Total losses	(34 995)	(33 748)	(1 247)
In the income statement	(34 930)	(33 748)	(1 182)
In the statement of comprehensive income	(65)	–	(65)
Purchases	158 465	156 541	1 924
Sales	(24 939)	(15 663)	(9 276)
Settlements	(16 933)	(16 933)	–
Transfers into level 3	21 426	21 426	–
Transfers out of level 3	(46 503)	–	(46 503)
Foreign exchange adjustments	(28)	230	(258)
Balance as at 31 March 2012	458 336	446 230	12 106
Total gains/(losses)	55 523	58 031	(2 508)
In the income statement	57 120	58 031	(911)
In the statement of comprehensive income	(1 597)	–	(1 597)
Purchases	53 168	2 649	50 519
Sales	(59 261)	(24 794)	(34 467)
Settlements	(2 780)	(2 780)	–
Transfers into level 3	130 749	130 173	576
Transfers out of level 3	(184 791)	(184 791)	–
Foreign exchange adjustments	4 677	2 532	2 145
Balance as at 31 March 2013	455 621	427 250	28 371

In each year, instruments were transferred out of level 3 to level 2 due to improved levels of observable inputs for valuation of these instruments. Instruments were transferred into level 3 when significant inputs to model valuations were no longer observable.

The following table quantifies the gains or losses included in the income statement recognised on level 3 financial instruments:

For the year to 31 March £'000	2013	2012
Total gains or losses included in the income statement for the year		
Net interest (expense)/income	(1 342)	4 803
Fee and commission income	5 196	1 628
Investment income/(loss)	54 763	(49 101)
Trading loss arising from customer flow	(561)	–
Trading (loss)/income arising from balance sheet management and other trading activities	(952)	7 740
Other operating income	16	–
	57 120	(34 930)

14. Fair value hierarchy (continued)

Sensitivity of fair values to reasonably possible alternative assumptions by level 3 instrument type

The fair values of financial instruments in level 3 are measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable market data. The following table shows the sensitivity of these fair values to reasonably possible alternative assumptions, determined at a transactional level:

	Reflected in income statement		Reflected in other comprehensive income	
At 31 March £'000	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
2013				
Assets				
Other debt securities	1 318	1 048	–	–
Derivative financial instruments	36 341	15 522	7 011	2 887
Investment portfolio	37 683	3 543	–	–
Loans and advances to customers	834	2 599	–	–
Other loans and advances	–	–	–	–
Other securitised assets	17 552	10 883	–	–
	93 728	33 595	7 011	2 887
Liabilities				
Derivative financial instruments	2 236	1 089	–	–
Liabilities arising on securitisation of other assets	(4 145)	(2 643)	–	–
Other liabilities	1 525	1 904	–	–
	(384)	350	–	–
2012				
Assets				
Other debt securities	2 041	2 138	2 306	2 467
Derivative financial instruments	59 849	1 396	–	–
Investment portfolio	62 109	23 558	2 109	2 199
Loans and advances to customers	1 211	294	–	–
Other loans and advances	3 953	1 024	–	–
Other securitised assets	23 703	13 811	–	–
	152 866	42 221	4 415	4 666

At 31 March £'000	2013 Carrying amount	2013 Fair value	2012 Carrying amount	2012 Fair value
15. Fair value of financial instruments at amortised cost				
Assets				
Cash and balances at central banks	1 375 654	1 375 654	1 835 836	1 835 836
Loans and advances to banks	1 134 074	1 140 036	863 283	863 283
Reverse repurchase agreements and cash collateral on securities borrowed	1 207 180	1 207 180	855 116	855 116
Sovereign debt securities	–	–	254 998	254 998
Bank debt securities	203 078	213 252	151 488	146 861
Other debt securities	7 516	7 516	6 953	6 923
Loans and advances to customers	7 721 330	7 714 637	7 159 232	7 121 025
Own originated loans and advances to customers securitised	491 194	501 596	535 008	535 108
Other loans and advances	1 799 017	1 895 059	1 892 103	1 796 198
Other securitised assets	266 923	260 781	574 686	579 874
Other assets	495 754	490 304	463 371	478 953
	14 701 720	14 806 015	14 592 074	14 474 175
Liabilities				
Deposits by banks	926 267	923 715	633 024	633 109
Repurchase agreements and cash collateral on securities lent	592 088	592 088	748 949	748 949
Customer accounts (deposits)	11 425 236	11 417 203	11 103 365	11 102 703
Debt securities in issue	1 713 736	1 706 682	2 046 651	2 046 481
Liabilities arising on securitisation of own originated loans and advances	477 903	477 903	526 946	526 946
Liabilities arising on securitisation of other assets	175 002	203 511	508 668	358 837
Other liabilities	468 807	468 946	186 750	187 750
Subordinated liabilities	678 742	742 815	643 162	623 618
	16 457 781	16 532 863	16 397 515	16 228 393

The paragraphs below describe the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Financial instruments for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption also applies to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

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

At 31 March £'000	Carrying value	Fair value adjustment Year to date	Fair value adjustment Cumulative	Change in fair value attributable to credit risk Year to date	Change in fair value attributable to credit risk Cumulative	Maximum exposure to credit risk
16. Designated at fair value: loans and receivables and financial liabilities						
Loans and receivables						
2013						
Other debt securities	16 052	–	16 052	–	–	16 052
Loans and advances to customers	24 253	3 111	20 455	–	–	24 253
Other loans and advances	4 612	–	–	–	–	4 612
Other securitised assets	500 492	(72 064)	(47 115)	(45 270)	(64 120)	500 492
Other assets	1 018	–	–	–	–	1 018
	546 427	(68 953)	(10 608)	(45 270)	(64 120)	546 427
2012						
Loans and advances to banks	250	–	–	–	–	250
Loans and advances to customers	17 760	12 765	17 173	–	–	17 760
Other loans and advances	175 523	(885)	10 147	(257)	(2 402)	175 523
Other securitised assets	22 369	3 186	22 369	(10 250)	(19 511)	22 369
	215 902	15 066	49 689	(10 507)	(21 913)	215 902

At 31 March 2013 £'000	Carrying value	Remaining contractual amount to be repaid at maturity	Fair value adjustment Year to date	Fair value adjustment Cumulative
Financial liabilities				
Liabilities arising on securitisation of other assets	385 154	475 003	89 849	89 849
Other liabilities	48 259	45 893	(846)	(2 366)
	433 413	520 896	89 003	87 483

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 (£2.3) million (2012: £nil).

At 31 March £'000	2013	2012
17. Cash and balances at central banks		
The country risk of cash and balances at central banks lies in the following geographies:		
United Kingdom	1 219 546	1 640 375
Europe (excluding UK)	8 822	15 431
Australia and Other	147 286	180 030
Total	1 375 654	1 835 836

At 31 March £'000	2013	2012
18. Loans and advances to banks		
The country risk of loans and advances to banks lies in the following geographies:		
South Africa	2 919	5 965
United Kingdom	675 826	653 080
Europe (excluding UK)	329 968	80 178
Australia	75 835	72 197
United States of America	37 735	31 618
Other	11 791	20 502
Total	1 134 074	863 540

At 31 March £'000	2013	2012
19. Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent		
Assets		
Reverse repurchase agreements	1 390 488	1 133 046
Cash collateral on securities borrowed	138 105	26 092
	1 528 593	1 159 138

As part of the reverse repurchase and securities borrowing agreements, the group has received securities that it is allowed to sell or re-pledge. £392 million (2012: £407 million) has been re-sold or re-pledged to third parties in connection with financing activities or to comply with commitments under short sale transactions.

	2013	2012
Liabilities		
Repurchase agreements	841 798	969 287
Cash collateral on securities lent	100 598	51 383
	942 396	1 020 670

The assets transferred and not derecognised in the above repurchase agreements are fair valued at £952.2 million (2012: £680.0 million). They are pledged as security for the term of the underlying repurchase agreements.

At 31 March £'000	2013	2012
20. Sovereign debt securities		
Bonds	595 872	703 089
Commercial paper	20 462	218 292
Treasury bills	871 525	725 890
Floating rate notes	172 518	–
	1 660 377	1 647 271
The country risk of sovereign debt securities lies in the following geographies:		
United Kingdom	1 131 343	611 406
Europe (excluding UK)*	234 120	522 698
Australia	294 914	231 824
United States of America	–	281 343
Total	1 660 377	1 647 271

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

21. Bank debt securities

At 31 March £'000	2013	2012
Bonds	246 569	203 099
Liquid asset bills	10 255	–
Floating rate notes	198 377	621 453
	455 201	824 552
The country risk of bank debt securities lies in the following geographies:		
South Africa	6 662	–
United Kingdom	140 467	196 276
Europe (excluding UK)*	143 334	124 514
Australia	141 059	462 454
United States of America	23 679	28 637
Other	–	12 671
Total	455 201	824 552

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

22. Other debt securities

At 31 March £'000	2013	2012
Bonds	31 535	58 083
Floating rate notes	31 240	112 900
Asset-backed securities	86 811	–
Residual notes	46 136	4 027
Other investments	1 973	10 333
	197 695	185 343
The risk of other debt securities lies in the following geographies:		
United Kingdom	101 762	42 002
Europe (excluding UK)	57 177	47 158
Australia	22 704	81 861
United States of America	16 052	13 607
Other	–	715
Total	197 695	185 343

23. Derivative financial instruments

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

In the tables that follow notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair value of a derivative financial instrument represents the positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out by the group in an orderly market transaction at balance sheet date.

At 31 March £'000	2013 Notional principal amounts	2013 Positive fair value	2013 Negative fair value	2012 Notional principal amounts^	2012 Positive fair value	2012 Negative fair value
23. Derivative financial instruments (continued)						
Foreign exchange derivatives						
Forward foreign exchange contracts	4 169 616	28 543	(29 777)	3 153 836	16 464	(10 500)
Currency swaps	6 990 553	104 949	(134 709)	6 335 872	149 215	(60 843)
OTC options bought and sold	2 206 190	19 804	(18 764)	2 483 795	23 494	(19 831)
Other foreign exchange contracts	135 457	33	(2 534)	189 776	484	(2 333)
OTC derivatives	13 501 816	153 329	(185 784)	12 163 279	189 657	(93 507)
Interest rate derivatives						
Caps and floors	764 691	5 566	(3 414)	1 036 389	3 284	(4 460)
Swaps	16 717 702	279 640	(188 117)	12 869 207	263 866	(178 660)
Forward rate agreements	360 323	30	(66)	206 367	–	(40)
OTC options bought and sold	–	–	–	250 000	419	–
Other interest rate contracts	168 062	–	–	244 458	–	(150)
OTC derivatives	18 010 778	285 236	(191 597)	14 606 421	267 569	(183 310)
Exchange traded futures	48 681	–	(233)	389 138	–	(494)
	18 059 459	285 236	(191 830)	14 995 559	267 569	(183 804)
Equity and stock index derivatives						
OTC options bought and sold	2 343 310	37 332	(78 432)	1 794 662	9 817	(43 368)
Equity swaps and forwards	193 194	7 128	(17 103)	61 902	570	(714)
OTC derivatives	2 536 504	44 460	(95 535)	1 856 564	10 387	(44 082)
Exchange traded futures	1 638 550	71 047	(4 683)	1 357 069	20 869	(26 210)
Exchange traded options	5 446 811	147 079	(171 468)	4 056 932	154 447	(211 481)
Warrants	6 578	34	–	3 759	2 245	–
	9 628 443	262 620	(271 686)	7 274 324	187 948	(281 773)
Commodity derivatives						
OTC options bought and sold	41 347	3 056	(1 975)	30 265	1 485	(101)
Commodity swaps and forwards	586 580	163 239	(162 687)	1 036 554	170 512	(169 336)
OTC derivatives	627 927	166 295	(164 662)	1 066 819	171 997	(169 437)
Credit derivatives						
Credit swaps	200 075	8 361	(3 727)	289 119	13 258	(3 989)
	200 075	8 361	(3 727)	289 119	13 258	(3 989)
Embedded derivatives*		72 187	–		35 979	–
Derivatives per balance sheet		948 028	(817 689)		866 408	(732 510)

^ *For certain derivative products the method of calculation of the notional principal amount has been changed during the year. Prior year values have been adjusted to aid comparison.*
* *Mainly includes profit shares received as part of lending transactions.*

At 31 March £'000	2013	2012
24. Securities arising from trading activities		
Government securities	355 480	202 558
Listed equities	124 334	122 562
Bonds	68 023	47 450
Floating rate notes	3 448	–
Treasury bills	104 568	–
Other investments	17 910	–
	673 763	372 570

At 31 March £'000	2013	2012
25. Investment portfolio		
Listed equities	53 172	33 041
Unlisted equities*	311 590	284 272
	364 762	317 313

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

At 31 March £'000	2013	2012
26. Loans and advances to customers and other loans and advances		
Gross loans and advances to customers	7 938 213	7 340 042
Impairments of loans and advances to customers	(192 630)	(163 050)
Net loans and advances to customers	7 745 583	7 176 992
Gross other loans and advances to customers	1 847 353	2 101 996
Impairments of other loans and advances to customers	(43 724)	(34 370)
Net other loans and advances to customers	1 803 629	2 067 626

For further analysis on loans and advances refer to pages 50 to 61 in the risk management section.

