Investec Limited group and company annual financial statements 2013

Out of the Ordinary®

Investec

Corporate information

Secretary and registered office

Benita Coetsee
100 Grayston Drive
Sandown Sandton 2196
PO Box 785700 Sandton 2196
Telephone (27 11) 286 7000
Facsimile (27 11) 291 1806

Internet address

www.investec.com

Registration number

Reg. No. 1925/002833/06

Auditors

KPMG Inc.
Ernst & Young Inc.

Transfer secretaries

Computershare Investor Services (Pty) Ltd
70 Marshall Street
Johannesburg 2001
PO Box 61051
Marshalltown 2107
Telephone (27 11) 370 5000

Directorate

Refer to page 90

For contact details for Investec offices refer to page 175.

For queries regarding information in this document

Investor Relations

Telephone (27 11) 286 7070
e-mail: investorrelations@investec.com
Internet address:
www.investec.com/en_za/#home/investor_relations.html

About this report

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

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 Limited
in perspective

1

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

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

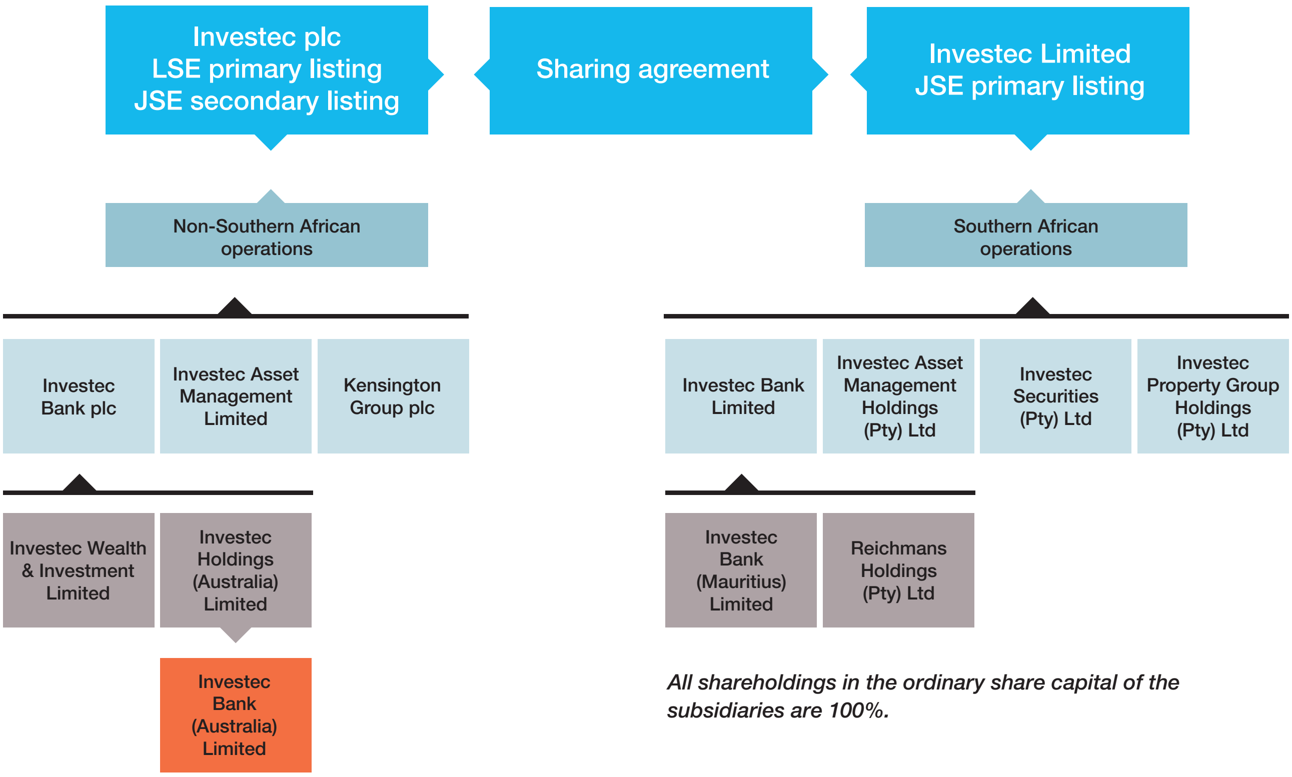
Operating structure

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

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

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

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.

What we do . . . Asset Management

At Investec Asset Management, our business is to manage clients' investments to the highest standard possible by exceeding their investment and client service expectations

We manage R974.0 billion of assets on behalf of our clients from around the world who are invested in our seven core investment capabilities.

Our clients include some of the world's largest private and public sector pension funds, insurers and corporates, and range from foundations and central banks to intermediated and direct investors.

Employing over 145 investment professionals, we manage our investments from two investment centres (London and Cape Town) serving our client base from seven geographically defined client groups.

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

What we do . . . Wealth & Investment

Investec Wealth & Investment provides portfolio management, wealth management and stockbroking services to private clients, charities, pension funds and trusts

Over 290 staff operate from eight offices across South Africa, with R36.4 billion of funds under full discretionary management and a further R181.7 billion of funds under various other forms of administration. The Investec Wealth & Investment operation is one of South Africa's leading private client investment management businesses.

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

Corporate Advisory and Investment Activities

Advisory
Principal investments
Property activities

Corporate Advisory and Investment Activities engages in a range of investment banking activities and positions itself as an integrated business focused on local client delivery with international access. We target clients seeking a highly customised service, which we offer through a combination of domestic depth and expertise within each geography and a client-centric approach. Our activities include: advisory and principal investments.

Our 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

Treasury and trading services
Specialised finance
Debt capital markets
Institutional, research, sales and trading

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.

High income and high net worth private clients

Private Banking Activities

Transactional banking
Lending
Deposits
Investments

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

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

Integrated systems and infrastructure

Our operational footprint

Asset Management value proposition

- Organically built an independent global platform with roots in an emerging market
- Independently managed unit within the Investec group
- Competitive investment performance in chosen specialities
- Truly global approach:
  - global investing
  - global client base
  - global operations platform
- Institutional and adviser focus
- Unique and clearly understood culture
- Stable and experienced leadership
  - executive committee: average tenure of 19 years
  - top 30 leaders: average tenure of 14 years.

Wealth & Investment value proposition

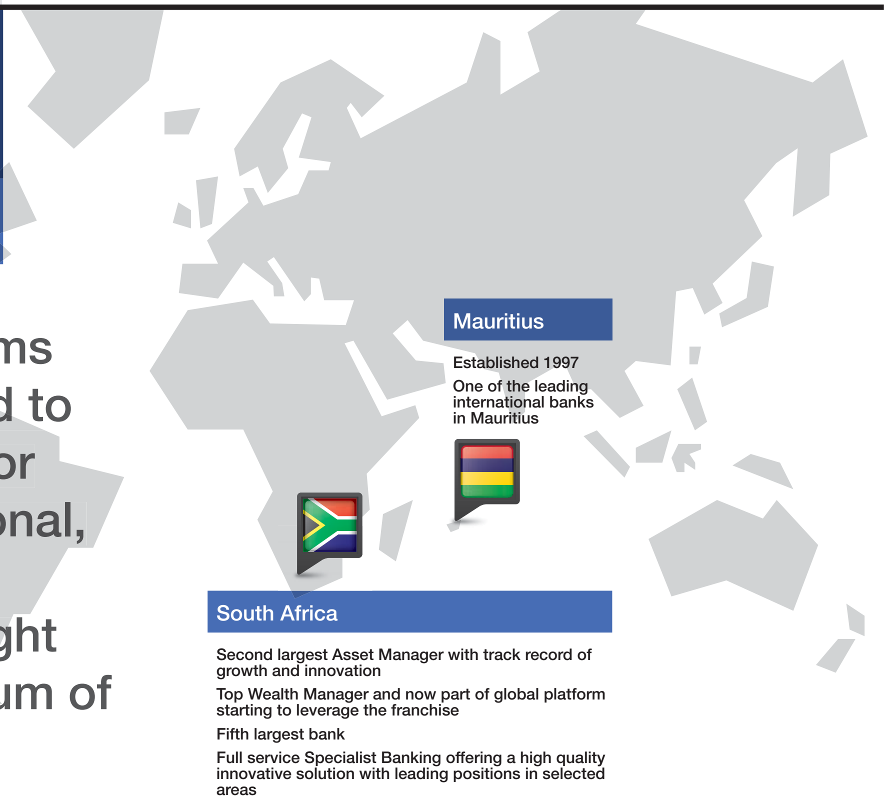
- Investec Wealth & Investment has been built via acquisition and organic growth over a long period of time
- Well established in South Africa
- Focus is on internationalising the business, development of online capabilities and organic growth in our key markets
- c.30 000 clients.

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
- Total corporate and other clients: c.144 000
- Total high income and high net worth clients: c.82 000

Where we operate

The specialist teams are well positioned to provide services for personal, institutional, government and business needs right across our spectrum of core activities



Highlights

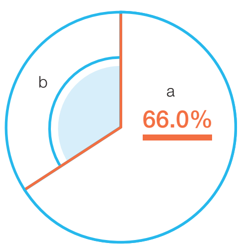
We have a strong franchise and a diversified business model that supports a solid revenue base

The Asset Management and Wealth & Investment businesses reported solid results benefiting from higher levels of average funds under management and net inflows. The Specialist Banking business reported a 13% increase in operating profit

Operating profit before taxation* increased 16.3% to R3 872 million

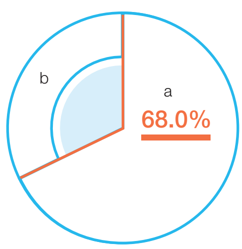
(2012: R3 328 million)

Contribution to operating profit before taxation*



31 March 2013

a	Specialist Banking	66.0%
b	Asset Management and Wealth Management businesses	34.0%



31 March 2012

a	Specialist Banking	68.0%
b	Asset Management and Wealth Management businesses	32.0%

*Before headline adjustments.

Our financial performance

Headline earnings attributable to ordinary shareholders increased 10.4%

2012	2013
R2 392mn	R2 641mn

Low cost to income ratios

2012	2013
56.7%	56.5%

Improving credit loss ratio

2012	2013
0.65%	0.61%

Cash and near cash balances increased 5.6%

2012	2013
R69.1bn	R73.0bn

Our financial performance

Core loans and advances increased 10.2%

2012 R128.7bn 〉 2013 R141.9bn

Customer deposits increased 5.2%

2012 R176.1bn 〉 2013 R185.3bn

Third party assets under management increased 27.6%

2012 R482.0bn 〉 2013 R615.1bn

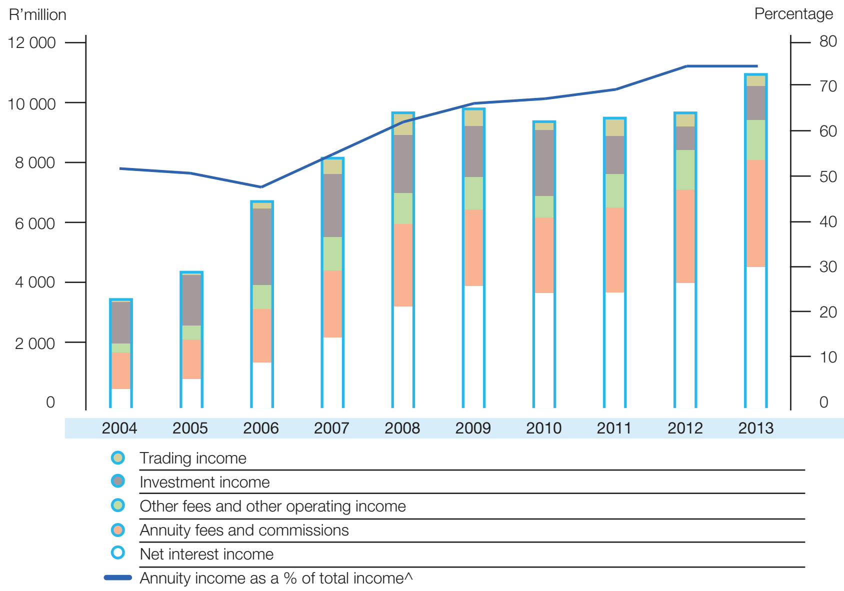
Low gearing ratios, core loans and advances to equity remains stable