At 31 March £'000	2013	2012
26. 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 beginning of year	160 237	182 225
Charge to the income statement	111 210	148 617
Reversals and recoveries recognised in the income statement	(23 722)	–
Utilised	(60 858)	(80 813)
Disposals	–	(83 597)
Exchange adjustments	(512)	(6 195)
Balance at end of year	186 355	160 237
Portfolio impairment		
Balance at beginning of year	2 813	1 518
Charge to the income statement	3 352	(516)
Exchange adjustments	110	1 811
Balance at end of year	6 275	2 813
Other loans and advances		
Specific impairment		
Balance at beginning of year	29 201	22 993
Charge to the income statement	9 901	4 857
Utilised	(3 478)	(1 128)
Exchange adjustments	(5 611)	2 479
Balance at end of year	30 013	29 201
Portfolio impairment		
Balance at beginning of year	5 169	5 040
Charge to the income statement	9 304	2 911
Transfer to securitised assets	(918)	–
Exchange adjustments	156	(2 782)
Balance at end of year	13 711	5 169
Total specific impairments	216 368	189 438
Total portfolio impairments	19 986	7 982
Total impairments	236 354	197 420

At 31 March £'000	2013	2012
26. Loans and advances to customers and other loans and advances (continued)		
Reconciliation of income statement charge:		
Loans and advances to customers	90 840	148 101
Specific impairment charged to income statement	87 488	148 617
Portfolio impairment charged/(released) to income statement	3 352	(516)
Securitised assets (refer to note 27)	358	1 107
Specific impairment charged to income statement	1 131	1 353
Portfolio impairment released to income statement	(773)	(246)
Other loans and advances	19 205	7 768
Specific impairment charged to income statement	9 901	4 857
Portfolio impairment charged to income statement	9 304	2 911
Total income statement charge	110 403	156 976

At 31 March £'000	2013	2012
27. Securitised assets and liabilities arising on securitisation		
Gross own originated loans and advances to customers securitised	491 753	536 297
Impairments of own originated loans and advances to customers securitised	(559)	(1 289)
Net own originated loans and advances to customers securitised	491 194	535 008
Other securitised assets are made up of the following categories of assets:		
Cash and cash equivalents	39 269	30 068
Loans and advances to customers	685 587	610 187
Other debt securities	42 559	–
Total other securitised assets	767 415	640 255
The associated liabilities are recorded on balance sheet in the following line items:		
Liabilities arising on securitisation of own originated loans and advances	477 903	526 946
Liabilities arising on securitisation of other assets	560 156	508 668

At 31 March £'000	Group 2013	2012
27. Securitised assets and liabilities arising on securitisation (continued)		
Specific and portfolio impairments		
Reconciliation of movements in group specific and portfolio impairments of assets that have been securitised:		
Specific impairment		
Balance at beginning of year	892	210
Charge to the income statement	1 131	1 353
Utilised	(2 174)	(648)
Exchange adjustments	291	(23)
Balance at end of year	**140**	**892**
Own originated loans and advances to customers securitised	140	892
Other securitised loans and advances	–	–
Portfolio impairment		
Balance at beginning of year	397	637
Charge to the income statement	(773)	(246)
Transfer from other loans and advances	918	–
Disposal	(116)	–
Exchange adjustments	23	6
Balance at end of year	**449**	**397**
Own originated loans and advances to customers securitised	419	397
Other securitised loans and advances	30	–
Total portfolio and specific impairments	589	1 289

At 31 March £'000	2013	2012
28. Interests in associated undertakings		
Interests in associated undertakings consist of:		
Net asset value	9 578	10 369
Goodwill	7 411	7 411
Investment in associated undertakings	16 989	17 780
Analysis of the movement in our share of net assets:		
At beginning of year	10 369	6 024
Exchange adjustments	359	7
Disposals	(3 323)	(250)
Acquisitions	–	3 953
Operating income from associates (included in other operating income)	2 732	930
Dividends received	(559)	(295)
At end of year	9 578	10 369
Analysis of the movement in goodwill:		
At beginning of year	7 411	7 072
Acquisitions	–	339
At end of year	7 411	7 411
All associates are unlisted.		
The summarised financial information of the bank's principal associate, Hargreave Hale, is as follows:		
Total assets	36 229	35 497
Total liabilities	25 170	26 036
Total revenue	24 766	21 732
Profit before tax	2 836	1 675

At 31 March
£'000

	2013	2012
29. Deferred taxation		
Deferred taxation assets	112 172	89 490
Deferred taxation liabilities	(44 945)	(32 487)
Net deferred taxation assets	67 227	57 003
Deferred tax asset		
Accelerated capital allowances	21 647	17 337
Income and expenditure accruals	13 506	516
Arising from unexpired share options	28 052	26 422
Unrealised fair value adjustments on financial instruments	4 668	6 515
Losses carried forward	39 128	35 649
Other temporary differences	5 171	3 051
	112 172	89 490
Deferred tax liability		
Deferred capital allowances	(994)	(380)
Unrealised fair value adjustments on financial instruments	(2 126)	(2 339)
Deferred tax on acquired intangibles	(36 221)	(24 822)
Other temporary differences	(5 604)	(4 946)
	(44 945)	(32 487)
Reconciliation of net deferred tax asset		
At beginning of year	57 003	26 220
Credit to the income statement – current year taxation	12 828	25 105
Credit/(charge) directly in equity	(561)	2 425
Acquired/arising on acquisition of subsidiary undertakings	(6 280)	3 433
Exchange adjustments	3 368	–
Other	869	(180)
At end of year	67 227	57 003

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

There are trading losses carried forward of £13.559 million and capital losses carried forward of £7.229 million on which deferred tax assets have not been recognised due to uncertainty regarding future profits against which these losses can be utilised.

The Finance Act 2012 reduced the main rate of corporate taxation to 23% with effect from 1 April 2013 and the effect of this reduction is reflected in the above calculation of the deferred taxation asset as the rate was substantially enacted before 31 March 2013. On 5 December 2012, the UK Government announced its intention to further reduce the main rate of corporate taxation with effect from 1 April 2014, with the rate being reduced to 21% and to 20% with effect from 1 April 2015. These are expected to be substantively enacted in July 2015.

At 31 March
£'000

	2013	2012
30. Other assets		
Settlement debtors	824 741	857 307
Dealing properties	119 540	90 529
Accruals and prepayments	41 681	35 992
Trading initial margin	60 651	57 952
Deferred consideration	52 216	–
Other	101 467	75 046
	1 200 296	1 116 826

At 31 March £'000	Freehold properties	Leasehold improve-ments	Furniture and vehicles	Equipment	Operating leases*	Total
31. Property and equipment						
2013						
Cost						
At beginning of year	3 278	52 286	15 013	20 927	104 675	196 179
Exchange adjustments	339	642	130	194	–	1 305
Acquisition of subsidiary undertakings	–	–	416	664	–	1 080
Additions	–	4 378	1 212	5 541	9 338	20 469
Disposals	(932)	(2 286)	(506)	(3 559)	(50 766)	(58 049)
At end of year	2 685	55 020	16 265	23 767	63 247	160 984
Accumulated depreciation						
At beginning of year	(138)	(17 465)	(9 589)	(13 696)	(32 589)	(73 477)
Exchange adjustments	(15)	(194)	(113)	(146)	–	(468)
Disposals	99	903	378	1 589	15 868	18 837
Depreciation charge for year	(286)	(4 498)	(2 160)	(3 820)	(16 072)	(26 836)
At end of year	(340)	(21 254)	(11 484)	(16 073)	(32 793)	(81 944)
Net carrying value	2 345	33 766	4 781	7 694	30 454	79 040
2012						
Cost						
At beginning of year	7 020	38 524	14 595	17 548	210 342	288 029
Exchange adjustments	12	(88)	112	(154)	–	(118)
Acquisition of subsidiary undertakings	–	–	13	–	–	13
Additions	–	17 904	1 205	4 806	38 852	62 767
Disposals	(3 754)	(4 054)	(912)	(1 273)	(144 519)	(154 512)
At end of year	3 278	52 286	15 013	20 927	104 675	196 179
Accumulated depreciation						
At beginning of year	–	(17 200)	(8 164)	(11 631)	(15 815)	(52 810)
Exchange adjustments	–	59	(11)	148	–	196
Disposals	–	3 114	775	1 083	11 770	16 742
Depreciation charge for year	(138)	(3 438)	(2 189)	(3 296)	(28 544)	(37 605)
At end of year	(138)	(17 465)	(9 589)	(13 696)	(32 589)	(73 477)
Net carrying value	3 140	34 821	5 424	7 231	72 086	122 702

* *These are assets held by the group, in circumstances where the group is lessor.*

In a prior year the group acquired a portfolio of operating leased assets comprising motor vehicles. The operating lease income from this portfolio has been included in other operating income (note 5) and the depreciation of these operating leased assets has been shown separately on the face of the income statement.

At 31 March £'000	2013	2012
32. Investment properties		
At beginning of year	11 500	–
Additions	–	11 386
Fair value movement	–	114
At end of year	11 500	11 500

Investment properties are carried at fair value.

The directors value the group's investment properties twice annually by capitalising the annual net income of a property at the market related yield applicable at the time.

At 31 March £'000	2013	2012
33. Goodwill		
Cost		
At beginning of year	311 602	309 327
Acquisition of subsidiary undertakings*	57 915	2 286
Written off	(26 536)	–
Exchange adjustments	3 559	(11)
At end of year	346 540	311 602
Accumulated impairments		
At beginning of year	(33 028)	(32 958)
Income statement amount	(13 409)	–
Written off	26 536	–
Exchange adjustments	202	(70)
At end of year	(19 699)	(33 028)
Net carrying value	326 841	278 574
Analysis of goodwill by line of business and geography		
UK and Other		
Wealth & Investment	193 701	193 058
Specialist Banking	77 840	35 968
	271 541	229 026
Australia		
Specialist Banking	55 300	49 548
Total group	326 841	278 574
The movement in goodwill arising from the acquisition of subsidiary undertakings is analysed as follows:		
NCB Group	7 183	–
Investec Asset Finance & Leasing Pty Limited (formerly Alliance Equipment Finance Pty Ltd)	2 651	–
Williams de Broë Limited	48 081	–
Investec Capital Asia Limited (formerly Access Capital Limited)	–	2 286
	57 915	2 286

33. Goodwill (continued)

Goodwill is tested annually for impairment, or more frequently if evidence exists that goodwill might be impaired, by comparing the carrying value to its recoverable amount.

The recoverable amount of goodwill is determined based on expected cash flows within the cash-generating units of the group to which the goodwill is allocated. Key assumptions within the calculation include discount rates, growth rates in revenue and related expenditure and loan impairment rates.

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

2013

The two significant cash-generating units giving rise to goodwill are Investec Wealth & Investment and the Specialist Banking activities of the group's Australian operations.

For Investec Wealth & Investment goodwill of £193.7 million has been tested for impairment on the basis of the cash flow projections for the next three years discounted at 10.4% (2012: 11.5%) which incorporate an expected revenue growth rate of 2% (March 2012: 3%).

The Australian Specialist Banking operations have been tested for impairment as follows:

Corporate Advisory and Investment Banking – Goodwill acquired through business combinations has been allocated to Corporate Advisory and Investment Banking, for impairments testing purposes.

The recoverable amount for goodwill represents a normalised pre-tax historic average earning multiple of approximately six to seven times. Management are comfortable that this carrying value is supported based on discussions with investment banking executives and available market data for comparable businesses. Management believe that it is highly unlikely that a change in any of the above key assumptions would cause the carrying value to materially exceed its recoverable amount.

Private Banking – Professional Finance business was acquired in October 2007. The goodwill amount is derived from the estimated purchase consideration taking into account an upfront payment plus future expected earn-out payments which have now substantially been achieved.

The recoverable amount of goodwill represents a normalised pre-tax historic average earnings multiple of approximately eight times. Management are comfortable that this carrying value is supported based on discussions with Professional Finance executives and available market data for comparable businesses. Management believe that it is highly unlikely that a change in any of the above key assumptions would cause the carrying value to materially exceed its recoverable amount.

2012

Goodwill in the year arose from the acquisition of Access Capital Limited.