2012 5.8 times 〉 2013 5.8 times

Other financial features

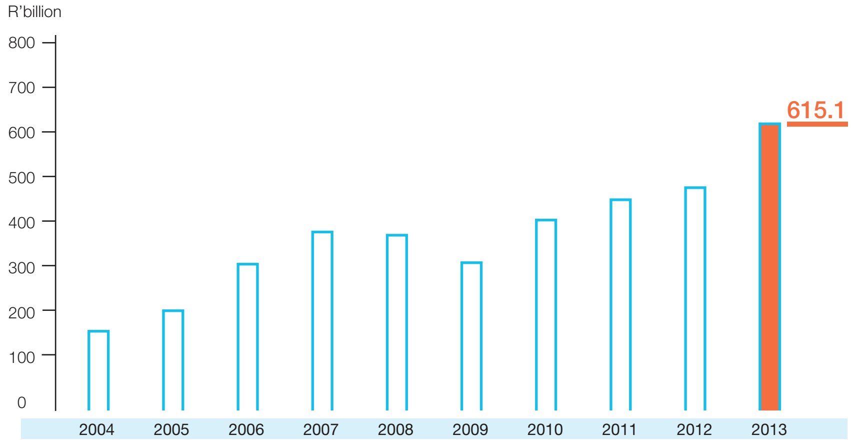
	31 March 2013	31 March 2012	% change
Total capital resources (including subordinated liabilities) (R'million)	39 001	31 870	22.4%
Total equity (R'million)	24 546	22 242	10.4%
Total assets (R'million)	385 496	348 076	10.8%
Capital adequacy ratio	15.5%	16.1%	
Tier 1 ratio	10.8%	11.6%	

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



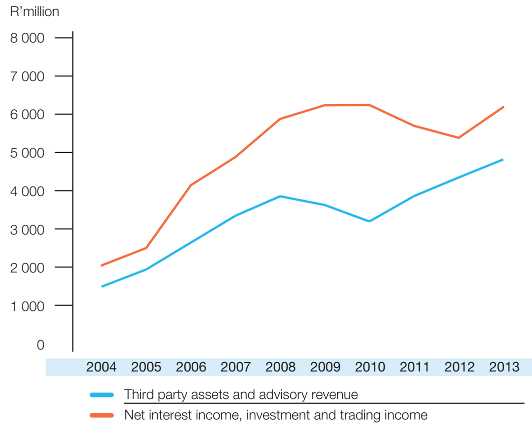
We have realigned our business model by building capital light revenues

Sustainable business model

Capital light businesses
R4 746 million
44%
of total revenue

Net fees and commissions of
R4 669 million
43% of total

Other of
R77 million
1% of total



Capital intensive businesses
R6 077 million
56%
of total revenue

Net interest income of
R4 591 million
42% of total

Investment income of
R1 099 million
10% of total

Trading income of
R387 million
4% of total

Third party asset management and advisory revenue

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

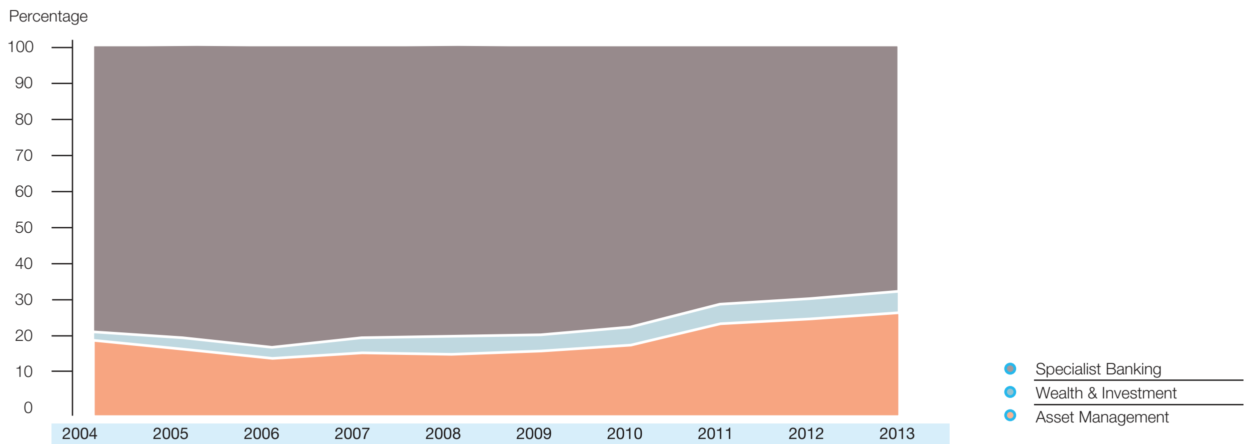
- **Containing costs**
- **Maintaining credit quality**
- **Strictly managing risk and liquidity**

Net interest income, investment income and trading income

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

Three distinct business areas supporting a large recurring revenue base amounting to 74.4% of operating income

Contribution to operating profit before taxation*

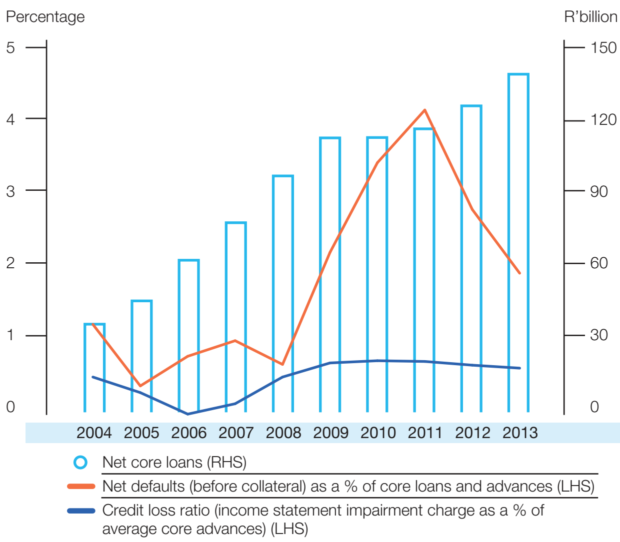


*Before headline adjustments.

Credit quality on core loans and advances has improved

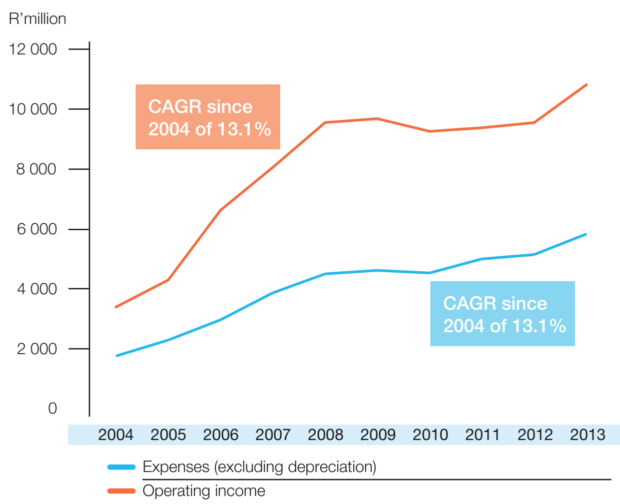
- Core loans and advances increased by 10.2% to R141.9 billion
- Default loans (net of impairments) as a percentage of core loans and advances decreased from 2.73% to 1.89%
- The credit loss ratio improved from 0.65% to 0.61%
- Default loans have decreased significantly since 31 March 2012, with an improvement reported in the Private Client business partially offset by some corporate loans defaulting in the period
- Net defaults (after impairments) remain adequately collateralised.

Default and core loans

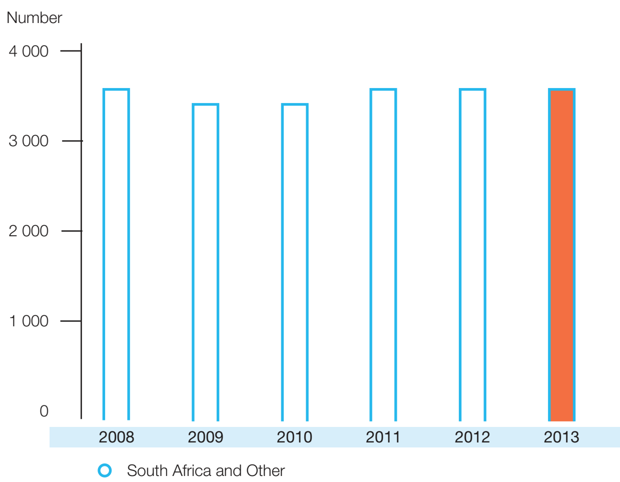


Costs relative to revenue improved slightly…

Cost to income ratio 56.5% (2012: 56.7%)



Headcount* relatively stable



* *Permanent headcount.*

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 73.2% (2012: 69.6%)

Continue to focus on:

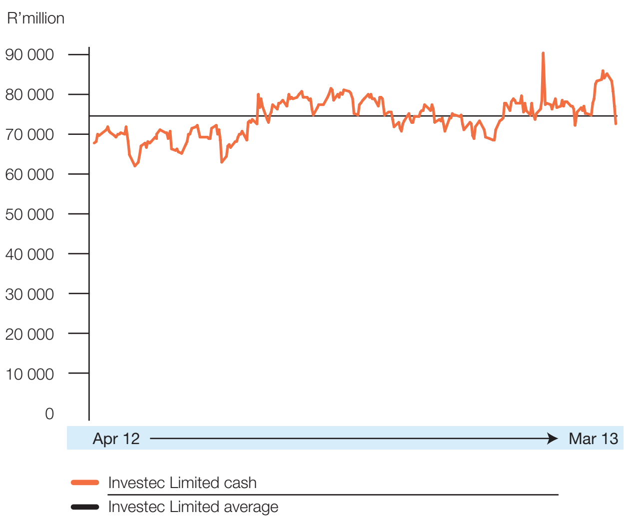
- Maintaining a high level of readily available, high quality liquid assets – approximately 33.0% of its liability base
- Diversifying funding sources
- Limiting concentration risk
- Reduced reliance on wholesale funding.

Capital adequacy and tier 1 ratios

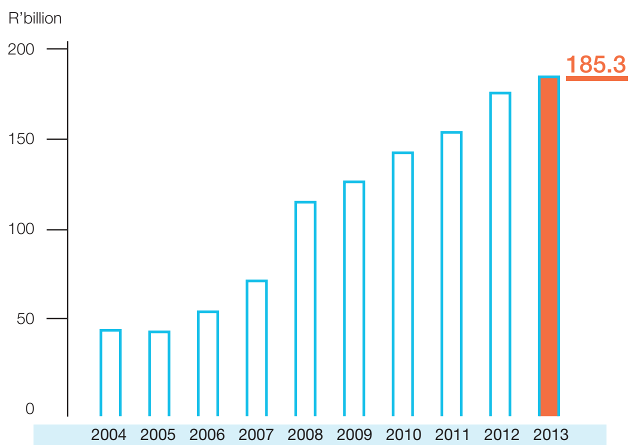
	31 March 2013 (Basel III)			31 March 2012 (Basel II)		
	Capital adequacy ratio	Tier 1 ratio	Common equity tier 1 ratio	Capital adequacy ratio	Tier 1 ratio	Common equity tier 1 ratio
Investec Limited	15.5%	10.8%	8.9%	16.1%	11.6%	9.3%
Investec Bank Limited	16.2%	10.9%	10.3%	16.1%	11.4%	10.6%

Benefiting from a growing retail deposit franchise...