At 31 March £'000	Acquired software	Client relationships	Management contracts	Intellectual property	Total
34. Intangible assets					
2013					
Cost					
At beginning of year	39 818	107 840	–	3 674	151 332
Exchange adjustments	564	586	31	200	1 381
Acquisition of subsidiary undertakings	–	71 095	791	–	71 886
Additions	2 148	–	–	205	2 353
Disposals	–	–	–	(255)	(255)
At end of year	42 530	179 521	822	3 824	226 697
Accumulated amortisation and impairments					
At beginning of year	(25 342)	(8 168)	–	(297)	(33 807)
Exchange adjustments	(394)	–	–	(17)	(411)
Amortisation	(5 739)	(11 199)	(63)	–	(17 001)
At end of year	(31 475)	(19 367)	(63)	(314)	(51 219)
Net carrying value	11 055	160 154	759	3 510	175 478
2012					
Cost					
At beginning of year	37 673	107 168	–	1 245	146 086
Exchange adjustments	18	(16)	–	5	7
Acquisition of a subsidiary undertaking	242	688	–	–	930
Additions	1 885	–	–	2 424	4 309
At end of year	39 818	107 840	–	3 674	151 332
Accumulated amortisation and impairments					
At beginning of year	(19 575)	–	–	(295)	(19 870)
Exchange adjustments	217	–	–	(2)	215
Amortisation	(5 984)	(8 168)	–	–	(14 152)
At end of year	(25 342)	(8 168)	–	(297)	(33 807)
Net carrying value	14 476	99 672	–	3 377	117 525

Client relationships and management contracts all relate to the acquisitions of Rensburg Sheppards plc, Williams de Broë, Investec Capital Asia Limited and the NCB group.

35. Acquisitions and disposals

2013

Acquisitions

On 30 July 2012, the bank completed the acquisition of 100% of Neontar Limited (parent of the NCB group (NCB)). On 23 August 2012 the bank acquired 100% of Williams de Broë Limited (WdeB). Both acquisitions were completed as part of group reorganisations and the consideration was largely satisfied by the issue of shares. The assets and liabilities at the date of acquisition, goodwill arising on these transactions and total consideration are disclosed in the table below:

	Book value of assets and liabilities			Fair value of assets and liabilities		
£'000	WdeB	NCB and Other	Total	WdeB	NCB and Other	Total
Loans and advances to banks	11 592	14 835	26 427	11 592	14 835	26 427
Trading securities	–	934	934	–	934	934
Investment securities	1 287	6 454	7 741	1 287	6 454	7 741
Deferred taxation assets	9 177	79	9 256	9 177	669	9 846
Property and equipment	–	1 080	1 080	–	1 080	1 080
Other assets	13 392	44 582	57 974	13 392	43 714	57 106
Intangible assets	13 530	–	13 530	68 000	3 886	71 886
Goodwill*	3 629	–	3 629	48 081	9 834	57 915
	52 607	67 964	120 571	151 529	81 406	232 935
Current taxation liabilities	–	68	68	–	68	68
Deferred taxation liabilities	2 698	–	2 698	15 640	486	16 126
Subordinated liabilities	5 000	–	5 000	5 000	–	5 000
Other liabilities	19 526	44 812	64 338	19 526	50 085	69 611
	27 224	44 880	72 104	40 166	50 639	90 805
Net assets/fair value of net assets acquired	25 383	23 084	48 467	111 363	30 767	142 130
Fair value of consideration				111 363	30 767	142 130
				111 363	30 767	142 130
Issue of shares				111 362	27 412	138 774
Fair value of cash consideration				1	3 355	3 356
				111 363	30 767	142 130
Loans and advances to banks at acquisition						26 427
Fair value of cash consideration						(3 356)
Net cash inflow						23 071

* *The goodwill arising from the acquisition of both WdeB and NCB consists largely of the benefits expected to arise from the enhancement of the group's wealth and investment offering through the combination of WdeB and NCB's wealth and investment businesses with the group's existing business.*

For the post-acquisition period of 30 July 2012 to 31 March 2013, the operating income of NCB totalled £10.455 million and losses before taxation totalled £1.847 million. On acquisition, the trade of WdeB was transferred to Investec Wealth & Investment Limited and it is not possible to separate out the impact of the acquisition of WdeB on the post-integration performance of the combined operation.

The operating income before impairment losses on loans and advances of the group would have been £4.655 million higher and operating profit would have been £1.412 million lower, if the acquisition of NCB had been on 1 April 2012 as opposed to 30 July 2012. In addition, the operating income before impairment losses on loans and advances would have been £25.111 million higher and operating profit would have been £1.065 million higher, if the acquisition of WdeB had been on 1 April 2012 as opposed to 23 August 2012.

35. Acquisitions and disposals (continued)

2012

Acquisitions

On 18 April 2011 Investec Bank plc acquired the entire ordinary share capital of Access Capital Limited and changed its name to Investec Capital Asia Limited (ICAL). ICAL is a licensed entity regulated by the Hong Kong Securities and Futures Commission that has been providing investment banking services to clients based in Greater China since 2000.

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

£'000	2012
Loans and advances to banks	535
Other assets	354
Property and equipment	13
Intangible assets	930
Goodwill*	2 286
	4 118
Other liabilities	20
	20
Net assets/fair value of net assets acquired	4 098
Fair value of cash consideration	
Loans and advances to banks at acquisition	535
Fair value of cash consideration	(4 098)
Net cash outflow	(3 563)

* *The goodwill on ICAL represents the benefits expected to arise from extending the group's investment banking capability to the Hong Kong market. None of the goodwill arising during the year is expected to be deductible for corporation tax purposes.*

Disposals

There were no significant disposals of subsidiaries during the year ended 31 March 2013 or during the year ended 31 March 2012.

36. Other trading liabilities

At 31 March £'000	2013	2012
Short positions		
– Equities	110 966	102 063
– Gilts	261 796	169 564
	372 762	271 627

At 31 March £'000	2013	2012
37. Debt securities in issue		
Bonds and medium-term notes repayable*:		
Less than three months	33 765	224 361
Three months to one year	72 054	56 098
Over one year to five years	92 029	123 156
Greater than five years	5 638	–
	203 486	403 615
Other unlisted debt securities in issue repayable*:		
Less than three months	93 749	333 091
Three months to one year	183 750	8 494
Over one year to five years	964 741	1 126 443
Greater than five years	268 010	175 008
	1 510 250	1 643 036
	1 713 736	2 046 651
Analysis by customer type		
Retail	447 000	466 786
Wholesale	1 266 736	1 579 865
	1 713 736	2 046 651

* *The 2012 disclosures have been restated to correctly reflect the split between bonds and medium-term notes repayable (reflected as £nil in the 2012 financial statements) and other unlisted debt securities in issue (reflected as £2 046.651 million in the 2012 financial statements). The total debt securities in issue were unchanged.*

At 31 March £'000	2013	2012
38. Other liabilities		
Settlement liabilities	838 177	695 080
Other creditors and accruals	200 059	181 151
Other non-interest bearing liabilities	71 558	66 879
	1 109 794	943 110

At 31 March £'000	2013	2012
39. Pension commitments		
Cost of defined contribution schemes included in staff costs	17 407	16 047

The Investec plc group operates pension schemes throughout its areas of operation. The majority of the schemes are defined contribution schemes with the exception of two schemes in the United Kingdom being the Guinness Mahon Pension Fund scheme (GM scheme) and the Investec Asset Management Pension scheme (IAM scheme). Both schemes are final salary pension plans with assets held in separate trustee administered funds. The schemes are closed to new members and the accrual of service ceased on 31 March 2002. The schemes have been valued at 31 March 2013 by qualified independent actuaries in accordance with IAS 19. There were no unpaid contributions in relation to the defined contribution schemes outstanding at the year end. The accounts of Investec plc, the bank's ultimate parent, disclose the actuarial valuation of the scheme under IAS 19 at 31 March 2013.

Certain employees of the bank participate in both the above defined benefit schemes along with employees from other Investec plc undertakings. The bank has accounted for these schemes on a defined contribution basis.

The following tables provide information on each of the schemes as a whole.

At 31 March £'000	2013	2012
39. Pension commitments (continued)		
The major assumptions used were:		
Discount rate	4.40%	4.70%
Rate of increase in salaries	3.40%	3.30%
Rate of increase for pensions in payment	1.8% – 3.3%	2.1% – 3.2%
Inflation (RPI)	3.30%	3.30%
Inflation (CPI)	2.40%	2.30%

Demographic assumptions

One of the most significant demographic assumptions underlying the valuation is mortality. The specific mortality rates used are based on the PMA92 and PFA92 base tables with allowance for future improvements in line with the medium cohort projection subject to a 1% underpin. The life expectancies underlying the valuation are as follows:

	Years	Years
Male aged 65	87.6	87.4
Female aged 65	89.6	89.5
Male aged 45	89.5	89.3
Female aged 45	91.0	90.9

The assets held in the scheme and the expected rates of return were:

At 31 March	Value at 2013 £'000	Long-term rate of return expected	Value at 2012 £'000	Long-term rate of return expected
GM scheme				
Equities	18 522	7.00%	26 899	7.20%
Gilts	116 517	3.00%	91 359	3.20%
Cash	2 464	3.00%	8 107	3.20%
Total market value of assets	137 503		126 365	
IAM scheme				
Equities	13 872	6.90%	10 138	7.20%
Gilts	2 619	2.90%	3 422	3.20%
Cash	5 454	2.90%	767	3.20%
Total market value of assets	21 945		14 327	

39. Pension commitments (continued)

The following amounts have been recognised in the financial statements of the bank's parent, Investec plc, in accordance with IAS 19:

At 31 March £'000	2013 GM	2013 IAM	2013 Total	2012 GM	2012 IAM	2012 Total
Market value of fund assets	137 503	21 944	159 447	126 365	14 327	140 692
Present value of obligations	(115 643)	(15 721)	(131 364)	(100 743)	(14 324)	(115 067)
Net asset	21 860	6 223	28 083	25 622	3	25 625
Recognised in the income statement						
Expected return on pension scheme assets	4 452	870	5 322	5 338	928	6 266
Interest on pension obligations	(4 604)	(658)	(5 262)	(4 910)	(671)	(5 581)
Net return	(152)	212	60	428	257	685
Recognised in the statement of comprehensive income						
Actuarial gain/(loss) on plan assets	8 592	535	9 127	11 478	(801)	10 677
Actuarial loss	(15 881)	(1 403)	(17 284)	(8 843)	(1 537)	(10 380)
Actuarial (loss)/gain	(7 289)	(868)	(8 157)	2 635	(2 338)	297
Deferred tax	1 745	217	1 962	(548)	533	(15)
Actuarial (loss)/gain in statement of comprehensive income	(5 544)	(651)	(6 195)	2 087	(1 805)	282
Actual return on plan assets	13 044	1 404	14 448	16 816	127	16 943

The cumulative amount of net actuarial losses recognised in the statement of comprehensive income of Investec plc is £1.7 million (2012: gains of £6.4 million).

At 31 March £'000	GM	IAM	Total
39. Pension commitments (continued)			
Changes in the fair value of defined benefit obligations			
Opening defined benefit obligation at 1 April 2011	91 552	12 279	103 831
Interest cost	4 910	671	5 581
Actuarial losses	8 843	1 537	10 380
Benefits and expenses paid	(4 562)	(163)	(4 725)
Opening defined benefit obligation at 1 April 2012	100 743	14 324	115 067
Interest cost	4 604	658	5 262
Actuarial losses	15 881	1 403	17 284
Benefits and expenses paid	(5 585)	(664)	(6 249)
Closing defined benefit obligation at 31 March 2013	115 643	15 721	131 364
Changes in the fair value of plan assets			
Opening defined benefit obligation at 1 April 2011	110 559	13 487	124 046
Expected return	5 338	928	6 266
Actuarial gain/(loss)	11 478	(801)	10 677
Contributions by the employer	3 552	876	4 428
Benefits and expenses paid	(4 562)	(163)	(4 725)
Opening defined benefit asset at 1 April 2012	126 365	14 327	140 692
Expected return	4 452	870	5 322
Actuarial gain	8 592	535	9 127
Contributions by the employer	3 679	6 876	10 555
Benefits and expenses paid	(5 585)	(664)	(6 249)
Closing fair value of plan assets at 31 March 2013	137 503	21 944	159 447

The Investec plc group expects to make £4.3 million of contributions to the GM scheme in the 2014 financial year.

At 31 March £'000	2013	2012	2011	2010	2009
History of experience gains and losses					
GM scheme					
Defined benefit obligation	(115 643)	(100 743)	(91 552)	(102 018)	(79 586)
Plan assets	131 003	126 365	110 559	104 587	89 912
Surplus	15 360	25 622	19 007	2 569	10 326
Experience adjustments on plan liabilities	(15 881)	(8 843)	11 334	(18 585)	1 791
Experience adjustments on plan assets	2 092	11 478	1 178	7 794	(12 838)
IAM scheme					
Defined benefit obligation	(15 721)	(14 324)	(13 487)	(12 881)	(8 907)
Plan assets	21 944	14 327	12 279	11 596	7 695
Surplus/(deficit)	6 223	3	(1 208)	(1 285)	(1 212)
Experience adjustments on plan liabilities	(1 403)	(1 537)	1 145	(3 574)	518
Experience adjustments on plan assets	534	(801)	341	3 004	(2 953)

At 31 March £'000	2013	2012
40. Subordinated liabilities		
Issued by Investec Bank plc		
Subordinated fixed rate medium-term notes	577 470	576 827
Issued by subsidiaries of Investec Bank plc:		
Issued by Investec Finance plc		
Guaranteed subordinated step-up notes	33 979	33 979
Guaranteed undated subordinated callable step-up notes	18 990	19 230
Issued by Investec Bank (Australia) Limited (IBAL)		
Subordinated floating rate medium-term notes	48 303	13 126
	678 742	643 162
Remaining maturity:		
In one year or less, or on demand	–	–
In more than one year, but not more than two years	–	–
In more than two years, but not more than five years	52 969	53 209
In more than five years	625 773	589 953
	678 742	643 162

Issued by Investec Bank plc

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

On 17 February 2011 Investec Bank plc issued £500 000 000 of 9.625% subordinated notes due in 2022 at a discount (2022 notes). Interest is paid annually. The notes are listed on the London Stock Exchange. The notes will be redeemed at par on 17 February 2022. On 29 June 2011 Investec Bank plc issued £75 000 000 of 9.625% subordinated notes due 2022 at a premium. These notes were consolidated to form a single series, and are fungible, with the £500 000 000 2022 notes issued on 17 February 2011.

Issued by subsidiaries of Investec Bank plc

Guaranteed subordinated step-up notes

As at 31 March 2013 Investec Finance plc had in issue £33 793 000 of guaranteed subordinated step-up notes due in 2016 (2016 notes). Interest is paid annually. The notes are guaranteed by Investec Bank plc and are listed on the Luxembourg Stock Exchange. The step-up notes may be redeemed by the issuer, at par, at any time after 1 March 2011, subject to the prior consent of the UK regulator. On 1 March 2011 the interest rate was reset to 6.482%, the aggregate of 3.5% and the gross redemption yield of the relevant benchmark gilt.

Guaranteed undated subordinated callable step-up notes

As at 31 March 2013 Investec Finance plc had in issue £17 861 000 of 6.25% guaranteed undated subordinated step-up notes callable in 2017 at a discount (perpetual notes). Interest is paid semi-annually. The notes are guaranteed by Investec Bank plc and are listed on the Luxembourg Stock Exchange. The step-up notes may be redeemed by the issuer, at par, at any time after 23 January 2017, subject to the prior consent of the UK regulator. On 23 January 2017 the interest rate will be reset to become three-month LIBOR plus 2.11% payable quarterly in arrears.

Subordinated floating rate medium-term notes

A$20 000 000 of floating rate MTN was issued by IBAL on 12 February 2010 at three-month Australian Bank Bills Swap Rate (BBSW) plus 5%. The maturity date is 12 February 2020. Interest is payable quarterly up to and excluding the early redemption date 12 February 2015. After this date, if the Issuer's call is not exercised, the interest will be the aggregate of three-month BBSW plus 7.5% payable quarterly in arrears.

During the year, on 20 December 2012, a further A$50 000 000 of floating rate MTN were issued at 30 day Australian bank BBSW plus 5.50% margin. The maturity date is 20 December 2022. Interest is payable monthly up to and including the maturity date. Early redemption, at the option of the Issuer, is on each interest payment date from and including 20 December 2017 until, and including, the maturity date.

At 31 March	2013	2012
41. Ordinary share capital		
Authorised		
The authorised share capital is £2 000 million (2012: £2 000 million) comprising: 2 000 million ordinary shares of £1 each (2012: 2 000 million ordinary shares of £1 each).		
Issued, allotted and fully paid		
Number of ordinary shares	Number	Number
At beginning of year	1 070 700 000	1 026 000 000
Issued during year	103 100 000	44 700 000
At end of year	1 173 800 000	1 070 700 000
Nominal value of ordinary shares	£'000	£'000
At beginning of year	1 070 700	1 026 000
Issued during year	103 100	44 700
At end of year	1 173 800	1 070 700

At 31 March £'000	2013	2012
42. Non-controlling interests		
Non-controlling interests in partially held subsidiaries	(4 552)	(2 145)

	2013		2012	
At 31 March £'000	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	196 809	155 543	160 997	133 725
One to five years	455 322	376 337	342 161	299 169
Later than five years	10 407	7 756	25 648	19 695
	662 538	539 636	528 806	452 589
Unearned finance income	122 902		76 217	

At 31 March 2013, unguaranteed residual values accruing to the benefit of Investec were £32.7 million (2012: £36.8 million). Finance leases in the group mainly relate to leases on property, equipment and motor vehicles.

At 31 March £'000	2013	2012
44. Notes to the consolidated cash flow statement		
Profit before taxation adjusted for non-cash items is derived as follows:		
Profit before taxation	56 832	37 355
Adjustment for non-cash items included in net income before taxation:		
Amortisation of intangible assets	11 262	8 168
Impairment of goodwill	13 409	–
Depreciation of operating lease assets	16 072	28 544
Depreciation and impairment of property, equipment and intangibles	16 503	15 045
Impairment of loans and advances	110 403	156 976
Operating income from associates	(2 732)	(930)
Dividends received from associates	559	295
	222 308	245 453
Increase in operating assets		
Loans and advances to banks	(258 331)	17 454
Reverse repurchase agreements and cash collateral on securities borrowed	(369 455)	313 810
Sovereign debt securities	(13 106)	(799 391)
Bank debt securities	369 351	510 910
Other debt securities	(12 352)	(19 824)
Derivative financial instruments	(82 349)	106 780
Securities arising from trading activities	(301 193)	(225 196)
Investment portfolio	(39 708)	(141 071)
Loans and advances to customers	(659 431)	(459 655)
Own originated loans and advances to customers securitised	43 456	(37 752)
Other loans and advances	244 792	–
Other securitised assets	(128 923)	–
Other assets	(34 432)	(385 342)
Investment properties	–	(11 500)
	(1 241 681)	(1 130 777)
Increase in operating liabilities		
Deposits by banks	293 243	(132 888)
Derivative financial instruments	85 179	196 553
Other trading liabilities	101 135	(130 699)
Repurchase agreements and cash collateral on securities lent	(78 274)	408 007
Customer accounts	323 282	774 356
Debt securities in issue	(332 915)	243 719
Liabilities arising on securitisation of own originated loans and advances	(49 043)	22 711
Liabilities arising on securitisation of other assets	51 488	–
Other liabilities	47 556	188 825
	441 651	1 570 584

At 31 March £'000	2013	2012
45. Commitments		
Undrawn facilities	638 113	673 368
Other commitments	14 283	–
	652 396	673 368
The group has entered into forward foreign exchange contracts and loan commitments in the normal course of its banking business for which the fair value is recorded on balance sheet.		
Operating lease commitments		
Future minimum lease payments under non-cancellable operating leases:		
Less than one year	22 363	7 310
One to five years	73 820	34 827
Later than five years	41 994	31 460
	138 177	73 597
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.		
Operating lease receivables		
Future minimum lease payments under non-cancellable operating leases:		
Less than one year	1 128	27 922
One to five years	1 374	15 416
Later than five years	12	–
	2 514	43 338

Investec leases assets to third parties under operating and finance lease arrangements including motor vehicles, machinery and property. The terms of the leases range between three and five years with no annual escalation clauses. The majority of the leases have renewal options.

At 31 March	Carrying amount		Related liability	
£'000	2013	2012	2013	2012
Pledged assets				
Loans and advances to customers	–	14 868	–	14 026
Loans and advances to banks	338 556	222 638	339 429	222 638
Sovereign debt securities	376 601	317 776	231 803	317 776
Bank debt securities	116 560	56 601	71 744	56 601
Other debt securities	–	9 359	–	9 359
Trading book securities arising from customer flows	604 517	328 654	610 459	328 654
Reverse repurchase agreements and cash collateral on securities borrowed	652 628	966 714	545 427	1 002 383
Derivatives	–	255 716	–	–
	2 088 862	2 172 326	1 798 862	1 951 437

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

At 31 March £'000	2013	2012
46. Contingent liabilities		
Guarantees and irrevocable letters of credit	227 219	214 636

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

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

Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS), the UK's statutory fund of last resort, provides compensation to customers of UK authorised financial institutions in the event that an institution which is a participating member of the FSCS is unable, or is likely to be unable, to pay claims against it.

The FSCS raises annual levies from participating members based on their level of participation (in the case of deposits, the proportion that their protected deposits represent of total protected deposits) as at 31 December of the year preceding the scheme year.

In April 2012 the FSCS agreed revised terms on the loan facilities including a 70bps increase in the interest rate payable to 12-month LIBOR plus 100 bps. This rate will be subject to a floor equal to the HM Treasury's own cost of borrowing. The facilities are expected to be repaid wholly from recoveries from the failed deposit takers, except for an estimated shortfall of £0.8 billion. The FSCS has announced it intends to recover this shortfall by levying the industry in instalments across 2013, 2014 and 2015, in addition to the ongoing interest charges on the outstanding loans.

Investec Bank plc is a participating member of the FSCS and the bank has accrued £6.1 million for its share of levies that will be raised by the FSCS. The accrual is based on estimates of the interest the FSCS will pay on the loan and the level of the bank's market participation in the relevant periods. The bank has also accrued for its estimated share of the principal to be levied over each of the next three years. Interest will continue to accrue to the FSCS on the HM Treasury loan and will form part of future FSCS levies.

At the date of these financial statements, it is not possible to estimate whether there will ultimately be additional levies on the industry, the level of Investec's market participation or other factors that may affect the amounts or timing of amounts that may ultimately become payable, nor the effect that such levies may have upon operating results in any particular financial period.

Legal proceedings

Investec operates in a legal and regulatory environment that exposes it to litigation risks. As a result, Investec is involved in disputes and legal proceedings which arise in the ordinary course of business. Investec does not expect the ultimate resolution of any of the proceedings to which Investec is party to have a significant adverse effect on the financial position of the group. These claims, if any, cannot be reasonably estimated at this time.

Specifically, a claim has been made in the Royal Court of Guernsey against Investec Trust (Guernsey) Limited, a subsidiary of Investec Bank plc, for breach of equitable duty for skill and care with a related claim for liability for the debts of a client trust. The outcome of these claims cannot reasonably be estimated at this time but Investec does not expect the ultimate resolution of the proceedings to have a material adverse effect on the financial position of the group.

47. Hedges

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

The accounting treatment of accounting hedges is dependent on the classification between fair value hedges and cash flow hedges and in particular accounting hedges require the identification of a direct relationship between a hedged item and hedging instrument.

This relationship is established in limited circumstances based on the manner in which the group manages its risk exposure. Below is a description of each category of accounting hedges achieved by the group.

Fair value hedges

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

At 31 March £'000	Description of financial instrument designated as hedging instrument	Fair value of hedging instrument	Cumulative gains/(losses) on hedging instrument	Current year gains/ (losses) on hedging instrument	Cumulative gains/ (losses) on hedged item	Current year gains/(losses) on hedged item
2013						
Assets	Interest rate swap	(41 909)	(42 344)	(19 068)	35 744	12 071
	Cross currency swap	(582)	(582)	29	582	(29)
Liabilities	Interest rate swap	20 545	20 545	(8 723)	(21 296)	8 496
	Cross currency swap	(3 081)	(3 081)	179	3 101	7
		(25 027)	(25 462)	(27 583)	18 131	20 545
2012						
Assets	Interest rate swap	12 188	12 372	4 016	(12 891)	(4 551)
	Cross currency swap	(41 288)	(41 228)	(9 327)	41 228	9 327
Liabilities	Interest rate swap	(7 384)	(7 384)	(418)	7 767	1 092
		(36 484)	(36 240)	(5 729)	36 104	5 868

Cash flow hedges

The group is exposed to variability in cash flows on future liabilities arising from changes in base interest rates. The aggregate expected cash flows are hedged based on cash flow forecasts with reference to terms and conditions present in the affected contractual arrangements. Changes in fair value are initially recognised in other comprehensive income and transferred to the income statement when the cash flow occurs. The nominal expected future cash flows that are subject to cash flow hedges are:

At 31 March £'000	Description of financial instrument designated as hedging instrument	Fair value of hedging instrument	Period cash flows are expected to occur and affect income statement
2013			
Assets	Interest rate swap	963	Three months to five years
	Cross currency swap	455	One to five years
Liabilities	Interest rate swap	(7 511)	One to five years
		(6 093)	
2012			
Assets	Interest rate swap	4 089	One to five years
Liabilities	Interest rate swap	(11 899)	One to five years
		(7 810)	

Release to the income statement from cash flow hedge reserves is included in net interest income.

47. Hedges (continued)

Hedges of net investments in foreign operations

The group has entered into foreign exchange contracts to hedge a portion of the exposure of the Investec Bank plc group balance sheet to its net investment, in Australian Dollars, in the Australian operations of the group.

At 31 March £'000	Hedging instrument positive fair value
2013	323
2012	10 412

There was no ineffective portion recognised in the income statement in the current year.

For the year to 31 March £'000	2013	2012
48. Related party transactions		
Transactions, arrangements and agreements involving directors and others:		
Particulars of transactions, arrangements and agreements entered into by the group with directors and connected persons and companies controlled by them, and with officers of the company, were as follows:		
Directors, key management and connected persons and companies controlled by them		
Loans		
At beginning of year	24 412	17 453
Increase in loans	19 371	19 245
Repayment of loans	(10 380)	(12 286)
At end of year	33 403	24 412
Guarantees		
At beginning of year	–	–
Additional guarantees granted	4 591	–
Guarantees cancelled	–	–
At end of year	4 591	–
Deposits		
At beginning of year	(17 107)	(33 318)
Increase in deposits	(22 666)	(6 617)
Decrease in deposits	16 337	22 828
At end of year	(23 436)	(17 107)

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.