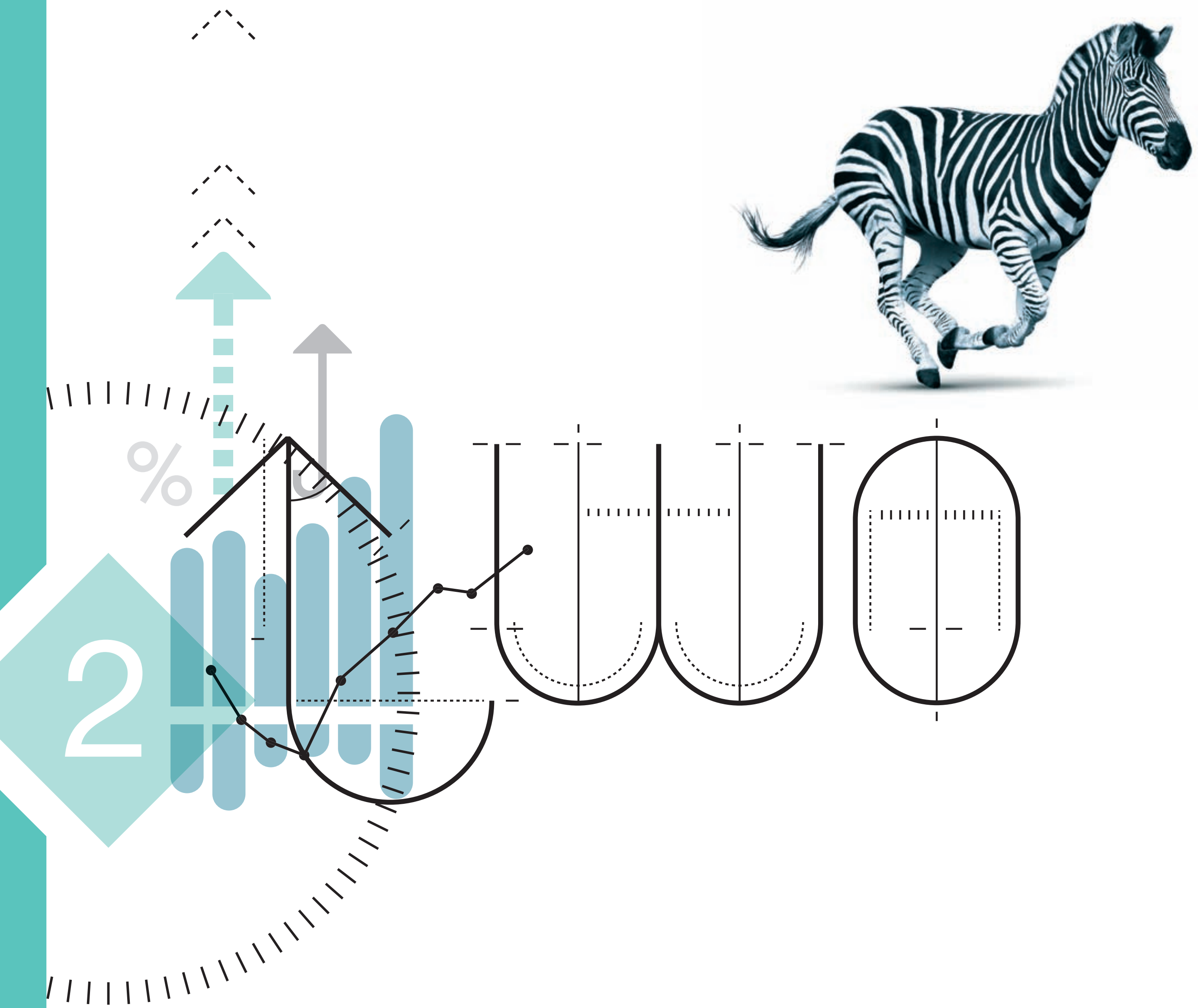
Cash and near cash trend



Customer accounts (deposits)



Financial
review



An overview of the operating environment impacting our business

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

South Africa

Our views

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

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

Real income per capita has risen

2012	2013
R36 903	R37 476

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

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

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

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

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

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

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

An overview of the operating environment impacting our business (continued)

United Kingdom

Our views

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

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

Real income per capita has risen

2012	2013
£24 031	£24 373

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

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

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

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

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

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

Australia

Our views

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

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

Real income per capita has risen

2012	2013
A$63 744	A$65 612

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

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

United States

Our views

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

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

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

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

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

Euro zone

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

Operating environment

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

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

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

Key risks relating to our operations

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

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

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

33 – 53

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

70 – 74

Legal and regulatory risks are substantial in our businesses.

73 and 74

Liquidity risk may impair our ability to fund our operations.

65 – 70

Reputational, strategic and **business risk.**

73

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

62 – 64

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

70 – 74

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

54 – 61

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

74 – 83

Employee misconduct could cause harm that is difficult to detect.

70 – 74

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

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

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

13 – 16

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.

74

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 South Africa and Mauritius. We are organised as a network comprising three principal business divisions: Asset Management, Wealth & Investment and Specialist Banking.

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

Specialist Banking

Asset Management

Key income drivers

- Fixed fees as a percentage of assets under management
- Variable performance fees

Income statement – primarily reflected as

- Fees and commissions

Income impacted primarily by

- Movements in the value of the assets underlying client portfolios
- Performance of portfolios against set benchmarks
- Net sales

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

Investec Limited posted an increase in headline earnings attributable to ordinary shareholders of 10.4% to R2 641 million (2012: R2 392 million). The balance sheet remains strong with a capital adequacy ratio of 15.5% as calculated in terms of Basel III (2012: 16.1% as per Basel II). Unless the context indicates otherwise, all income statement comparatives in the review below relate to the results for the year ended 31 March 2012.

Income statement analysis

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

Total operating income

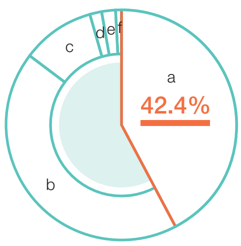
Total operating income before impairment losses on loans and advances of R10 823 million is 12.9% higher than the prior year. The various components of total operating income are analysed below.

R'million	31 March 2013	% of total income	31 March 2012	% of total income	% change
Net interest income	4 591	42.4%	4 085	42.6%	12.4%
Net fee and commission income	4 669	43.1%	4 234	44.2%	10.3%
Investment income	1 099	10.2%	758	7.9%	45.0%
Trading income arising from					
– customer flow	174	1.6%	270	2.8%	(35.6%)
– balance sheet management and other trading activities	213	2.0%	183	1.9%	16.4%
Other operating income	77	0.7%	54	0.6%	42.6%
Total operating income	10 823	100.0%	9 584	100.0%	12.9%

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

R'million	31 March 2013	% of total income	31 March 2012	% of total income	% change
Asset Management	2 492	23.0%	2 047	21.3%	21.7%
Wealth & Investment	720	6.7%	639	6.7%	12.7%
Specialist Banking	7 611	70.3%	6 898	72.0%	10.3%
Total operating income	10 823	100.0%	9 584	100.0%	12.9%

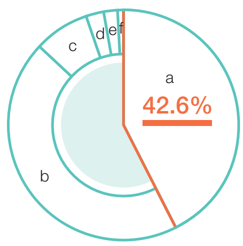
% of total operating income



31 March 2013

R10 823 million total operating income

a	Net interest income	42.4%
b	Net fee and commission income	43.1%
c	Investment income	10.2%
d	Trading income arising from customer flow	1.6%
e	Trading income arising from balance sheet management and other trading activities	2.0%
f	Other operating income	0.7%



31 March 2012

R9 584 million total operating income

a	Net interest income	42.6%
b	Net fee and commission income	44.2%
c	Investment income	7.9%
d	Trading income arising from customer flow	2.8%
e	Trading income arising from balance sheet management and other trading activities	1.9%
f	Other operating income	0.6%

Net interest income

Net interest income increased by 12.4% to R4 591 million (2012: R4 085 million) largely as a result of higher lending balances and a sound performance from the bank's fixed income portfolio, partially offset by higher costs on subordinated liabilities.

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

		31 March 2013		31 March 2012	
For the year ended R'million	Notes	Balance sheet value	Interest received	Balance sheet value	Interest received
Cash, near cash and bank debt and sovereign debt securities	1	107 473	4 225	100 663	4 539
Core loans and advances	2	141 863	11 419	128 747	10 927
Private client		96 313	7 455	96 183	7 961
Corporate, institutional and other clients		45 550	3 964	32 564	2 966
Other debt securities and other loans and advances		7 678	247	6 494	326
Other interest earning assets	3	1 584	264	2 015	150
Total interest earning assets		258 598	16 155	237 919	15 942

		31 March 2013		31 March 2012	
For the year ended R'million	Notes	Balance sheet value	Interest paid	Balance sheet value	Interest paid
Deposits by banks and other debt-related securities	4	42 196	(947)	36 496	(457)
Customer accounts		185 311	(8 941)	176 094	(9 773)
Other interest bearing liabilities	5	6 847	(741)	6 748	(766)
Subordinated liabilities		14 455	(935)	9 628	(861)
Total interest bearing liabilities		248 809	(11 564)	228 966	(11 857)
Net interest income			4 591		4 085

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

Net fee and commission income

Net fee and commission income increased by 10.3% to R4 669 million (2012: R4 234 million), supported by higher average funds under management and higher levels of activity within the private client transactional banking business. Activity levels within the corporate business remained mixed.

For a further analysis on net fee and commission income refer to page 124.

Investment income

Investment income increased by 45.0% to R1 099 million (2012: R758 million) largely due to a solid performance from the unlisted principal investment and investment properties portfolios.

For a further analysis on investment income refer to page 124.

Trading income

Trading income arising from customer flow decreased by 35.6% to R174 million (2012: R270 million) due to lower levels of activity in the Corporate and Institutional Banking business. Trading income arising from balance sheet management and other trading activities increased by 16.4% to R213 million (2012: R183 million) due to effective balance sheet management.

Impairment losses on loans and advances

Impairment losses on loans and advances increased from R824 million to R833 million. Default loans have decreased significantly since 31 March 2012, with an improvement reported in the Private Client business partially offset by some corporate loans defaulting in the period. The credit loss charge as a percentage of average gross core loans and advances has improved from 0.65% at 31 March 2012 to 0.61%.

Financial review (continued)

The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances has decreased from 2.73% to 1.89%. The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.44 times (2012: 1.68 times).

For further information on asset quality refer to pages 47 to 52.

Operating costs

Total operating expenses increased by 12.6% to R6 118 million (2012: R5 432 million), largely as a result of inflationary adjustments, non-recurring IT related project expenses and increased variable remuneration given improved profitability. The ratio of total operating costs to total operating income amounts to 56.5% (2012: 56.7%).

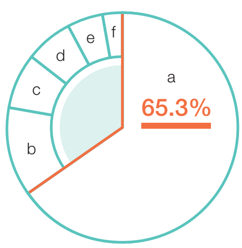
The various components of total expenses are analysed below.

R'million	31 March 2013	% of total expenses	31 March 2012	% of total expenses	% change
Staff costs (including directors' remuneration)	3 995	65.3%	3 583	66.2%	11.5%
Business expenses	770	12.6%	729	13.5%	5.6%
Equipment (excluding depreciation)	469	7.7%	309	6.3%	51.8%
Premises (excluding depreciation)	419	6.8%	418	8.1%	0.2%
Marketing expenses	297	4.9%	238	3.7%	24.8%
Depreciation	168	2.7%	155	2.2%	8.4%
Total operating costs	6 118	100.0%	5 432	100.0%	12.6%

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

R'million	31 March 2013	% of total expenses	31 March 2012	% of total expenses	% change
Asset Management	1 402	22.9%	1 164	21.4%	20.4%
Wealth & Investment	495	8.1%	457	8.4%	8.3%
Specialist Banking	4 221	69.0%	3 811	70.2%	10.8%
Total operating costs	6 118	100.0%	5 432	100.0%	12.6%

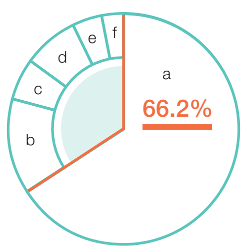
% of total expenses



31 March 2013

R6 118 million total expenses

a	Staff costs	65.3%
b	Business expenses	12.6%
c	Equipment	7.7%
d	Premises	6.8%
e	Marketing	4.9%
f	Depreciation	2.7%



31 March 2012

R5 432 million total expenses

a	Staff costs	66.2%
b	Business expenses	13.5%
c	Equipment	6.3%
d	Premises	8.1%
e	Marketing	3.7%
f	Depreciation	2.2%

Balance sheet analysis

Since 31 March 2012:

- Total shareholders' equity (including non-controlling interests) increased by 10.4% to R24.5 billion largely as a result of retained earnings
- Total assets increased by 10.8% to R385.5 billion largely as a result of an increase in core loans and advances.