Details of share-based payment transactions are included in note 7.

For the year ended 31 March £'000	Investec plc, its subsidiaries and associates	Investec Limited and subsidiaries	Associates of the bank	Total
48. Related party transactions (continued)				
Transactions with other related parties				
2013				
Assets				
Loans and advances to banks	–	6 854	–	6 854
Loans and advances to customers	–	–	9 331	9 331
Other loans and advances	504 803	645	–	505 448
Reverse repurchase agreements and cash collateral on securities borrowed	–	305 342	–	305 342
Derivative financial instruments	200	22 826	–	23 026
Other assets	52 243	28 659	–	80 902
Liabilities				
Deposits from banks	–	(13 948)	–	(13 948)
Customer accounts	(164 894)	(8 014)	–	(172 908)
Debt securities in issue	–	(249 218)	–	(249 218)
Derivative financial instruments	(5)	(36 090)	–	(36 095)
Other liabilities	–	(8 855)	–	(8 855)
Subordinated liabilities	(2 614)	(34 427)	–	(37 041)
Transactions with other related parties				
2012				
Assets				
Loans and advances to banks	–	5 928	–	5 928
Loans and advances to customers	–	–	10 957	10 957
Other loans and advances	739 241	2 241	–	741 482
Reverse repurchase agreements and cash collateral on securities borrowed	–	636 598	–	636 598
Derivative financial instruments	568	602	–	1 170
Other assets	32	13 348	–	13 380
Liabilities				
Deposits from banks	–	(16 354)	–	(16 354)
Customer accounts	(95 725)	(11 600)	–	(107 325)
Debt securities in issue	(47 847)	(106 404)	–	(154 251)
Derivative financial instruments	–	(9 714)	–	(9 714)
Other liabilities	–	(16 520)		(16 520)

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

In the normal course of business, services are provided by Investec Bank plc to other companies in the group. In the year to 31 March 2013, Investec Bank plc received £0.3 million (2012: £22.7 million) for these services. Specific transactions between group entities have resulted in a net fee payment to Investec Bank plc of £nil (2012: £nil).

During the year to 31 March 2013, interest of £16.9 million (2012: £11.2 million) was paid to entities in the Investec Limited group and £0.3 million (2012: £0.2 million) was paid to Investec plc and fellow subsidiaries. Interest of £29.8 million (2012: £2.3 million) was received from Investec Limited group and interest of £32.1 million (2012: £36.7 million) was received from Investec plc and fellow subsidiaries.

The bank has issued a guarantee on behalf of Start Funding No 2 (SF2), an ultimate subsidiary of Investec plc. The terms of the guarantee are with regard to performance by SF2 of its obligations to Barclays Bank plc under a €200 million revolving credit facility agreement (the Facility). The guarantee expires in January 2014. Drawings under the Facility were €173.8 million (2012: €178.5 million) as at 31 March 2013. SF2 pays a fee of 0.21% per annum to the bank on the drawn amount of the Facility.

49. Liquidity analysis of financial liabilities based on undiscounted cash flows

At 31 March £'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
2013								
Liabilities								
Deposits by banks	426 077	200 346	85 831	71 362	39 051	356 123	787	1 179 577
Derivative financial instruments	360 630	19 555	53 246	39 929	61 491	292 695	117 464	945 010
Held-for-trading	119 505	–	–	–	–	–	–	119 505
Held-for-hedging risk	241 125	19 555	53 246	39 929	61 491	292 695	117 464	825 505
Repurchase agreements and cash collateral on securities lent	450 906	–	–	–	–	501 799	–	952 705
Customer accounts (deposits)	1 529 603	1 073 190	3 340 883	3 026 485	862 133	1 391 865	113 809	11 337 968
Debt securities in issue	–	59 122	108 084	149 334	266 332	997 013	490 593	2 070 478
Liabilities arising on securitisation of own originated loans and advances	377	17 304	53 713	56 091	159 582	263 409	10 904	561 380
Liabilities arising on securitisation of other assets	–	–	9 989	10 756	20 764	251 326	673 038	965 873
Other liabilities	556 203	696 487	118 840	19 442	22 728	53 723	15 907	1 483 330
Subordinated liabilities	891	247	391	2 157	60 656	376 842	760 954	1 202 138
Total on balance sheet liabilities	3 324 687	2 066 251	3 770 977	3 375 556	1 492 737	4 484 795	2 183 456	20 698 459
Contingent liabilities	–	–	1 580	3 981	846	156 907	1 618	164 932
Commitments	175 785	15 766	125 344	50 918	69 503	167 518	14 908	619 742
Total liabilities	3 500 472	2 082 017	3 897 901	3 430 455	1 563 086	4 809 220	2 199 982	21 483 133

The balances in the above table will not agree directly to the balances in the consolidated balance sheet as the table incorporates all cash flow on an undiscounted basis relating to both principal and those associated with all future coupon payments (except for trading liabilities and trading derivatives). Furthermore loan commitments are generally not recognised on the balance sheet.

Trading liabilities and trading derivatives have been included in the 'Demand' time bucket and not by contractual maturity because trading liabilities are typically held for short periods of time.

For an unaudited analysis based on discounted cash flows please refer to pages 80 to 81.

49. Liquidity analysis of financial liabilities based on undiscounted cash flows
(continued)

At 31 March £'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
2012								
Liabilities								
Deposits by banks	281 441	53 809	66 402	30 961	57 452	161 925	16 750	668 740
Derivative financial instruments	551 980	1 529	11 849	4 056	19 260	175 447	44 217	808 338
Held-for-trading	549 179	–	–	–	–	–	–	549 179
Held-for-hedging risk	2 801	1 529	11 849	4 056	19 260	175 447	44 217	259 159
Repurchase agreements and cash collateral on securities lent	323 104	212 129	–	5 012	–	494 842	–	1 035 087
Customer accounts (deposits)	1 675 404	1 318 485	2 776 258	2 881 055	837 923	1 731 508	117 866	11 338 499
Debt securities in issue	–	230 367	146 101	49 332	47 074	1 550 454	278 701	2 302 029
Liabilities arising on securitisation of own originated loans and advances	1 667	23 118	55 900	62 835	282 348	191 653	11 784	629 305
Liabilities arising on securitisation of other assets	–	7 623	7 876	13 955	25 785	227 561	421 463	704 263
Other liabilities	891 586	155 920	144 901	51 055	13 694	29 099	528	1 286 783
Subordinated liabilities	–	(1 307)	669	889	8 082	89 003	630 978	728 314
Total on balance sheet liabilities	3 725 182	2 001 673	3 209 956	3 099 150	1 291 618	4 651 492	1 522 287	19 501 358
Contingent liabilities*	–	2 190	1 887	947	982	11 879	4 392	22 277
Commitments*	137 713	5 675	54 131	23 484	25 360	257 503	84 482	588 348
Total liabilities	3 862 895	2 009 538	3 265 974	3 123 581	1 317 960	4 920 874	1 611 161	20 111 983

* *The 2012 disclosures have been restated to correctly reflect the split between contingent liabilities and commitments.*

The balances in the above table will not agree directly to the balances in the consolidated balance sheet as the table incorporates all cash flow on an undiscounted basis relating to both principal and those associated with all future coupon payments (except for trading liabilities and trading derivatives). Furthermore loan commitments are generally not recognised on the balance sheet.

Trading liabilities and trading derivatives have been included in the 'Demand' time bucket and not by contractual maturity because trading liabilities are typically held for short periods of time.

For an unaudited analysis based on discounted cash flows please refer to pages 80 to 81.

50. Principal subsidiaries and associated companies

At 31 March	Principal activity	Country of incorporation	Interest % 2013	Interest % 2012
Direct subsidiaries of Investec Bank plc				
Investec Asset Finance PLC	Leasing company	England and Wales	100.0%	100.0%
Investec Bank (Channel Islands) Limited	Banking institution	Guernsey	100.0%	100.0%
Investec Bank (Switzerland) AG	Banking institution	Switzerland	100.0%	100.0%
Investec Capital Asia Limited	Investment banking	Hong Kong	100.0%	100.0%
Investec Finance plc	Debt issuer	England and Wales	100.0%	100.0%
Investec Group Investments (UK) Limited	Investment holding	England and Wales	100.0%	100.0%
Investec Investments (UK) Limited (formerly Guinness Mahon & Co Limited)	Investment holding	England and Wales	100.0%	100.0%
Rensburg Sheppards plc	Holding company	England and Wales	100.0%	100.0%
Indirect subsidiaries of Investec Bank plc				
Investec Asset Finance & Leasing Pty Ltd (formerly Alliance Equipment Finance Pty Ltd)	Leasing company	Australia	100.0%	–
Investec Bank (Australia) Ltd	Banking institution	Australia	100.0%	100.0%
Investec Capital & Investments (Ireland) Limited (formerly NCB Stockbrokers Limited)	Financial services	Ireland	100.0%	–
Investec Professional Finance Pty Ltd (formerly Investec Experien Pty Ltd)	Financial services	Australia	100.0%	100.0%
Investec Ireland Limited	Financial services	Ireland	100.0%	100.0%
Investec Trust Holdings AG	Investment holding	Switzerland	100.0%	100.0%
Investec Trust (Switzerland) S.A.	Trust company	Switzerland	100.0%	100.0%
Investec Trust (Jersey) Limited	Trust company	Jersey	100.0%	100.0%
Investec Wealth & Investment Limited	Stockbroking and portfolio management	England and Wales	100.0%	100.0%
Leasedirect Finance Limited	Finance broker	England and Wales	100.0%	81.3%
Neontar Limited	Holding company	Ireland	100.0%	–
Williams de Broë Limited	Stockbroking and portfolio management	England and Wales	100.0%	–
All of the above subsidiary undertakings are included in the consolidated accounts.				
Principal associated company				
Hargreave Hale Limited	Stockbroking and portfolio management	England and Wales	35.0%	35.0%

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

50. Principal subsidiaries and associated companies (continued)

The bank has no equity interest in the following special purpose vehicles which are consolidated on the basis of the group sharing in the majority of the risks and/or rewards associated with the entitles:

Bedrock CMBS GMBH
Foundation CMBS Limited
Gemgarto 2012-1 plc
Glacier Securities Limited (series 2010-2)
Gresham Capital CLO V BV
Impala Trust No.1 – Sub Series 2
Impala Trust No.1 – Sub Series 2010-1
Impala Trust No.1 – Sub Series 2011-1
Impala Trust No.1 – Sub Series 2012-1
Landmark Mortgage Securities No 1 plc
Landmark Mortgage Securities No 2 plc
Landmark Mortgage Securities No 3 plc
Nyala Funding Trust CMBS 2013-1
Nyala Funding Trust No.1
Residential Mortgage Securities 23 plc
Tamarin Securities Limited
Zebra Capital II Limited

Statement of directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and accounting estimates that are reasonable and prudent
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the board

David van der Walt
Chief executive officer

24 June 2013

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

We have audited the parent company financial statements of Investec Bank plc for the year ended 31 March 2013 which comprise the balance sheet, the statement of total recognised gains and losses, the accounting policies set out on pages 201 to 207, and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement set out on page 197, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion, the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2013;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the group financial statements of Investec Bank plc for the year ended 31 March 2013.

Ernst & Young LLP

Michael-John Albert
Senior statutory auditor

for and on behalf of Ernst & Young LLP
Statutory Auditor

London
25 June 2013

Notes:

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

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

Balance sheet

At 31 March £'000	Notes	2013	2012
Assets			
Cash and balances at central banks		1 223 473	1 645 747
Treasury bills and other eligible bills	6	113 128	293 828
Loans and advances to banks	5	2 154 493	1 576 750
Loans and advances to customers	5/7	7 766 252	7 635 189
Debt securities	8	1 756 449	1 427 116
Equity shares	10	270 371	239 944
Interests in associated undertakings	11	9 286	9 260
Shares in group undertakings	12	1 018 560	908 405
Investment property	13	11 500	11 500
Tangible fixed assets	14	44 454	96 309
Derivative assets	22	844 153	721 435
Other assets	15	813 291	678 240
Prepayments and accrued income		9 337	8 421
		16 034 747	15 252 144
Liabilities			
Deposits by banks	5	2 230 217	2 019 355
Customer accounts	5	8 323 600	8 318 800
Debt securities in issue	5	1 351 716	1 130 757
Derivative liabilities	22	742 994	645 783
Trading liabilities – short positions		372 619	271 627
Other liabilities	16	722 313	730 373
Accruals and deferred income		96 785	93 743
		13 840 244	13 210 438
Subordinated liabilities	5/18	632 229	632 062
		14 472 473	13 842 500
Equity			
Ordinary share capital	19	1 173 800	1 070 700
Share premium account		136 268	129 255
Capital reserve		162 789	114 128
Other reserves		(42 690)	(23 914)
Profit and loss account		132 107	119 475
Total shareholder's equity	1	1 562 274	1 409 644
Total liabilities and shareholder's equity		16 034 747	15 252 144

The notes on pages 208 to 223 form an integral part of these accounts.