Questions and answers

Hendrik du Toit

Chief executive officer Global

Asset Management...

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

A At Investec Asset Management, our focus is on the institutional and adviser segments of the market. We build long-term relationships with the 300 largest asset owners and asset platforms in the world as well as the top end advisers in select markets. Over the last decade, we have consciously developed a presence in most of the major markets around the world. Today, we offer the strategies supported by our seven core investment capabilities through seven clearly identified, geographically defined client teams. We operate as a global investment firm both in terms of our client type and in terms of our investment capabilities.

Although financial markets have been volatile over the past year, the strong upward surge in equities towards the end of the period has brightened the prospects for most asset management firms. At Investec Asset Management we are committed to building a well-balanced, robust firm, with a variable cost base, which should be able to look after its clients in benign as well as challenging market conditions.

Against this backdrop and measured against the universe of peers, we had a solid year for net flows, bringing in £4.1 billion. The majority of these flows came from the Americas, Africa and Europe. This number could have been significantly higher had we not closed some of our most popular strategies due to capacity concerns. At Investec Asset Management existing clients always come first, and therefore this was a natural strategic decision.

The avalanche of regulatory initiatives, some well thought through and some simply counterproductive, have consumed more resources and management than ever.

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

A Over the year, the significant development was the announcement of the intention of senior management to acquire a 15% shareholding in the business with an option to purchase a further 5% over the next seven years. We believe that this transaction enables us to be viewed more favourably by clients and allows us to compete more effectively with other independent, pure-play global asset managers. The transaction also allows senior employees to participate more directly in the success of the company and strengthens the alignment between shareholders and employees. This will support the sustainability of the 22 year old success story of Investec Asset Management.

We saw continued strong performance in our range of investment strategies and our long-term investment performance remains solid with 100% of our investment Capabilities outperforming their benchmark on a ten-year annualised basis. As always, there are a few strategies facing short-term performance pressure or market headwinds, but it is important to confirm that we have very competitive investment offerings across the board with excellent track records, which allow us to compete effectively in the market place.

In addition to the client endorsement through the sixth consecutive year of positive net inflows, we have also continued to achieve independent and international recognition during the past year. Among these, awards have included two Imbasa Yegolide Awards for Professional Excellence, and, for the second consecutive year, the *EMEA Finance* Best Asset Manager in Africa Award. Our specific emerging markets expertise has also been recognised, with Emerging Markets Manager of the Year Awards from both *European Pensions* and US title *aiCIO*.

I was humbled and honoured to be presented with the Chief Executive of the Year award by *Financial News*, a Dow Jones publication. This award was a significant endorsement of the achievements of all of our people over many years and I am very grateful to them for their continued hard work.

Q What are your strategic objectives for the coming year?

A Our long-term objective remains unchanged. We continue to be totally focused on managing our clients' money to the highest standard possible. To do this we continue to invest in the development of our investment capabilities and our service proposition to our chosen client base around the world. At Investec Asset Management we focus on investment performance, the needs of our clients, innovation and investment insight. In order to do this effectively, we need to invest in our people and continue to nurture the culture that binds us together.

Questions and answers (continued)

Hendrik du Toit

Chief executive officer | Global

Asset Management…

Q What is your outlook for the coming year?

A In spite of ongoing uncertainty about the prospects of the world economy and nervousness in financial markets, our business momentum is positive and we believe that we are well positioned to face the future.

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

A In our role as a global asset manager, we recognise the responsibility that comes with being long-term stewards of our clients' assets. Key to this responsibility is continually ensuring that corporate governance and business integrity are a fundamental part of how we operate.

Our primary goal in doing this is both to benefit our clients and also to improve the broader environmental and social realms in which we invest and operate. Alongside the financial objectives that we set for ourselves as business, we also categorise our environmental, social and governance activity into three areas, being commitment to stewardship and our investment approach, people and planet.

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

Questions and answers

Steve Elliott

Business leader | Global

Wealth & Investment…

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

A The JSE All Share Index returned over 18.8% for the year to the end of March 2013 and annual revenue grew in Rand terms by 12.6% The financial crisis, political uncertainty, deleveraging and the savings glut have, however, kept investors wary of investments in general. Should the 'wall of cash' and money flows into insurance assets reverse in conjunction with a rise in corporate capital expenditure, it could mean a good year for equities and asset inflows in general.

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

Continued margin compression and lower transaction levels have impacted non-annuity income, however, the business has benefited from commendable performance across all our investment mandates. Good performance, encouraging to our asset gatherers, has led to a record year of gross discretionary and annuity inflows of R3.7 billion. The addition of a number of central mandates has significantly bolstered the product suite. The recently launched unit trusts improve our range of financial products and are beginning to gain traction.

In conjunction with leveraging synergies between Investec Wealth & Investment and Private Banking, the launch of the Investec app has made banking and access and trading in local and international Wealth & Investment accounts significantly easier. In addition to this, we expect to further consolidate our international investment offering via a single, seamless platform.

Q What are your strategic objectives for the coming year?

A We will continue to grow by focusing on the key metrics at our disposal. These include our breadth of leading domestic and offshore investment portfolios and services as well as our depth of relationship with many of South Africa's high net worth individuals and families.

In support of this objective we have invested in enhanced operational capacity and technological platforms, continued to attract and develop experienced and professional investment staff, built a sustainable and consistent investment process and leveraged off the synergies available by being a part of the Investec group.

Q What is your outlook for the coming year?

A The JSE All Share Index underperformed global indices in the first quarter of 2013, affected by the Rand which was the worst performing currency across Emerging Markets, losing 8.1% against the Dollar. Lingering strikes, and a disappointing fourth quarter current account deficit dynamics were key contributors to this weakness.

The commodity complex, which is key to Southern African growth, continues to be pressurised on concerns on moderating Chinese growth and demand for commodities.

The growth outlook in South Africa has remained broadly unchanged, with the forecast for 2013 revised to 2.7%.

We continue to focus on acquiring new discretionary and other annuity fee paying type assets which best fit into our core investment infrastructure – an area in which we have invested significantly over the past year. We are encouraged by the reception we have received from the market place to these initiatives. We look forward with confidence to further favourable responses from our client base and a flow of new clients to these important initiatives.

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 further information download the sustainability report available on our website.

Questions and answers

Stephen Koseff Bernard Kantor Glynn Burger

Business leaders Global

Specialist Banking…

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

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

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

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

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

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

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

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

Corporate lending portfolios have grown by 10%.

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

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

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

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

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

Q What are your strategic objectives for the coming year?

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

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

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

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

Q What is your outlook for the coming year?

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

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

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

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

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

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

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

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

Risk management and corporate governance

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 29 to 84 with further disclosures provided within the financial statements section on pages 106 to 170.

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

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

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

Philosophy and approach to risk management

Our comprehensive risk management process involves identifying, quantifying, managing and mitigating the risks associated with each of our businesses.

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

Group Risk Management monitors, manages and reports on our 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 13 to 16.

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

- Intimate involvement of executive management ensuring stringent management of risk, liquidity and capital
- Strong risk and capital management culture embedded into our day-to-day activities and values. We seek to achieve an appropriate balance between risk and reward in our business, taking cognisance of all stakeholders' interests
- Reward programmes that align directors' and employees' interests with those of stakeholders, ensuring that these programmes promote effective risk management. Annual bonuses are closely linked to business performance, determined largely by realised economic value-added profit performance against pre-determined targets above a risk and capital weighted return. This model has been consistently applied within the group for in excess of ten years

Group Risk Management objectives are to:

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

- Credit and counterparty exposures to a select target market; our risk appetite continues to favour lower risk, income-based lending, with credit risk taken over a short to medium term. Exposure is taken against defined target clients displaying sound financial strength and integrity, a core competency and an established track record. Impairments on loans and advances increased from R824 million to R833 million. Since 31 March 2012 the level of defaults has improved with the percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounting to 1.89% (2012: 2.73%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.44 times (2012: 1.68 times). The credit loss charge as a percentage of average gross core loans and advances has improved from 0.65% at 31 March 2012 to 0.61%
- Limited exposure to structured credit investments; representing approximately 1.2% of total assets
- No exposures to peripheral European sovereign debt
- A low leverage (gearing) ratio of 12.2 times
- A low level of net assets and liabilities exposed to the volatility of IFRS fair value accounting; with level 3 assets amounting to less than 0.1% of total assets
- Low equity and investment risk exposure; within total investments comprising 5.0% 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 0.4% of total operating income
- A high level of readily available, high quality liquid assets; cash and near cash of R73.0 billion, representing 33.0% of our liability base. We continue to maintain a low reliance on interbank wholesale funding to fund core lending asset growth
- Continued increase in retail customer deposits and a growing retail franchise
- Healthy capital ratios; we have always held capital well in excess of regulatory requirements and we intend to perpetuate this philosophy. We continued to meet our capital targets
- Geographical and operational diversity with a high level of recurring income which continues to support sustainability of operating profit.

Summary of the year in review from a risk perspective

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

Refer to pages 39, 60 and 61 and 69, with a high level geographic summary of the most salient aspects provided below.

Credit risk

Core loans and advances grew by 10.2% to R141.9 billion with commercial real estate investments and residential owner occupied portfolios representing the majority of the growth for the financial year in review. There has been continuing adherence to lower loan to value lending and greater competitive pressure on margins. Default loans (net of impairments) as a percentage of core loans and advances improved from 2.73% to 1.89% with an improvement in both lending collateralised by property and the private client portfolio as certain problem loans have been settled or written off.

The corporate client portfolio had a small number of defaulted counterparties where the decision was made to write off the exposures in the financial year in review due to low probability of recovery. The credit loss ratio improved to 0.61%.

Traded market risk

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

Balance sheet risk

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

Salient features

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

	2013	2012
Net core loans and advances (R'million)	141 863	128 747
Gross defaults as a % of gross core loans and advances	2.82%	3.71%
Defaults (net of impairments) as a % of net core loans and advances	1.89%	2.73%
Net defaults (after collateral and impairments) as a % of net core loans and advances	–	–
Credit loss ratio*	0.61%	0.65%
Structured credit investments as a % of total assets	1.24%	0.80%
Banking book investment and equity risk exposures as a % of total assets	4.96%	4.89%
Traded market risk: one-day value at risk (R'million)	7.2	4.2
Cash and near cash (R'million)	72 974	69 077
Customer accounts (deposits) (R'million)	185 311	176 094
Core loans to equity ratio	5.8x	5.8x
Total gearing/leverage ratio**	12.2x	12.2x
Core loans (excluding own originated assets which have been securitised) to customer deposits	73.2%	69.6%
Capital adequacy ratio	15.5%	16.1%
Tier 1 ratio	10.8%	11.6%

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

** *Total assets excluding assurance 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 17.

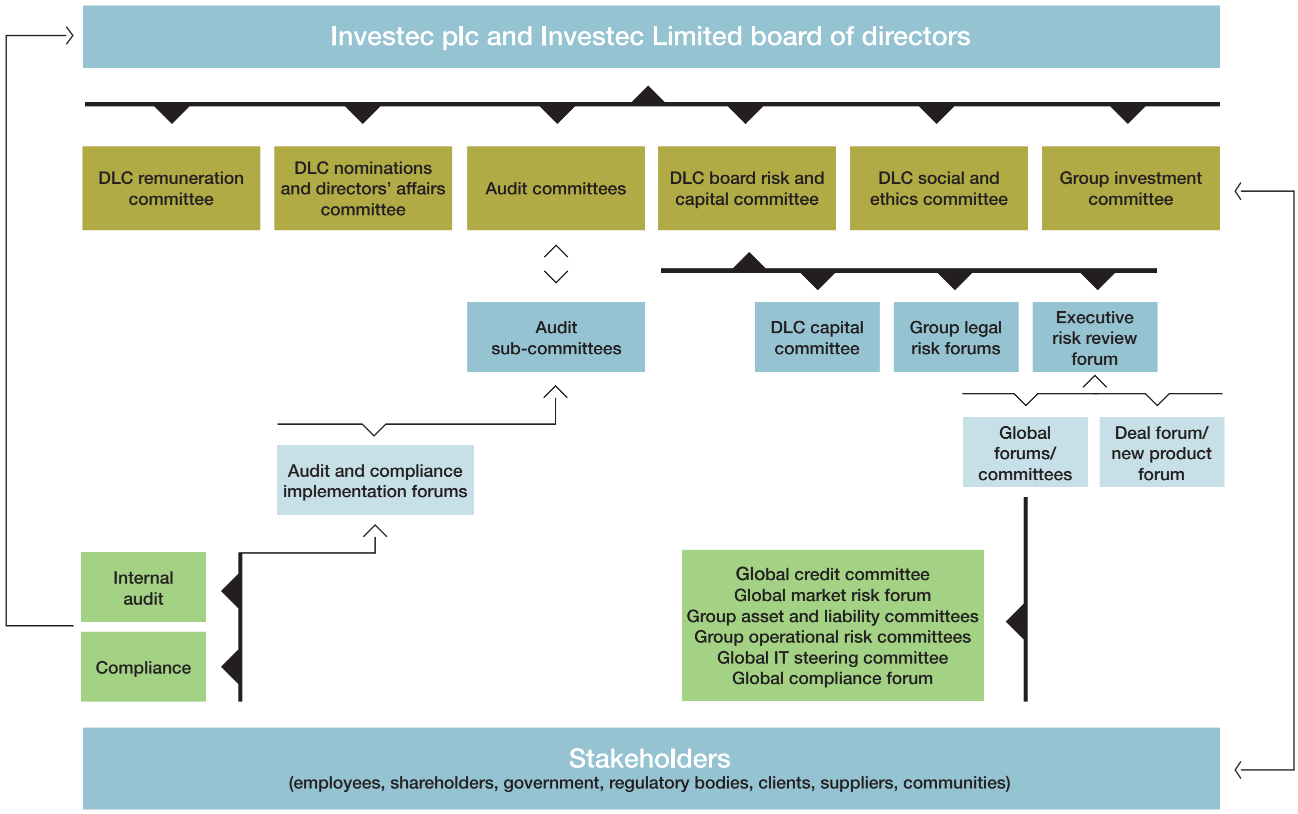
The sections that follow provide information on a number of these risk areas.

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

Risk management framework, committees and forums

A number of committees and forums identify and manage risk at group level, as shown in the diagram below. These committees and forums operate together with Group Risk Management and are mandated by the board.

Governance framework



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

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

Credit and counterparty risk management

Credit and counterparty risk description

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

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

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

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

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

Credit and counterparty risk governance structure

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

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

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

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

Credit and counterparty risk appetite

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

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

Furthermore we have very little appetite for unsecured debt and ensure that good quality collateral is provided in support of obligations ***(refer to page 53 for further information).***

Target clients include high net worth individuals, certain professionally qualified individuals, high income earning individuals, corporates, state owned enterprises and financial institutions. Corporates must have scale, experienced management, able board members and strong earnings/cash flow. Interbank lending is largely reserved for those banks and institutions in the group's core geographies of activity which are systemic and highly rated. Direct exposures to cyclical industries and start-up ventures are generally avoided.

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

In certain instances we have elected to sell certain assets down and/or securitise them ***(refer to pages 56 to 58 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 ERRF 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 page 52.

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 page 52.

Corporate Client activities

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

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

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

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

Assets we are involved in are diverse, and centre around our areas of expertise including mortgages, resources, aircraft, equipment leasing, corporate credit, project and infrastructure finance. Any assets originated are required to be of very strong credit quality that we are happy to hold on balance sheet to maturity, or purchased at sufficiently low distressed prices that we are happy to hold 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 SME and mid/large cap corporates.
- Growth and Acquisition Finance: provides debt funding to proven management teams, running small to mid-market sized companies. Credit risk is assessed against debt service coverage from the robustness of the cash generation for the business both historically and against forecasts
- Asset Based Lending: provides working capital and business loans secured on collateral or assets used in the conduct of the business, for example, accounts receivable, inventory, plant and machinery. We also

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.

provide advances against cash flow or other assets such as committed income or rights

- Credit Investments: makes credit investments in the primary and secondary markets for both investment (accrual) and arbitrage purposes, generating annuity margin income and investment income. All investment transactions are approved in advance and subject to rigorous stress testing
- Securitisation: structuring and sale of financial assets, mostly in the form of sale to special purpose entities which issue securities to investors.
- *An analysis of the corporate client loan portfolio and asset quality information is provided on page 52.*

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.

Asset Management

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

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.

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 53.

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

The bulk of collateral provided by private clients is commercial and residential real estate. Commercial real estate generally takes the form of good quality property often underpinned by strong third party leases. Residential property is also generally of a high quality and based in desirable locations. Residential and commercial property valuations will continue to form part of our increased focus on collateral assessment. It is our policy to obtain a formal valuation of every commercial property offered as collateral for a lending facility before advancing funds. Residential properties are valued by desktop valuation and/or approved valuers, where appropriate.

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

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

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

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

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

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

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

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

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

Further information on credit derivatives is provided on page 61.

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

Credit and counterparty risk year in review

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

Refer to the economic section on pages 13 to 16.

Against this backdrop, core loans and advances grew by 10.2% to R141.9 billion with commercial real estate investments and residential owner occupied portfolios representing the majority of the growth for the financial year in review.

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

Default loans (net of impairments) as a percentage of core loans and advances improved from 2.73% to 1.89% with an improvement in both lending collateralised by property and the private client portfolio as some transactions have been settled and some written off. The corporate client portfolio had a small number of defaulted counterparties where the decision was made to write off the exposures in the financial year in review due to low probability of recovery.

The credit loss ratio improved to 0.61% from 0.65%.

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

Credit Risk Regulatory considerations

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

The most noteworthy change in credit capital as a result of Basel III is the introduction of an additional capital charge against OTC derivatives, referred to as CVA or Credit Valuation Adjustment. The introduction of CVA seeks to enhance risk coverage, and is an attempt at capturing the risk of large mark to market losses incurred by many large financial institutions during the financial crisis where credit spreads on debt instruments widened substantially, even without deterioration in the credit quality and ratings of the counterparties. This charge is in keeping with the BCBS's mandate of reducing systemic risk within the banking system, creating a disincentive for banks to engage in OTC derivative transactions, and rather encouraging the adoption of exchange-traded instruments where possible, which offer greater transparency and risk mitigation for the parties involved. These changes are largely due to come into effect in 2014.

Given the implementation of Basel III in South Africa by the Reserve Bank, Investec, together with other major banks, continues to engage with SARB through the Banking Association of South Africa (BASA) on matters of interpretation, particularly in light of the delay in the implementation of Basel III in the US and Europe. In line with Investec's prudent risk management and governance frameworks, we will continue to engage with the regulator and seek to adopt market best practice in accordance with these regulatory amendments.

Credit and counterparty risk information

Pages 29 to 40 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 10.0% to R310.7 billion largely as a result of an increase in core loans and advances and cash and near cash balances. Cash and near cash balances increased by 5.6% to R73.0 billion and are largely reflected in the following line items in the table below: cash and balances at central banks, loans and advances to banks, non-sovereign and non-bank cash placements, sovereign debt securities.

As at 31 March R'million	2013	2012	% change	Average*
Cash and balances at central banks	5 677	9 303	(39.0%)	7 490
Loans and advances to banks	25 376	20 511	23.7%	22 944
Non-sovereign and non-bank cash placements	5 875	7 885	(25.5%)	6 880
Reverse repurchase agreements and cash collateral on securities borrowed	15 846	5 570	>100%	10 708
Sovereign debt securities	33 730	29 699	13.6%	31 715
Bank debt securities	20 969	27 695	(24.3%)	24 332
Other debt securities	7 006	5 825	20.3%	6 416
Derivative financial instruments	11 702	10 251	14.2%	10 976
Securities arising from trading activities	1 179	1 472	(19.9%)	1 325
Loans and advances to customers (gross)	137 081	123 924	10.6%	130 502
Own originated loans and advances to customers (gross)	6 136	6 132	0.1%	6 134
Other loans and advances (gross)	684	680	0.6%	682
Other assets	831	555	49.7%	693
Total on-balance sheet exposures	272 092	249 502	9.1%	260 797
Guarantees^	7 249	5 579	29.9%	6 414
Contingent liabilities, committed facilities and other	31 413	27 426	14.5%	29 420
Total off-balance sheet exposures	38 662	33 005	17.1%	35 834
Total gross credit and counterparty exposures pre collateral or other credit enhancements or other credit enhancements	310 754	282 507	10.0%	296 631

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

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

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

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

R'million	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note reference	Total balance sheet
As at 31 March 2013				
Cash and balances at central banks	5 677	–		5 677
Loans and advances to banks	25 376	–		25 376
Non-sovereign and non-bank cash placements	5 875	–		5 875
Reverse repurchase agreements and cash collateral on securities borrowed	15 846	–		15 846
Sovereign debt securities	33 730	–		33 730
Bank debt securities	20 969	–		20 969
Other debt securities	7 006	–		7 006
Derivative financial instruments	11 702	457		12 159
Securities arising from trading activities	1 179	2 419		3 598
Investment portfolio	–	8 202	1	8 202
Loans and advances to customers	137 081	(1 348)	2	135 733
Own originated loans and advances to customers	6 136	(6)	2	6 130
Other loans and advances	684	(12)	2	672
Other securitised assets	–	1 584	3	1 584
Interest in associated undertakings	–	45		45
Deferred taxation assets	–	531		531
Other assets	831	7 613	4	8 444
Property and equipment	–	644		644
Investment properties	–	6 147		6 147
Goodwill	–	145		145
Intangible assets	–	90		90
Other financial instruments at fair value through profit or loss in respect of liabilities to customers	–	86 893		86 893
Total on-balance sheet exposures	272 092	113 404		385 496

1. *Largely relates to exposures that are classified as equity risk in the banking book. Further information is provided on pages 54 to 56.*
2. *Largely relates to impairments.*
3. *Whilst the group manages all risks (including credit risk) from a day-to-day operational perspective, these assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicles that the group has reflected in the 'total credit and counterparty exposure' with the maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'.*
4. *Other assets include settlement debtors where we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

R'million	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note refer-ence	Total balance sheet
As at 31 March 2012				
Cash and balances at central banks	9 303	–		9 303
Loans and advances to banks	20 511	–		20 511
Non-sovereign and non-bank cash placements	7 885	–		7 885
Reverse repurchase agreements and cash collateral on securities borrowed	5 570	–		5 570
Sovereign debt securities	29 699	–		29 699
Bank debt securities	27 695	–		27 695
Other debt securities	5 825	–		5 825
Derivative financial instruments	10 251	344		10 595
Securities arising from trading activities	1 472	1 812		3 284
Investment portfolio	–	7 316	1	7 316
Loans and advances to customers	123 924	(1 303)	2	122 621
Own originated loans and advances to customers securitised	6 132	(6)	2	6 126
Other loans and advances	680	(11)	2	669
Other securitised assets	–	1 712	3	1 712
Interest in associated undertakings	–	38		38
Deferred taxation assets	–	372		372
Other assets	555	5 731	4	6 286
Property, plant and equipment	–	542		542
Investment properties	–	4 858		4 858
Goodwill	–	169		169
Intangible assets	–	97		97
Insurance assets	–	76 903		76 903
Total on-balance sheet exposures	249 502	98 574		348 076

1. *Largely relates to exposures that are classified as equity risk in the banking book. Further information is provided on pages 54 to 56.*
2. *Largely relates to impairments.*
3. *Whilst the group manages all risks (including credit risk) from a day-to-day operational perspective, these assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicles that the group has reflected in the 'total credit and counterparty exposure' with the maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'.*
4. *Other assets include settlement debtors where we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