The directors approved the accounts and authorised them for issue on 24 June 2013.

David van der Walt
Chief executive officer

Statement of total recognised gains and losses

For the year to 31 March £'000	2013	2012
Profit for the year attributable to shareholder	25 132	55 366
Fair value movements on available-for-sale assets	(3 127)	(13 122)
Revaluation of investment property	–	114
Currency translation movements	(15 649)	(1 429)
Total recognised gains relating to the year	6 356	40 929

There was no material difference between the results as reported and the results that would have been reported on an unmodified historical cost basis. Accordingly, no note of historical cost profits and losses has been included.

Significant accounting policies

Basis of presentation

The bank's financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice and on a going concern basis. The bank's financial statements have been prepared under the historical cost convention except for those assets and liabilities which are held at fair value in line with accounting standards requirements.

Accounting policies applied are consistent with those of the prior year.

Share-based payments to employees

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

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

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

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

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

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

Foreign currency transactions and foreign operations

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

Foreign operations are subsidiaries, interests in associated undertakings or branches of the bank, the activities of which are based in a functional currency other than that of the reporting entity. The functional currency of 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 are 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 bank as follows:

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

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

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

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

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

Significant accounting policies (continued)

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 the balance sheet management.

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

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

Included in other operating income is incidental rental income, gains on realisation of properties (other than investment properties which is included in investment income) and operating lease income. Operating costs associated with these investments are included in operating costs in the income statement.

Interests in subsidiary and associated undertakings

Interests in subsidiary and associated undertakings are stated at cost less any impairment in value.

Financial instruments

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

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

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

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

Financial instruments classified as held-for-trading or designated as held at fair value through profit or loss are recorded at fair value on the balance sheet with changes in fair value recognised in the income statement. Financial instruments are classified as trading when they are held with the intention of short-term disposal, held with intention of generating short-term profits, or are derivatives which are not designated as part of effective hedges. Financial instruments designated as held at fair value through profit 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 a 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 bank 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 bank has the intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity assets are measured at amortised cost using the effective interest method, less impairment losses.

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

Loans and receivables

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

- Those that the bank intends to trade in, which are classified as held-for-trading, and those that the bank designates as at fair value through profit or loss
- Those that the bank designates as available-for-sale
- Those for which the bank 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 bank 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 bank predominately focuses on the securitisation of residential and commercial mortgages. The bank also trades in structured credit investments.

Significant accounting policies (continued)

Loans and advances that are originated are transferred to special purpose entities (SPEs), and the SPEs issue debt securities to external investors to fund the purchase of the securitised assets. The bank'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.

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 bank. Further, certain loans and receivables that are held at fair value due to being quoted on an active market, which are neither actively traded nor held-to-maturity instruments, are classified as available-for-sale financial assets.

Financial assets classified as available-for-sale are measured at fair value with unrealised gains and losses recognised directly in the statement of total recognised gains and losses in the available-for-sale reserve. When the asset is disposed of, the cumulative gain or loss previously recognised in the statement of total recognised gains and losses 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 the statement of total recognised gains and losses 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 bank would not receive cash flows according to the original contractual terms. Financial assets are assessed for objective evidence of impairment at least at each balance sheet reporting date.

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

Significant accounting policies (continued)

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 bank.

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

The impairment is calculated as the difference between the carrying value of the asset and the expected cash flows (including net 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.

Derecognition of financial assets and liabilities

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

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

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

Reclassification of financial instruments

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

Derivative instruments transacted as economic hedges 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 largely entered into for trading purposes. Credit derivatives 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 current market price or remeasured price.

Hedge accounting

The bank applies either fair value or cash flow hedge or hedge of net investments in foreign operations accounting when the transactions meet the specified hedge accounting criteria. To qualify for hedge accounting treatment, the bank ensures that all of the following conditions are met:

- At inception of the hedge, the bank formally documents the relationship between the hedging instrument(s) and hedged item(s) including the risk management objectives and the strategy in undertaking the hedge transaction. Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%
- For cash flow hedges, a forecasted transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit and loss
- The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured
- The hedge effectiveness is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

For qualifying fair value hedges, the change in fair value of the hedging instrument is recognised in the income statement. Changes in fair value of the hedged item that is attributable to the hedged risk are also recognised in the income statement.

For qualifying cash flow hedges in respect of non-financial assets and liabilities, the change in fair value of the hedging instrument relating to the effective portion is initially recognised 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 the statement of total recognised gains and losses and is released to the income statement in the same period during which the relevant financial asset or liability affects the income

Significant accounting policies (continued)

statement. Any ineffective portion of the hedge is immediately recognised in the income statement.

Qualifying hedges of a net investment in a foreign operation including a hedge of a monetary item that is accounted for as part of the net investment are accounted for in a way similar to cash flow hedges. Changes in the fair value of the hedging instrument relating to the effective portion of the hedge are recognised in the statement of total recognised gains and losses while any gains or losses relating to the ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of any such gain or loss recorded in the statement of total recognised gains and losses 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 hedged 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 stand-alone derivative if and only if:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset when there is both an intention to settle on a net basis (or simultaneously) and a legal right to offset exists.

Issued debt and equity financial instruments

Financial instruments issued by the bank are classified as liabilities if they contain a contractual obligation to deliver cash or another financial asset.

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

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

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

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. 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.

The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method. Securities borrowing transactions that are not cash collateralised are not included in the balance sheet. Securities lending and borrowing transactions which are cash collateralised are accounted for in the same manner as securities sold or purchased subject to repurchase commitments.

Financial guarantees

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

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

Instalment credit, leases and rental agreements

A finance lease is a lease that transfers substantially all of the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a financial lease. Where classified as a finance lease, amounts outstanding on these contracts, net of unearned finance charges, are included in loans and advances where Investec is the lessor and included in liabilities where Investec is the lessee. Finance charges on finance leases and instalment credit transactions are credited or debited to income in proportion to the capital balances outstanding at the rate implicit in the agreement.

Where classified as operating leases, rentals payable/receivable are charged/credited in the income statement on a straight-line basis over the lease term. Contingent rentals (if any) are accrued to the income statement when incurred.

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and impairments.

Cost is the cash equivalent paid, or the fair value of the consideration given to acquire an asset and includes other expenditures that are directly attributable to the acquisition of the asset.

Depreciation is provided on the depreciable amount of each component on a straight-line basis over the anticipated useful life of the asset. The depreciable amount related to each asset is determined as the difference between the cost and the residual value of the asset. The residual value is the estimated amount, net of disposal costs, that the bank would currently obtain from the disposal of an asset in similar age and condition as expected at the end of its useful life.

Significant accounting policies (continued)

The current and comparative annual depreciation rates for each class of property and equipment are as follows:

- Computer and related equipment 20% – 33%
- Motor vehicles 20% – 25%
- Furniture and fittings 10% – 20%
- 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 for bank assets are expensed as incurred. Subsequent expenditure is only capitalised if it is probable that future economic benefits associated with the item will flow to the bank.

Investment property

An interest in land and/or buildings held by the bank for capital appreciation or rental yield are classified as investment properties. Investment properties are carried on balance sheet at open market value. Changes to the market value of investment properties are taken to the statement of total recognised gains and losses unless a deficit (or its reversal) on an individual investment property is expected to be permanent, in which case it should be charged (or credited) to the profit and loss account of the period.

Dealing properties

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

Intangible assets

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

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

Impairment of non-financial assets

At each balance sheet date the bank reviews the carrying value of non-financial assets, other than investment property and deferred tax assets, for indication of impairment. The recoverable amount, being the higher of fair value less cost to sell and value in use, is determined for any assets for which an indication of impairment is identified. If the recoverable amount of an asset is less than its carrying value, the carrying value of the asset is reduced to its recoverable value.

Impairment losses are recognised as an expense in the income statement in the period in which they are identified. Reversals of impairment losses are recognised in income in the period in which the reversals are 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 bank acts as a trustee or in other fiduciary capacities that result in the holding, placing or managing of assets for the account of and at the risk of clients. As these are not assets of the bank, they are not 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 or taxable profit
- 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 the statement of total recognised gains and losses are net of related current and deferred taxation.

Employee benefits

The bank operates various defined contribution schemes. In addition, certain employees of the bank participate in two closed defined benefit schemes along with employees of other subsidiary undertakings of Investec plc, the bank's parent.

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.

As there is no contractual agreement or stated policy for charging the net defined benefit cost for the defined benefit plans as a whole to individual investec plc group entities, the bank accounts for these schemes on a defined contribution basis.

Significant accounting policies (continued)

Borrowing costs

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

Provisions, contingent liabilities and contingent assets

Provisions are liabilities of uncertain timing or amount and are recognised as soon as the bank has created a legal or constructive obligation which will lead to an outflow of economic resources to settle the obligation as a result of a past event. Expenses related to provisions are recognised in the income statement. Contingent assets and contingent liabilities are not recognised on balance sheet.

Bank's own profit and loss account

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

Cash flow statement

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

Financial instruments: Disclosures

The bank has taken advantage of the exemption in Financial Reporting Standard 29 to not present its own disclosures in respect of financial instruments as disclosures, prepared in accordance with International Financial Reporting Standard 7, are included in the consolidated financial statements of the bank.

Notes to the annual financial statements

1. Reconciliation of shareholder's funds and movements in reserves

For the year to 31 March £'000	Share capital	Share premium account	Capital reserve	Other reserves: Available-for-sale reserves	Other reserves: Revaluation reserve	Other reserves: Foreign currency reserves	Profit and loss account	Total
At 31 March 2011	1 026 000	105 117	114 128	12 928	–	(22 405)	80 109	1 315 877
Retained profit for the year	–	–	–	–	–	–	55 366	55 366
Fair value movements on available-for-sale assets	–	–	–	(13 122)	–	–		(13 122)
Revaluation of investment property	–	–	–	–	114	–	–	114
Foreign currency adjustments	–	–	–	–	–	(1 429)		(1 429)
Total recognised gains/(losses) for the year	–	–	–	(13 122)	114	(1 429)	55 366	40 929
Issue of ordinary shares	44 700	24 138		–	–	–	–	68 838
Dividends paid to ordinary shareholders	–	–	–	–	–	–	(16 000)	(16 000)
At 31 March 2012	1 070 700	129 255	114 128	(194)	114	(23 834)	119 475	1 409 644
Retained profit for the year	–	–	–	–	–	–	25 132	25 132
Fair value movements on available-for-sale assets	–	–	–	(3 127)	–	–	–	(3 127)
Foreign currency adjustments	–	–	–	–	–	(15 649)	–	(15 649)
Total recognised gains/(losses) for the year	–	–	–	(3 127)	–	(15 649)	25 132	6 356
Issue of ordinary shares	103 100	7 013	48 661	–	–	–	–	158 774
Dividends paid to ordinary shareholders	–	–	–	–	–	–	(12 500)	(12 500)
At 31 March 2013	1 173 800	136 268	162 789	(3 321)	114	(39 483)	132 107	1 562 274

Notes to the annual financial statements (continued)

2. Parent company profit and loss account

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

The bank's profit for the year, determined in accordance with the Act, was £25 132 000 (2012: £55 366 000).

Audit fees

Details of the bank's audit fees are set out in note 6 of the group financial statements.

Dividends

Details of the bank's dividends are set out in note 9 of the group financial statements.

For the year to 31 March £'000	2013	2012
3. Directors' emoluments		
Aggregate emoluments (excluding pension contributions)	5 883	3 438
Contributions to defined contributions scheme	139	103
	6 022	3 541
Number of directors in defined contributions scheme	5	2
Number of directors in closed defined benefits scheme	–	–

Included in aggregate emoluments for the current year are performance awards to executive directors. The amount includes £648 446 in cash, £705 000 in deferred cash (vesting annually over a three-year period) and £344 131 in EVA forfeitable shares (vesting annually over a three-year period).

Emoluments of the highest paid director were £2 012 863 (2012: £2 178 993) excluding £40 666 (2012: £38 750) of pension contributions to the defined contributions scheme.

The emoluments of the highest paid director include £280 000 in cash, £420 000 in deferred cash (vesting annually over a three-year period) and £700 000 in EVA forfeitable shares (vesting annually over a three-year period).

For further details of the deferral of performance awards refer to the remuneration report on pages 107 to 119.