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

R'million	Up to three months	Three to six months	Six months to one year	One to five years	Five to 10 years	>10 years	Total
Cash and balances at central banks	5 677	–	–	–	–	–	5 677
Loans and advances to banks	20 108	480	1 378	2 498	471	441	25 376
Non-sovereign and non-bank cash placements	5 875	–	–	–	–	–	5 875
Reverse repurchase agreements and cash collateral on securities borrowed	12 792	81	593	1 032	1 348	–	15 846
Sovereign debt securities	12 676	7 219	2 788	4 268	4 013	2 766	33 730
Bank debt securities	502	2 615	3 462	13 156	1 233	1	20 969
Other debt securities	262	435	11	3 952	1 977	369	7 006
Derivative financial instruments	1 106	874	311	5 544	3 134	733	11 702
Securities arising from trading activities	833	–	–	59	131	156	1 179
Loans and advances to customers (gross)	8 264	6 057	14 431	60 384	16 537	31 408	137 081
Own originated loans and advances to customers (gross)	1	2	16	915	524	4 678	6 136
Other loans and advances (gross)	–	–	–	684	–	–	684
Other assets	368	231	12	220	–	–	831
Total on-balance sheet exposures	68 464	17 994	23 002	92 712	29 368	40 552	272 092
Guarantees	332	1 250	203	2 409	299	2 756	7 249
Contingent liabilities, committed facilities and other	1 955	839	5 634	6 704	1 228	15 053	31 413
Total off-balance sheet exposures	2 287	2 089	5 837	9 113	1 527	17 809	38 662
Total gross credit and counterparty exposures pre collateral or other credit enhancements	70 751	20 083	28 839	101 825	30 895	58 361	310 754

Detailed analysis of gross credit and counterparty exposures by industry

R'million	HNW and professional individuals	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services
As at 31 March 2013					
Cash and balances at central banks	–	–	–	5 677	–
Loans and advances to banks	–	–	–	–	–
Non-sovereign and non-bank cash placements	–	100	–	–	337
Reverse repurchase agreements and cash collateral on securities borrowed	413	–	119	–	–
Sovereign debt securities	–	–	–	33 730	–
Bank debt securities	–	–	–	–	–
Other debt securities	–	–	148	–	–
Derivative financial instruments	98	1	24	–	53
Securities arising from trading activities	–	–	4	307	–
Loans and advances to customers (gross)	91 326	1 048	1 959	869	5 631
Own originated loans and advances to customers (gross)	6 136	–	–	–	–
Other loans and advances (gross)	–	–	–	–	–
Other assets	1	–	–	–	–
Total on-balance sheet exposures	97 974	1 149	2 254	40 583	6 021
Guarantees	3 689	–	163	1	12
Contingent liabilities, committed facilities and other	24 989	200	95	–	625
Total off-balance sheet exposures	28 678	200	258	1	637
Total gross credit and counterparty exposures pre collateral or other credit enhancements	126 652	1 349	2 512	40 584	6 658
As at 31 March 2012					
Cash and balances at central banks	–	–	–	9 303	–
Loans and advances to banks	–	–	–	–	5
Non-sovereign and non-bank cash placements	–	100	–	–	364
Reverse repurchase agreements and cash collateral on securities borrowed	37	–	–	43	–
Sovereign debt securities	–	–	–	29 699	–
Bank debt securities	–	–	–	–	–
Other debt securities	–	–	–	110	–
Derivative financial instruments	11	–	60	–	88
Securities arising from trading activities	–	–	–	668	–
Loans and advances to customers (gross)	91 046	448	1 308	837	2 608
Own originated loans and advances to customers securitised (gross)	6 132	–	–	–	–
Other loans and advances (gross)	–	–	–	–	–
Other assets	–	–	–	–	–
Total on-balance sheet exposures	97 226	548	1 368	40 660	3 065
Guarantees	4 033	–	18	1	20
Contingent liabilities, committed facilities and other	22 681	–	18	–	448
Off-balance sheet exposures	26 714	–	36	1	468
Total gross credit and counterparty exposures pre collateral or other credit enhancements	123 940	548	1 404	40 661	3 533

Finance and insurance	Retailers and wholesalers	Manufac-turing and commerce	Construc-tion	Commercial real estate	Mining and resources	Leisure, entertain-ment and tourism	Transport and com-munication	Total
–	–	–	–	–	–	–	–	5 677
25 376	–	–	–	–	–	–	–	25 376
1 840	1 259	1 322	33	–	579	–	405	5 875
14 687	–	559	–	–	–	–	68	15 846
–	–	–	–	–	–	–	–	33 730
20 969	–	–	–	–	–	–	–	20 969
5 865	175	–	–	–	597	–	221	7 006
10 081	108	89	–	1 112	67	–	69	11 702
568	96	–	–	–	119	–	85	1 179
6 211	2 690	7 234	903	6 772	3 787	1 398	7 253	137 081
–	–	–	–	–	–	–	–	6 136
684	–	–	–	–	–	–	–	684
828	–	–	–	–	2	–	–	831
87 109	4 328	9 204	936	7 884	5 151	1 398	8 101	272 092
16	493	192	1 110	–	1 379	178	16	7 249
–	242	399	10	523	2 077	257	1 996	31 413
16	735	591	1 120	523	3 456	435	2 012	38 662
87 125	5 063	9 795	2 056	8 407	8 607	1 833	10 113	310 754
–	–	–	–	–	–	–	–	9 303
20 506	–	–	–	–	–	–	–	20 511
1 268	2 248	2 563	174	–	817	–	351	7 885
5 490	–	–	–	–	–	–	–	5 570
–	–	–	–	–	–	–	–	29 699
27 695	–	–	–	–	–	–	–	27 695
4 880	415	–	–	198	103	–	119	5 825
8 828	108	63	1	928	42	–	122	10 251
751	26	26	–	–	–	–	1	1 472
6 081	2 004	5 322	466	4 891	2 713	1 370	4 830	123 924
–	–	–	–	–	–	–	–	6 132
680	–	–	–	–	–	–	–	680
555	–	–	–	–	–	–	–	555
76 734	4 801	7 974	641	6 017	3 675	1 370	5 423	249 502
21	28	189	219	–	946	99	5	5 579
753	55	422	111	172	1 685	276	805	27 426
774	83	611	330	172	2 631	375	810	33 005
77 508	4 884	8 585	971	6 189	6 306	1 745	6 233	282 507

Private client loans account for 68.1% of total gross core loans and advances, as represented by the industry classification 'HNW and professional individuals'.

Summary analysis of gross credit and counterparty exposures by industry

A description of the type of private client lending we undertake is provided on page 35, and a more detailed analysis of the private client loan portfolio is provided on page 52.

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 35 and 36, and a more detailed analysis of the corporate client loan portfolio is provided on page 52.

Breakdown of gross credit exposure by industry

As at 31 March R'million	Gross core loans and advances		Other credit and counterparty exposures		Total	
	2013	2012	2013	2012	2013	2012
HNW and professional individuals	97 462	97 178	29 190	26 762	126 652	123 940
Agriculture	1 048	448	301	100	1 349	548
Electricity, gas and water (utility services)	1 959	1 308	553	96	2 512	1 404
Public and non-business services	869	837	39 715	39 824	40 584	40 661
Business services	5 631	2 608	1 027	925	6 658	3 533
Finance and insurance	6 211	6 081	80 914	71 427	87 125	77 508
Retailers and wholesalers	2 690	2 004	2 373	2 880	5 063	4 884
Manufacturing and commerce	7 234	5 322	2 561	3 263	9 795	8 585
Construction	903	466	1 153	505	2 056	971
Commercial real estate	6 772	4 891	1 635	1 298	8 407	6 189
Mining and resources	3 787	2 713	4 820	3 593	8 607	6 306
Leisure, entertainment and tourism	1 398	1 370	435	375	1 833	1 745
Transport and communication	7 253	4 830	2 860	1 403	10 113	6 233
Total	143 217	130 056	167 537	152 451	310 754	282 507

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

Calculation of core loans and advances to customers

As at 31 March R'million	2013	2012
Loans and advances to customers as per the balance sheet	135 733	122 621
Add: own originated loans and advances securitised as per the balance sheet	6 130	6 126
Net core loans and advances to customers	141 863	128 747

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 page 39.

R'million	31 March 2013	31 March 2012
Gross core loans and advances to customers	143 217	130 056
Total impairments	(1 354)	(1 309)
Portfolio impairments	(123)	(206)
Specific impairments	(1 231)	(1 103)
Net core loans and advances to customers	141 863	128 747
Average gross core loans and advances to customers	136 638	126 115
Current loans and advances to customers	137 646	123 391
Past due loans and advances to customers (1 – 60 days)	669	742
Special mention loans and advances to customers	862	1 101
Default loans and advances to customers	4 040	4 822
Gross core loans and advances to customers	143 217	130 056
Current loans and advances to customers	137 646	123 391
Default loans that are current and not impaired	61	130
Gross core loans and advances to customers that are past due but not impaired	2 559	3 274
Gross core loans and advances to customers that are impaired	2 951	3 261
Gross core loans and advances to customers	143 217	130 056
Total income statement charge for impairments on loans and advances	(833)	(824)
Gross default loans and advances to customers	4 040	4 822
Specific impairments	(1 231)	(1 103)
Portfolio impairments	(123)	(206)
Defaults net of impairments	2 686	3 513
Collateral and other credit enhancements	3 880	5 897
Net default loans and advances to customers (limited to zero)	–	–
Ratios		
Total impairments as a % of gross core loans and advances to customers	0.95%	1.01%
Total impairments as a % of gross default loans	33.51%	27.15%
Gross defaults as a % of gross core loans and advances to customers	2.82%	3.71%
Defaults (net of impairments) as a % of net core loans and advances to customers	1.89%	2.73%
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)	0.61%	0.65%

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

As at 31 March R'million	2013	2012
Default loans that are current	622	670
1 – 60 days	1 431	1 401
61 – 90 days	291	504
91 – 180 days	286	619
181 – 365 days	384	391
>365 days	2 557	3 080
Past due and default core loans and advances to customers (actual capital exposure)	5 571	6 665
1 – 60 days	721	623
61 – 90 days	61	314
91 – 180 days	70	263
181 – 365 days	170	267
>365 days	2 151	2 460
Past due and default core loans and advances to customers (actual amount in arrears)	3 173	3 927

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

R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
As at 31 March 2013							
Watchlist loans neither past due nor impaired							
Total capital exposure	61	–	–	–	–	–	61
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	1 335	289	179	153	603	2 559
Amount in arrears	–	686	61	54	92	449	1 342
Gross core loans and advances to customers that are impaired							
Total capital exposure	561	96	2	107	231	1 954	2 951
Amount in arrears	–	35	–	16	78	1 702	1 831
As at 31 March 2012							
Watchlist loans neither past due nor impaired							
Total capital exposure	130	–	–	–	–	–	130
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	1 353	496	440	249	736	3 274
Amount in arrears	–	607	309	190	181	583	1 870
Gross core loans and advances to customers that are impaired							
Total capital exposure	540	48	8	179	142	2 344	3 261
Amount in arrears	–	16	5	73	86	1 877	2 057

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

R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	669	–	–	–	–	669
Special mention	–	534	194	20	79	35	862
Special mention (1 – 90 days)	–	534	74	20*	79*	35*	742
Special mention (61 – 90 days and item well secured)	–	–	120	–	–	–	120
Default	622	228	97	266	305	2 522	4 040
Sub-standard	61	132	95	162	74	568	1 092
Doubtful	561	96	2	104	231	1 954	2 948
Total	622	1 431	291	286	384	2 557	5 571

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

R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	173	1	–	–	–	174
Special mention	–	490	38	1	73	7	609
Special mention (1 – 90 days)	–	490	18	1*	73*	7*	589
Special mention (61 – 90 days and item well secured)	–	–	20	–	–	–	20
Default	–	58	22	69	97	2 144	2 390
Sub-standard	–	23	22	55	20	442	562
Doubtful	–	35	–	14	77	1 702	1 828
Total	–	721	61	70	170	2 151	3 173

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

R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	742	–	–	–	–	742
Special mention	–	424	396	88	71	122	1 101
Special mention (1 – 90 days)	–	424	115	88*	71*	122*	820
Special mention (61 – 90 days and item well secured)	–	–	281	–	–	–	281
Default	670	235	108	531	320	2 958	4 822
Sub-standard	37	10	96	247	141	225	756
Doubtful	633	225	12	284	179	2 733	4 066
Total	670	1 401	504	619	391	3 080	6 665

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

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

R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	106	–	–	–	–	106
Special mention	–	410	213	54	50	97	824
Special mention (1 – 90 days)	–	410	81	54*	50*	97*	692
Special mention (61 – 90 days and item well secured)	–	–	132	–	2 363	–	132
Default	–	107	101	209	217	2 363	2 997
Sub-standard	–	6	96	109	126	196	533
Doubtful	–	101	5	100	91	2 167	2 464
Total	–	623	314	263	267	2 460	3 927

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

An analysis of core loans and advances to customers

R'million	Gross core loans and advances that are neither past due nor impaired	Gross core loans and advances that are past due but not impaired	Gross core loans and advances that are impaired	Total gross core loans and advances (actual capital exposure)	Specific impair-ments	Portfolio impair-ments	Total net core loans and advances (actual capital exposure)	Actual amount in arrears
As at 31 March 2013								
Current core loans and advances	137 646	–	–	137 646	–	(111)	137 535	–
Past due (1 – 60 days)	–	669	–	669	–	(2)	667	174
Special mention	–	862	–	862	–	(10)	852	609
Special mention (1 – 90 days)	–	742	–	742	–	(9)	733	589
Special mention (61 – 90 days and item well secured)	–	120	–	120	–	(1)	119	20
Default	61	1 028	2 951	4 040	(1 231)	–	2 809	2 390
Sub-standard	61	1 028	3	1 092	–	–	1 092	562
Doubtful	–	–	2 948	2 948	(1 231)	–	1 717	1 828
Total	137 707	2 559	2 951	143 217	(1 231)	(123)	141 863	3 173
As at 31 March 2012								
Current core loans and advances	123 391	–	–	123 391	–	(195)	123 196	–
Past due (1 – 60 days)	–	742	–	742	–	(3)	739	106
Special mention	–	1 101	–	1 101	–	(8)	1 093	824
Special mention (1 – 90 days)	–	820	–	820	–	(7)	813	692
Special mention (61 – 90 days and item well secured)	–	281	–	281	–	(1)	280	132
Default	130	1 431	3 261	4 822	(1 103)	–	3 719	2 997
Sub-standard	37	718	1	756	–	–	756	533
Doubtful	93	713	3 260	4 066	(1 103)	–	2 963	2 464
Total	123 521	3 274	3 261	130 056	(1 103)	(206)	128 747	3 927

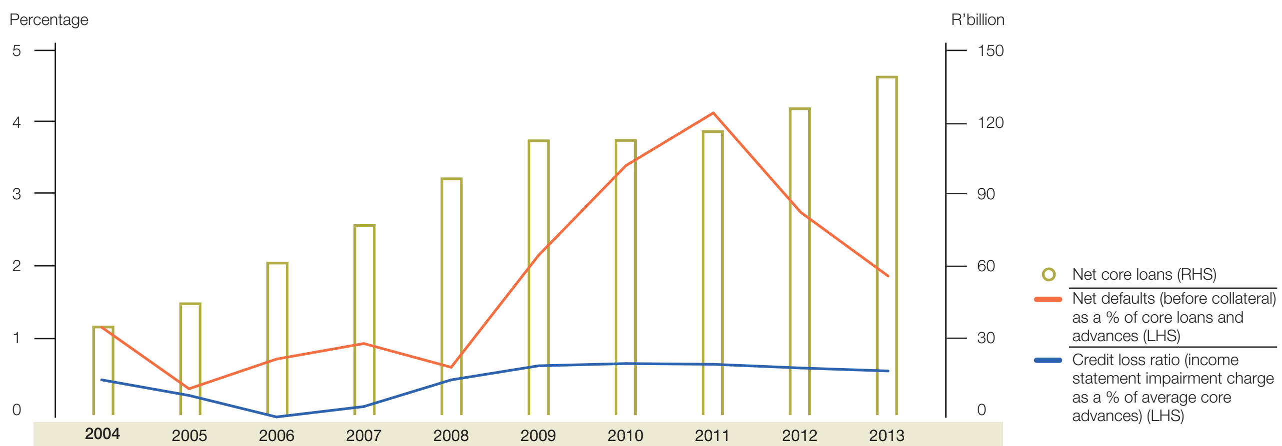
An analysis of core loans and advances to customers and impairments by counterparty type

R'million	Private client, professional and HNW individuals	Corporate sector	Banking, insurance, financial services (excluding sovereign)	Public and government sector (including central banks)	Trade finance and other	Total core loans and advances to customers
As at 31 March 2013						
Current core loans and advances	92 963	35 750	5 930	869	2 134	137 646
Past due (1 – 60 days)	448	117	–	–	104	669
Special mention	813	40	–	–	9	862
Special mention (1 – 90 days)	702	40	–	–	–	742
Special mention (61 – 90 days and item well secured)	111	–	–	–	9	120
Default	3 238	420	281	–	101	4 040
Sub-standard	986	103	–	–	3	1 092
Doubtful	2 252	317	281	–	98	2 948
Total gross core loans and advances to customers	97 462	36 327	6 211	869	2 348	143 217
Total impairments	(1 149)	(133)	(4)	–	(68)	(1 354)
Specific impairments	(1 052)	(111)	–	–	(68)	(1 231)
Portfolio Impairments	(97)	(22)	(4)	–	–	(123)
Net core loans and advances to customers	96 313	36 194	6 207	869	2 280	141 863
As at 31 March 2012						
Current core loans and advances	91 184	23 450	6 070	837	1 850	123 391
Past due (1 – 60 days)	456	204	–	–	82	742
Special mention	1 062	–	–	–	39	1 101
Special mention (1 – 90 days)	820	–	–	–	–	820
Special mention (61 – 90 days and item well secured)	242	–	–	–	39	281
Default	4 476	230	11	–	105	4 822
Sub-standard	755	–	–	–	1	756
Doubtful	3 721	230	11	–	104	4 066
Total gross core loans and advances to customers	97 178	23 884	6 081	837	2 076	130 056
Total impairments	(995)	(233)	(13)	(1)	(67)	(1 309)
Specific impairments	(913)	(113)	(10)	–	(67)	(1 103)
Portfolio Impairments	(82)	(120)	(3)	(1)	–	(206)
Net core loans and advances to customers	96 183	23 651	6 068	836	2 009	128 747

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

R'million	Gross core loans	Gross defaults	Collateral	Balance sheet impairments
Lending collateralised by property	41 162	2 275	2 138	(764)
Commercial real estate	38 034	1 095	1 218	(310)
Commercial real estate – investment	33 780	935	1 080	(228)
Commercial real estate – development	2 158	14	8	(9)
Commercial vacant land and planning	2 096	146	130	(73)
Residential real estate	3 128	1 180	920	(454)
Residential real estate – development	1 130	100	80	(36)
Residential vacant land and planning	1 998	1 080	840	(418)
High net worth and other private client lending	57 902	966	1 160	(264)
Mortgages (owner occupied)	37 585	688	816	(166)
High net worth and specialised lending	20 317	278	344	(98)
Corporate and other lending	44 153	799	582	(326)
Acquisition finance	15 181	408	317	(136)
Asset based lending	2 351	101	36	(68)
Other corporate loans	18 550	173	100	(105)
Asset finance	**3 320**	**–**	**–**	**(6)**
Small ticket asset finance	1 010	–	–	–
Large ticket asset finance	2 310	–	–	(6)
Project finance	2 636	117	129	(11)
Resource finance and commodities	2 115	–	–	–
Total	143 217	4 040	3 880	(1 354)

Asset quality trends



Collateral

A summary of total collateral

R'million	Collateral held against: Core loans and advances	Collateral held against: Other credit and counterparty exposures*	Total
As at 31 March 2013			
Eligible financial collateral	29 465	2 896	32 361
Listed shares	27 564	2 866	30 430
Cash	1 901	30	1 931
Mortgage bonds	173 083	24	173 107
Residential mortgages	83 784	–	83 784
Commercial property development	9 665	24	9 689
Commercial property investments	79 634	–	79 634
Other collateral	51 237	1 446	52 683
Unlisted shares	14 454	–	14 454
Bonds other than mortgage bonds	6 735	471	7 206
Guarantees	4 977	–	4 977
Credit derivatives	10 616	717	11 333
Other	14 455	258	14 713
Total collateral	253 785	4 366	258 151
As at 31 March 2012			
Eligible financial collateral	22 799	2 412	25 211
Listed shares	21 178	2 345	23 523
Cash	1 621	67	1 688
Mortgage bonds	163 239	15	163 254
Residential mortgages	72 527	–	72 527
Residential development	9 504	15	9 519
Commercial property development	81 208	–	81 208
Commercial property investments	–	–	–
Other collateral	49 206	873	50 079
Unlisted shares	13 226	–	13 226
Bonds other than mortgage bonds	5 855	–	5 855
Debtors, stock and other corporate assets	8 202	–	8 202
Guarantees	9 440	721	10 161
Other	12 483	152	12 635
Total collateral	235 244	3 300	238 544

* *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. We also continue to pursue opportunities to help create and grow black-owned and controlled companies
- Lending transactions: The manner in which we structure certain transactions results in equity, warrant and profit shares being held, predominantly within unlisted companies
- Property Activities: We source development, investment and trading opportunities to create value and trade for profit within agreed risk parameters
- Central Funding: Central Funding is the custodian of certain equity and property investments, which have largely arisen from corporate acquisitions made, notably in the early 2000s.

Management of equity and investment risk

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

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

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

Valuation and accounting methodologies

For a description of our valuation principles and methodologies refer to pages 116 and 117 and pages 137 to 140 for factors taken into consideration in determining fair value.

We have a low level of assets exposed to the volatility of IFRS fair value accounting with level 3 assets amounting to less than 0.1% of total assets.

Refer to page 137 for further information.

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

For the year ended 31 March R'million	Income (pre-funding costs)				Fair value through equity
	Unrealised	Realised	Dividends	Total	
2013					
Unlisted investments	26	490	159	675	–
Listed equities	(357)	199	4	(154)	26
Investment and trading properties^	(132)	814	–	682	–
Warrants, profit shares and other embedded derivatives	43	38	–	81	–
Total	(420)	1 541	163	1 284	26
2012					
Unlisted investments	70	517	391	978	–
Listed equities	(281)	(63)	6	(338)	–
Investment and trading properties^	215	(39)	2	178	–
Warrants, profit shares and other embedded derivatives	(26)	108	–	82	–
Total	(22)	523	399	900	–

^ *For the purposes of the above analysis, the exposures arising from the consolidation of the Investec Property Fund have been reflected at the level of our economic ownership, being 50.0%. It is noted that the ultimate impact on the income statement reflects the group's net attributable earnings from the investment.*

Unrealised revaluation gains through profit and loss are included in tier 1 capital. Revaluations that are posted directly to equity are excluded from capital within Investec Limited.

Summary of investments held and stress testing analyses

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

R'million	On-balance sheet value of investments 2013	Valuation change stress test 2013*	On-balance sheet value of investments 2012	Valuation change stress test 2012*
Unlisted investments	7 609	1 141	6 270	909
Listed equities	593	148	1 046	236
Investment and trading properties^^	6 141	803	5 830	624
Warrants, profit shares and other embedded derivatives	459	160	386	135
Total	14 802	2 252	13 532	1 904

^^ *For the purposes of the above analysis, the exposures arising from the consolidation of the Investec Property Fund have been reflected at the level of our economic ownership, being 50.01%.*

* *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 R2.3 billion reversal in revenue (which assumes a year in which there is a 'severe stress scenario'). This would not cause the group to report a loss but could have a significantly negative impact on earnings for that period.

Capital requirements

In terms of Basel III capital requirements, for Investec Limited, unlisted and listed equities within the banking book are represented under the category of 'equity risk' and investment properties, profit shares and embedded derivatives are considered in the calculation of capital required for credit risk.

Refer to page 81 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 41 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.

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

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

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

Refer to page 57.

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

We have also sought out select opportunities in the credit/debt markets and traded and invested in structured credit investments. These have largely been investments in rated instruments within the UK and Europe, totalling R3.3 billion at 31 March 2013 (31 March 2012: R2.5 billion). These investments are risk-weighted for regulatory capital purposes.