Notes to the annual financial statements

4. Classification of financial assets and financial liabilities

At 31 March 2013 £'000	At fair value through profit and loss Trading	 Designated at inception	Loans and receivables	Available-for-sale	Held to maturity	Financial liabilities at amortised cost	Non-financial instruments	Total
Assets								
Cash and balances at central banks	–	–	1 223 473	–	–	–	–	1 223 473
Treasury bills and other eligible bills	104 568	–	–	8 560	–	–	–	113 128
Loans and advances to banks	321 413	–	1 833 080	–	–	–	–	2 154 493
Loans and advances to customers	–	295 389	7 380 809	–	90 054	–	–	7 766 252
Debt securities	420 656	80 761	203 078	1 051 954	–	–	–	1 756 449
Equity shares	141 143	104 474	–	24 754	–	–	–	270 371
Interests in associated undertakings	–	–	–	–	–	–	9 286	9 286
Shares in group undertakings	–	–	–	–	–	–	1 018 560	1 018 560
Investment property	–	–	–	–	–	–	11 500	11 500
Tangible fixed assets	–	–	–	–	–	–	44 454	44 454
Derivative assets	844 153	–	–	–	–	–	–	844 153
Other assets	430 276	56 556	229 162	–	–	–	97 297	813 291
Prepayments and accrued income	–	–	9 337	–	–	–	–	9 337
	2 262 209	537 180	10 878 939	1 085 268	90 054	–	1 181 097	16 034 747
Liabilities								
Deposits by banks	350 308	–	–	–	–	1 879 909	–	2 230 217
Customer accounts	–	–	–	–	–	8 323 600	–	8 323 600
Debt securities in issue	–	192 463	–	–	–	1 159 253	–	1 351 716
Derivative liabilities	742 994	–	–	–	–	–	–	742 994
Trading liabilities – short positions	372 619	–	–	–	–	–	–	372 619
Other liabilities	436 541	2 366	–	–	–	92 951	190 455	722 313
Accruals and deferred income	–	–	–	–	–	96 785	–	96 785
Subordinated liabilities	–	–	–	–	–	632 229	–	632 229
	1 902 462	194 829	–	–	–	12 184 727	190 455	14 472 473

Notes to the annual financial statements (continued)

4. Classification of financial assets and financial liabilities (continued)

At 31 March 2012 £'000	At fair value through profit and loss Trading	 Designated at inception	Loans and receivables	Available-for-sale	Held to maturity	Financial liabilities at amortised cost	Non-financial instruments	Total
Assets								
Cash and balances at central banks	–	–	1 645 747	–	–	–	–	1 645 747
Treasury bills and other eligible bills	–	–	–	293 828	–	–	–	293 828
Loans and advances to banks	304 022	–	1 272 728	–	–	–	–	1 576 750
Loans and advances to customers	–	255 309	7 160 352	–	219 528	–	–	7 635 189
Debt securities	263 702	29 365	151 075	982 974	–	–	–	1 427 116
Equity shares	122 563	94 529	–	22 852	–	–	–	239 944
Interests in associated undertakings	–	–	–	–	–	–	9 260	9 260
Shares in group undertakings	–	–	–	–	–	–	908 405	908 405
Investment property	–	–	–	–	–	–	11 500	11 500
Tangible fixed assets	–	–	–	–	–	–	96 309	96 309
Derivative assets	721 435	–	–	–	–	–	–	721 435
Other assets	484 232	–	130 789	–	–	–	63 219	678 240
Prepayments and accrued income	–	–	8 421	–	–	–	–	8 421
	1 895 954	379 203	10 369 112	1 299 654	219 528	–	1 088 693	15 252 144
Liabilities								
Deposits by banks	271 721	–	–	–	–	1 747 634	–	2 019 355
Customer accounts	–	–	–	–	–	8 318 800	–	8 318 800
Debt securities in issue	–	–	–	–	–	1 130 757	–	1 130 757
Derivative liabilities	645 783	–	–	–	–	–	–	645 783
Trading liabilities – short positions	271 627	–	–	–	–	–	–	271 627
Other liabilities	535 421	–	–	–	–	47 567	147 385	730 373
Accruals and deferred income	–	–	–	–	–	93 743	–	93 743
Subordinated liabilities	–	–	–	–	–	632 062	–	632 062
	1 724 552	–	–	–	–	11 970 563	147 385	13 842 500

Annual financial statements

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Notes to the annual financial statements (continued)

5. Maturity of loans and deposits

At 31 March £'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	>Five years	Total	Balances with group companies
2013									
Assets									
Loans and advances to banks	945 348	450 803	419 000	–	–	339 342	–	2 154 493	308 121
Loans and advances to customers	392 855	649 234	488 302	631 966	717 212	2 732 773	2 153 910	7 766 252	1 235 952
Liabilities									
Deposits by banks	749 137	708 507	41 814	9 153	25 058	696 548	–	2 230 217	437 473
Customer accounts	763 250	721 721	2 199 613	2 550 514	591 156	1 418 495	78 851	8 323 600	432 489
Debt securities in issue	30 827	33 947	90 000	137 436	97 000	530 108	432 398	1 351 716	2 009
Subordinated liabilities	–	–	–	–	–	52 833	579 396	632 229	–
2012									
Assets									
Loans and advances to banks	628 739	340 011	–	–	–	255 000	353 000	1 576 750	640 931
Loans and advances to customers	391 839	218 065	418 952	639 338	811 438	3 214 263	1 941 294	7 635 189	1 376 354
Liabilities									
Deposits by banks	585 101	626 606	40 243	26 000	28 000	473 891	239 514	2 019 355	409 992
Customer accounts	1 612 820	428 512	1 448 901	2 494 545	641 996	1 557 890	134 136	8 318 800	436 257
Debt securities in issue	454 347	15 000	17 419	19 644	27 960	575 378	21 009	1 130 757	2 009
Subordinated liabilities	–	–	–	–	–	53 096	578 966	632 062	–

Notes to the annual financial statements (continued)

At 31 March £'000	2013	2012
6. Treasury bills and other eligible bills		
Trading securities		
Treasury bills	104 568	–
Securities designated as available-for-sale		
Treasury bills	–	285 129
Other eligible bills – other issuers	8 560	8 699
	8 560	293 828
Total treasury bills and other eligible bills	113 128	293 828
Available-for-sale securities		
At beginning of year	293 828	64 225
Purchases	8 436	297 724
Maturities	(293 932)	(63 525)
Movement in fair value during the year	47	(85)
Exchange adjustments	181	(4 511)
Fair value at end of year	8 560	293 828

Treasury bills and other eligible bills are unlisted, mainly short-term in maturity, and have a book value not materially different from market value.

At 31 March £'000	2013	2012
7. Customer accounts		
Total loans and advances to customers	7 766 252	7 635 189
Less: Trading book loans and cash equivalent debtors	(3 382)	(358)
	7 762 870	7 634 831
Category analysis		
Private Banking	2 656 976	3 084 053
Corporate and public sector	3 598 227	3 318 906
Other	1 713 374	1 405 986
	7 968 577	7 808 945
Specific impairment	(186 969)	(167 278)
Portfolio impairment	(18 738)	(6 836)
	7 762 870	7 634 831
Specific and portfolio impairments		
Reconciliation of movements in specific and portfolio impairments for bad and doubtful debts:		
Specific impairment		
At beginning of year	167 278	182 201
Charge to the income statement	100 614	60 618
Utilised	(72 683)	(68 846)
Exchange adjustments	(8 240)	(6 695)
At end of year	186 969	167 278
Portfolio impairment		
At beginning of year	6 836	5 678
Charge to the income statement	11 824	2 131
Exchange adjustments	78	(973)
At end of year	18 738	6 836

Notes to the annual financial statements (continued)

At 31 March £'000	2013	2012
8. Debt securities		
Unlisted debt securities		
– designated as held for trading or designated as held at fair value through profit and loss	501 417	293 067
– held at amortised cost	203 078	151 075
	704 495	444 142
Securities designated as available-for-sale		
Other unlisted debt securities	1 051 954	982 974
	1 051 954	982 974
Total debt securities	1 756 449	1 427 116
The cost of trading securities has not been disclosed as it cannot be determined without unreasonable expense.		
Available-for-sale securities		
At beginning of year	982 974	768 247
Additions	2 122 401	665 957
Sold/matured	(2 060 830)	(444 077)
Exchange adjustments	30	(405)
Movement in fair value during the year	7 379	(6 748)
At end of year	1 051 954	982 974

9. Securitisation

There have been no transactions undertaken by the bank during the year in which, in the normal course of business, it has transferred portfolios of financial assets directly to special purpose entities but where the financial assets transferred do not qualify for derecognition and the assets continue to be disclosed on the face of the balance sheet.

Notes to the annual financial statements (continued)

At 31 March £'000	2013	2012
10. Equity shares		
Trading securities and securities designated as at fair value through profit and loss		
Listed	144 420	124 251
Unlisted	101 197	92 841
	245 617	217 092
Securities designated as available-for-sale		
Listed	2 243	3 737
Unlisted	22 511	19 115
	24 754	22 852
Total equity shares	270 371	239 944
The cost of trading securities has not been disclosed as it cannot be determined without unreasonable expense.		
Available-for-sale securities		
At beginning of year net of provisions	22 852	36 079
Additions	9 162	368
Disposals	(65)	(14 397)
Exchange adjustments	1 192	(832)
Movement in fair value during the year	(8 387)	1 634
Fair value at end of year	24 754	22 852

At 31 March £'000	2013	2012
11. Interests in associated undertakings		
Analysis of the movement in investment		
At the beginning of the year	11 588	11 589
Disposal	(5)	–
Exchange adjustments	26	(1)
At end of year	11 609	11 588
Provision for impairment in value		
At beginning of year	(2 328)	(2 328)
Disposal	5	–
At end of year	(2 323)	(2 328)
Net book value at end of year	9 286	9 260

The associated undertakings are unlisted.

Notes to the annual financial statements (continued)

At 31 March £'000	2013	2012
12. Shares in group undertakings		
Cost		
At beginning of year	940 664	925 820
Additions	–	4 507
Transfer	35 000	–
Liquidation of subsidiaries	(66 276)	–
Recapitalisation of subsidiaries	158 431	10 337
At end of year	1 067 819	940 664
Provision for impairment in value		
At beginning of year	(32 259)	(2 019)
New impairments	(17 000)	(30 240)
At end of year	(49 259)	(32 259)
Net book value at end of year	1 018 560	908 405

Full details of the acquisitions are included in note 35 of the consolidated accounts of the bank.

All subsidiary undertakings are unlisted.

At 31 March £'000	2013	2012
13. Investment property		
Investment property	11 500	11 500

The property was purchased in the prior year at a cost of £11 386 000.

No investment properties are occupied by group companies.

At 31 March £'000	Leasehold improvements	Furniture and vehicles	Computer equipment	Operating leases	Total
14. Tangible fixed assets					
Cost or valuation					
At beginning of year	30 136	5 041	30 679	104 675	170 531
Additions	326	234	982	–	1 542
Disposals	–	–	–	(50 767)	(50 767)
At end of year	30 462	5 275	31 661	53 908	121 306
Accumulated depreciation and amortisation					
At beginning of year	(14 239)	(4 413)	(22 981)	(32 589)	(74 222)
Disposals	–	–	–	20 069	20 069
Charge for the year	(2 395)	(176)	(4 056)	(16 072)	(22 699)
At end of year	(16 634)	(4 589)	(27 037)	(28 592)	(76 852)
Net book value at 31 March 2013	13 828	686	4 624	25 316	44 454
Net book value at 31 March 2012	15 897	628	7 698	72 086	96 309

Notes to the annual financial statements (continued)

At 31 March £'000	2013	2012
15. Other assets		
Settlement debtors	602 808	555 139
Trading initial margin	60 650	57 952
Deferred tax asset (note 17)	32 773	28 987
Dealing properties	2 773	3 353
Deferred consideration	56 556	2 150
Other debtors	57 731	30 659
	813 291	678 240

Dealing properties are recorded at the lower of cost or selling price less cost to sell.

At 31 March £'000	2013	2012
16. Other liabilities		
Settlement creditors	612 735	652 381
Corporation and other taxes	56 056	17 034
Trade creditors and maintenance liabilities arising from operating leased assets	39 892	36 789
Other creditors and accruals	13 630	24 169
	722 313	730 373

At 31 March £'000	2013	2012
17. Deferred tax		
Deferred tax asset		
Deferred capital allowances	6 178	3 831
Arising from unexpired share options	22 469	21 680
Income and expenditure accruals	1 048	–
Losses carried forward	3 153	3 510
Other timing differences	(75)	(34)
	32 773	28 987
Deferred tax liability	–	–
Net deferred tax asset	32 773	28 987
Reconciliation of net deferred tax asset		
At beginning of year	28 987	21 297
Arising on acquisition of subsidiary undertaking	–	3 510
Credit to profit and loss	3 786	4 180
At end of year	32 773	28 987

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

There are trading losses carried forward of £13.559 million on which a deferred tax asset has not been recognised due to uncertainty regarding future profits against which these losses can be utilised.

The Finance Act 2012 reduced the main rate of corporate taxation to 23% with effect from 1 April 2013 and the effect of this reduction is reflected in the above calculation of the deferred taxation asset as the rate was substantially enacted before 31 March 2013. On 5 December 2012, the UK Government announced its intention to further reduce the main rate of corporate taxation with effect from 1 April 2014, with the rate being reduced to 21%.

Notes to the annual financial statements (continued)

At 31 March £'000	2013	2012
18. Subordinated liabilities		
Dated subordinated debt		
Medium-term subordinated notes	579 396	578 966
Subordinated loans	52 833	53 096
	632 229	632 062
Remaining maturity		
In one year or less, or on demand	–	–
In more than two years, but not more than five years	52 833	53 096
In more than five years	579 396	578 966
	632 229	632 062

Subordinated loans

Medium-term notes

On 17 February 2011 Investec Bank plc issued £500 000 000 of 9.625% subordinated notes due 2022 at a discount. Interest is paid annually. The notes are listed on the London Stock Exchange. The notes will be redeemed at par on 17 February 2022.

On 29 June 2011 Investec Bank plc issued £75 000 000 of 9.625% subordinated notes due 2022 at a premium. These notes were consolidated to form a single series, and are fungible, with the £500 000 000 2022 notes issued on 17 February 2011.

Subordinated loans

The net proceeds of two issues of step-up notes by a subsidiary of the bank, Investec Finance plc, have been on-lent to the bank on a subordinated basis.

The terms of the step-up notes, which are guaranteed by the bank, are detailed in note 40 of the consolidated financial statements of the bank.

At 31 March £'000	2013	2012
19. Ordinary share capital		
Authorised		
The authorised share capital is £2 000 million (2012: £2 000 million) comprising 2 000 million ordinary shares of £1 each (2012: 2 000 million shares of £1 each).		
Issued, allotted and fully paid		
Number of ordinary shares	Number	Number
At beginning of year	1 070 700 000	1 026 000 000
Issued during the year	103 100 000	44 700 000
At end of year	1 173 800 000	1 070 700 000
Nominal value of ordinary shares	£'000	£'000
At beginning of year	1 070 700	1 026 000
Issued during the year	103 100	44 700
At end of year	1 173 800	1 070 700

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

Notes to the annual financial statements (continued)

At 31 March £'000	2013	2012
20. Commitments		
Undrawn facilities	403 254	419 318

The bank has entered into loan commitments in the normal course of its banking business.

At 31 March £'000	2013	2012
21. Contingent liabilities		
Guarantees and irrevocable letters of credit	179 031	239 544

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

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

A subsidiary of the bank, Investec Finance plc, has issued both medium-term notes and other debt securities. The proceeds of these issues have been placed on deposit with the bank.

The bank has issued a guarantee to the holders of these notes. The amount of these guarantees is supported by, and limited to, the amount of the cash deposits.

Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS), the UK's statutory fund of last resort, provides compensation to customers of UK authorised financial institutions in the event that an institution which is a participating member of the FSCS is unable, or is likely to be unable, to pay claims against it.

The FSCS raises annual levies from participating members based on their level of participation (in the case of deposits, the proportion that their protected deposits represent of total protected deposits) as at 31 December of the year preceding the scheme year.

In April 2012 the FSCS agreed revised terms on the loan facilities including a 70bps increase in the interest rate payable to 12 month LIBOR plus 100 bps. This rate will be subject to a floor equal to the HM Treasury's own cost of borrowing. The facilities are expected to be repaid wholly from recoveries from the failed deposit takers, except for an estimated shortfall of £0.8 billion. The FSCS has announced it intends to recover this shortfall by levying the industry in instalments across 2013, 2014 and 2015, in addition to the ongoing interest charges on the outstanding loans.

Investec Bank plc is a participating member of the FSCS and the bank has accrued £6.1 million for its share of levies that will be raised by the FSCS. The accrual is based on estimates of the interest the FSCS will pay on the loan and the level of the bank's market participation in the relevant periods. The bank has also accrued for its estimated share of the principal to be levied over each of the next three years. Interest will continue to accrue to the FSCS on the HM Treasury loan and will form part of future FSCS levies.

At the date of these financial statements, it is not possible to estimate whether there will ultimately be additional levies on the industry, the level of Investec's market participation or other factors that may affect the amounts or timing of amounts that may ultimately become payable, nor the effect that such levies may have upon operating results in any particular financial period.

Legal proceedings

The bank is party to various legal proceedings, the ultimate resolution of which is not expected to have a material adverse effect on the financial position of the bank.

Notes to the annual financial statements (continued)

22. Derivatives

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

In the tables below, notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair value of a derivative financial instrument represents the positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out by the group in an orderly market transaction at balance sheet date.

At 31 March £'000	2013 Notional principal amounts	2013 Positive fair value	2013 Negative fair value	2012 Notional principal amounts^	2012 Positive fair value	2012 Negative fair value
Foreign exchange derivatives						
Forward foreign exchange	2 444 825	25 804	(23 967)	2 033 314	13 406	(9 948)
Currency swaps	7 302 287	92 027	(138 772)	6 356 017	84 954	(59 484)
OTC options bought and sold	2 195 452	19 738	(18 701)	2 472 870	23 493	(19 831)
Other foreign exchange contracts	118 305	6	(2 514)	170 025	461	(2 307)
OTC derivatives	12 060 869	137 575	(183 954)	11 032 226	122 314	(91 570)
Interest rate derivatives						
Caps and floors	631 803	5 401	(2 898)	913 873	2 970	(3 762)
Swaps	12 580 564	205 538	(130 756)	9 290 946	193 140	(100 599)
Forward rate agreements	209 269	6	(22)	206 367	–	(40)
OTC options bought and sold	–	–	–	250 000	419	–
Other interest rate contracts	161 898	3 556	–	250 622	3 930	150
OTC derivatives	13 583 534	214 501	(133 676)	10 911 808	200 459	(104 251)
Equity and stock index derivatives						
OTC options bought and sold	2 343 310	25 491	(66 391)	1 794 175	9 817	(43 368)
Equity swaps and forwards	192 602	7 128	(17 729)	61 902	693	(724)
OTC derivatives	2 535 912	32 619	(84 120)	1 856 077	10 510	(44 092)
Exchange traded futures	1 638 550	71 047	(4 683)	1 357 069	20 869	(26 210)
Exchange traded options	5 446 811	147 079	(171 468)	4 056 932	154 447	(211 481)
Warrants	6 578	–	–	1	55	–
	9 627 851	250 745	(260 271)	7 270 079	185 881	(281 783)
Commodity derivatives						
OTC options bought and sold	15 721	477	(107)	–	–	–
Commodity swaps and forwards	543 912	161 140	(161 259)	1 000 815	164 333	(164 188)
OTC derivatives	559 633	161 617	(161 366)	1 000 815	164 333	(164 188)
Credit derivatives						
Credit swaps bought and sold	200 075	8 361	(3 727)	355 824	13 259	(3 991)
OTC derivatives	200 075	8 361	(3 727)	355 824	13 259	(3 991)
Embedded derivatives*		71 354	–		35 189	–
Derivatives per balance sheet		844 153	(742 994)		721 435	(645 783)

^ *For certain derivative products the method of calculation of the notional principal amount has been changed during the year. Prior year values have been adjusted to aid comparison.*

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

Notes to the annual financial statements (continued)

At 31 March £'000		Description of financial instrument designated as hedging instrument	Fair value of hedging instrument	Cumulative gains/(losses) on hedging instrument	Current year gains/(losses) on hedging instrument	Cumulative gains/(losses) on hedged item	Current year gains/(losses) on hedged item
23.	**Hedges**						
	2013						
	Assets	Interest rate swap	(39 019)	(39 454)	(18 714)	32 880	11 737
	Liabilities	Interest rate swap	12 118	12 118	(4 671)	(12 925)	4 372
		Cross currency swap	(2 513)	(2 513)	(655)	2 533	841
			(29 414)	(29 849)	(24 040)	22 488	16 950
	2012						
	Assets	Interest rate swap	15 456	15 639	6 386	(16 158)	(6 921)
		Cross currency swap	(40 335)	(40 625)	(9 056)	40 635	9 056
	Liabilities	Interest rate swap	(18 946)	(18 946)	(18 881)	19 351	19 523
			(43 825)	(43 932)	(21 551)	43 828	21 658

At 31 March £'000	2013	2012
24. Related party transactions		
Transactions, arrangements and agreements involving directors, key management and connected persons and companies controlled by them:		
Loans		
At beginning of year	24 412	17 453
Increase in loans	19 371	19 245
Repayment of loans	(10 380)	(12 286)
At end of year	33 403	24 412
Guarantees		
At beginning of year	–	–
Additional guarantees granted	4 591	–
Guarantees cancelled	–	–
At end of year	4 591	–
Deposits		
At beginning of year	(17 107)	(33 318)
Increase in deposits	(22 666)	(6 617)
Decrease in deposits	16 337	22 828
At end of year	(23 436)	(17 107)

The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment.

None of the loans have been impaired.

Transactions with other related parties of the group

As the bank is a 100% subsidiary undertaking, and consolidated financial statements for its ultimate parent, Investec plc, are publicly available, group transactions have not been disclosed pursuant to exemptions permitted in Financial Reporting Standard No 8.

Notes to the annual financial statements (continued)

25. Reclassifications

During the 2009 year the bank reclassified certain financial instruments out of fair value through profit and loss. These assets were originally classified as held for trading but the bank's intentions in regard to these assets changed and the bank reclassified £112.3 million and £7.8 million to the loans and receivables and available-for-sale classifications, respectively. The amount reclassified reflected the fair value of the financial assets at the date of reclassification.

The bank did not undertake any further reclassifications in the current year.

26. Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent

At 31 March £'000	2013	2012
Assets		
Reverse repurchase agreements	1 133 514	940 980
Cash collateral on securities borrowed	138 105	26 092
	1 271 619	967 072

As part of the reverse repurchase and securities borrowing agreements, the bank has received securities that it is allowed to sell or pledge. £395 million (2012: £407 million) of securities has been re-sold or re-pledged to third parties in connection with financing activities or to comply with commitments under short sale transactions.

	2013	2012
Liabilities		
Repurchase agreements	843 301	969 286
Cash collateral on securities lent	100 598	51 384
	943 899	1 020 670
Reverse repurchase agreements and cash collateral on securities borrowed are reported within the following balance sheet categories:		
Loans and advances to banks	1 268 237	966 714
Loans and advances to customers	3 382	358
	1 271 619	967 072
Repurchase agreements and cash collateral on securities lent are reported within the following balance sheet categories:		
Deposits by banks	932 254	1 015 670
Customer accounts	11 645	5 000
	943 899	1 020 670

27. Parent undertakings

The bank's immediate parent undertaking is Investec 1 Limited.

The bank's ultimate parent undertaking and controlling party is Investec plc, a company incorporated in the UK and registered in England and Wales, which is the smallest and largest company into which the bank is consolidated.

The consolidated financial statements of Investec plc are available to the public and may be obtained from Investec plc at 2 Gresham Street, London, EC2V 7QP.

Notes to the annual financial statements (continued)

At 31 March £'000	Principal activity	Country of incorporation	Interest % 2013	Interest % 2012
28. Principal subsidiary and associated undertakings				
Direct subsidiary undertakings of Investec Bank plc				
Investec Asset Finance PLC	Leasing company	England and Wales	100.0%	100.0%
Investec Bank (Channel Islands) Limited	Banking institution	Guernsey	100.0%	100.0%
Investec Bank (Switzerland) AG	Banking institution	Switzerland	100.0%	100.0%
Investec Capital Asia Limited	Investment banking	Hong Kong	100.0%	100.0%
Investec Finance plc	Debt issuer	England and Wales	100.0%	100.0%
Investec Group Investments (UK) Limited	Investment holding	England and Wales	100.0%	100.0%
Investec Investments (UK) Limited (formerly Guinness Mahon & Co Limited)	Investment holding	England and Wales	100.0%	100.0%
Rensburg Sheppards plc	Holding company	England and Wales	100.0%	100.0%
Indirect subsidiary undertakings of Investec Bank plc				
Investec Asset Finance & Leasing Pty Ltd (formerly Alliance Equipment Finance Pty Ltd)	Leasing	Australia	100.0%	–
Investec Bank (Australia) Limited	Banking institution	Australia	100.0%	100.0%
Investec Capital and Investments (Ireland) Limited (formerly NCB Stockbrokers Limited)	Financial services	Ireland	100.0%	–
Investec Professional Finance Pty Ltd (formerly Investec Experien Pty Ltd)	Financial services	Australia	100.0%	100.0%
Investec Ireland Limited	Financial services	Ireland	100.0%	100.0%
Investec Trust Holdings AG	Investment holding company	Switzerland	100.0%	100.0%
Investec Trust (Jersey) Limited	Trust company	Jersey	100.0%	100.0%
Investec Trust (Switzerland) S.A.	Trust company	Switzerland	100.0%	100.0%
Investec Wealth & Investments Limited	Stockbroking and portfolio management	England and Wales	100.0%	100.0%
Leasedirect Finance Limited	Finance broker	England and Wales	100.0%	81.3%
Neontar Limited	Holding company	Ireland	100.0%	–
Williams de Broë Limited	Stockbroking and portfolio management	England and Wales	100.0%	–
All of the above subsidiary undertakings are included in the consolidated accounts.				
Principal associated undertaking of Investec Bank plc				
Hargreave Hale Limited	Stockbroking and portfolio management	England and Wales	35.0%	35.0%

Annual financial statements

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