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

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

Total assets that have been originated and securitised by the Private Client division amount to R6.1 billion at 31 March 2013 (March 2012: R6.1 billion) and include auto loans (R0.9 billion) and residential mortgages (R5.2 billion). Within these securitisation vehicles loans greater than 90 days in arrears amounted to R53 million and loans less than 90 days in arrears amounted to R33 million. During December 2012 Private Residential Mortgages 2 refinanced for approximately R1.1 billion. Private Residential Mortgages 1 scheduled maturity date is in February 2014.

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

Accounting policies

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

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

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

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

To the extent that the group does not consolidate and does not continue to recognise securitised assets, any exposure to a securitised vehicle as an investor is carried at fair value 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 resecuritisation are analysed on a case-by-case basis, with final approval typically required from the group's global credit committee. The analysis looks through to the historical and expected future performance of the underlying assets, the position of the relevant tranche in the capital structure as well as analysis of the cashflow waterfall under a variety of stress scenarios. External ratings are presented, but only for information purposes, since the bank principally relies on its own internal risk assessment. Overarching these transaction level principles is the board approved risk appetite policy, which details the group's appetite for such exposures, and each exposure is considered relative to the group's overall risk appetite. We can use explicit credit risk mitigation techniques where required, however, the group prefers to address and manage these risks by only approving exposures to which the group has explicit appetite through the constant and consistent application of the risk appetite policy.

In addition, securitisations of Investec own originated assets are assessed in terms of the credit risk management philosophies and principles as set out on page 29.

Credit analysis

In terms of our analysis of our credit and counterparty risk, exposures arising from securitisation/credit investment and trading activities reflect only those exposures to which we consider ourselves to be at risk. In addition, assets that have been securitised by our Private Client division are reflected as part of our core lending exposures and not our securitisation/credit investment and trading exposures as we believe this reflects the true nature and intent of these exposures and activities.

As at 31 March Nature of exposure/activity	Exposure 2013 R'million	Exposure 2012 R'million	Internal balance sheet and credit risk classification	Asset quality – relevant comments
Structured credit investments*	3 695	2 798	Other debt securities and other loans and advances.	
Rated	3 308	2 514		
Unrated	387	284		
Loans and advances to customers and investment in third party intermediary originating platforms (mortgage and auto loans) (with the potential to be securitised)	672	669	Other loans and advances.	
Private Client division assets which have been securitised	6 130	6 126	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 47.
South Africa – liquidity facilities provided to third party corporate securitisation vehicles	1 122	1 660	Off-balance sheet credit exposure as these facilities have remained undrawn and reflect a contingent liability of the bank.	

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

As at 31 March R'million	2013 Rated**	2013 Unrated	2013 Total	2012 Rated**	2012 Unrated	2012 Total
US corporate loans	27	30	57	35	–	35
UK and European RMBS	2 812	11	2 823	2 342	9	2 351
UK and European CMBS	83	–	83	112	–	112
UK and European corporate loans	–	346	346	–	275	275
Australian RMBS	386	–	386	–	–	–
South African RMBS	–	–	–	25	–	25
Total	3 308	387	3 695	2 514	284	2 798

** *Analysed further on page 58.*

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

R'million	AAA	AA	A	BBB	BB	B	C and below	Total
US corporate loans	–	–	–	–	27	–	–	27
UK and European RMBS	–	313	1 216	921	343	19	–	2 812
UK and European CMBS	–	–	83	–	–	–	–	83
Australian RMBS	–	306	80	–	–	–	–	386
Total	–	619	1 379	921	370	19	–	3 308

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.

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

VaR

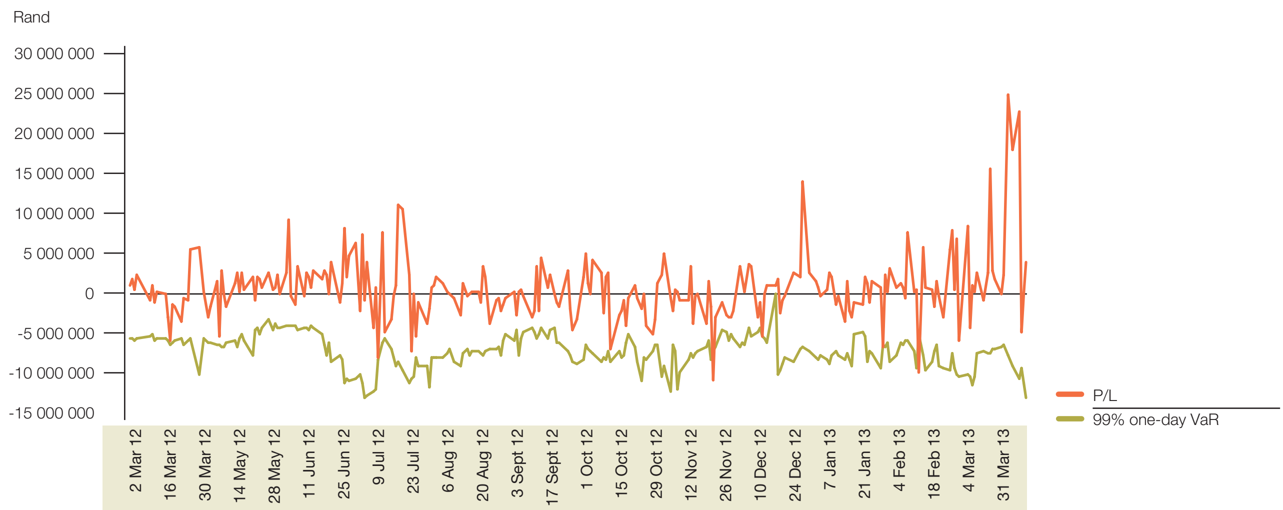
R'million	31 March 2013 Year end	31 March 2013 Average	31 March 2013 High	31 March 2013 Low	31 March 2012 Year end	31 March 2012 Average	31 March 2012 High	31 March 2012 Low
95% (one-day)								
Commodities	–	0.1	0.6	–	–	0.1	0.5	–
Equity derivatives	6.1	3.1	7.5	1.0	1.9	2.3	8.0	0.9
Foreign exchange	3.4	2.1	6.0	0.4	1.1	2.7	8.9	0.7
Interest rates	1.1	2.4	7.2	0.9	2.6	2.5	5.3	0.8
Consolidated*	7.2	4.9	10.9	2.3	4.2	4.8	9.6	2.7

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

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

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

99% one-day VaR backtesting



ETL – 95/(one day)

R'million	31 March 2013	31 March 2012
Commodities	–	0.1
Equity derivatives	9.3	3.5
Foreign exchange	4.6	2.2
Interest rates	2.6	3.9
Consolidated**	10.5	5.8

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

Stress testing

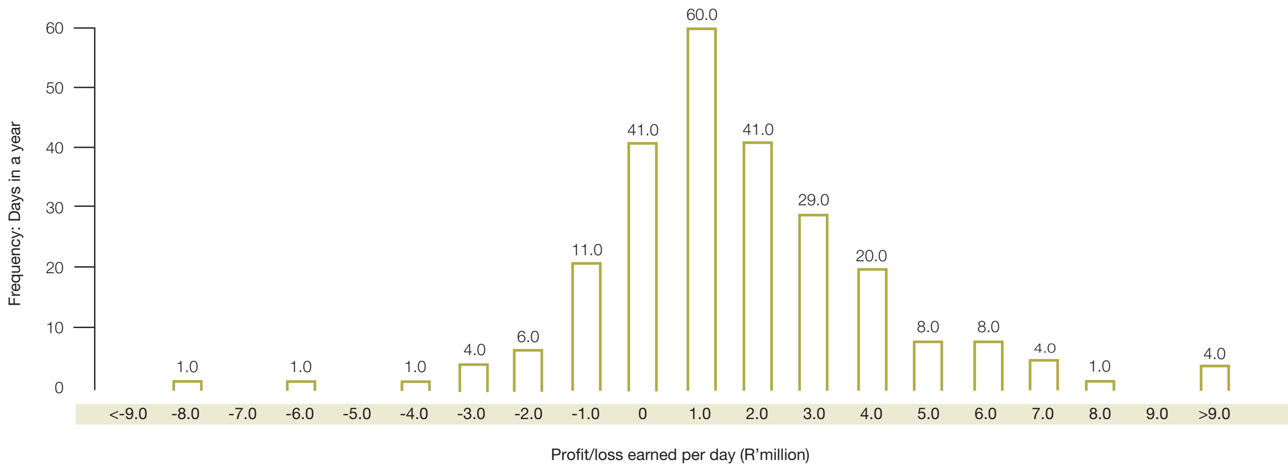
The table below indicates the potential losses that could arise if the portfolio is stress tested under extreme market conditions. The method used is known as extreme value theory (EVT), the reported stress scenario below calculates the 99% EVT which is a 1-in-8 year possible loss event. These numbers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

	31 March 2013				31 March 2012
R'million	Year end	Average	High	Low	Year end
99% (using 99% EVT)					
Commodities	–	0.2	3.8	–	0.1
Equity derivatives	41.2	20.0	54.8	7.9	16.3
Foreign exchange	13.7	12.7	40.0	4.1	17.2
Interest rates	23.9	23.5	47.2	10.3	24.3
Consolidated	45.4	31.2	51.9	17.1	20.3

Profit and loss histograms

The histogram below illustrates the distribution of daily revenue during the financial year for our trading businesses. The distribution is skewed to the profit side and the graph shows that positive trading revenue was realised on 175 days out of a total of 250 days in the trading business. The average daily trading revenue generated for the year ended 31 March 2013 was R1.3 million (2012: R1.5 million).

Profit and loss



Traded market risk mitigation

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

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

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

Traded market risk year in review

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

Market risk – derivatives

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

Information showing our derivative trading portfolio over the reporting period on the basis of the notional principal and the fair value of all derivatives can be found on page 146.

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

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.

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, sub-committee of ALCO, to review the liquidity, interest rate and concentration characteristics of all new products and approve their issuance, ensuring that standard and non-standard deposit products, particularly those designed for the Private Banking customers, both match market curves and can be hedged if necessary
- Pricing for all deposit products (including deposit products offered to the private clients) is set centrally, in so doing we manage access funding at cost-effective levels, considering also the stressed liquidity value of the liabilities
- Balance Sheet Risk Management independently measures and analyses both traditional interest rate repricing mismatch and NPV sensitivity to changes in interest rate risk factors, detailing the sources of interest rate exposure
- The bank maintains an internal funds transfer pricing system based on prevailing market rates which charges out the price of long- and short-term funding to consumers of liquidity and provides long-term stable funding for our asset creation activity
- Daily management of interest rate risk is centralised within Treasury and is subject to independent ALCO review
- Treasury is the primary interface to the wholesale market
- We carry out technical interest rate analysis and economic review of fundamental developments by geography and global trends.

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

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

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

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

Technical interest rate analysis and economic review of fundamental developments are used to estimate a set of forward-looking interest rate scenarios incorporating movements in the yield curve level and shape, after taking global trends into account.

These combinations of measures provide senior management (and the ALCOs) with an assessment of the financial impact of identified rate changes on potential future net interest income and sensitivity to changes in economic value.

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

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

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

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

Interest rate sensitivity as at 31 March 2013

R'million	Not >3 months	>3 months but <6 months	>6 months but <1 year	>1 year but <5 years	>5 years	Non-rate	Total non-trading
Cash and short-term funds – banks	22 639	457	914	592	543	5 050	30 195
Cash and short-term funds – non-banks	5 874	–	–	–	–	–	5 874
Investment/trading assets and statutory liquids	41 193	9 534	2 235	11 724	6 033	18 014	88 733
Securitised assets	7 040	–	–	–	–	674	7 714
Advances	118 615	618	2 036	8 594	5 572	969	136 404
Other assets	4 124	–	–	–	–	5 545	9 669
Assets	199 485	10 609	5 185	20 910	12 148	30 252	278 589
Deposits – banks	(16 559)	(940)	(6)	(276)	–	(75)	(17 856)
Deposits – non-banks	(157 858)	(13 443)	(7 795)	(3 006)	(547)	(1 308)	(183 957)
Negotiable paper	(2 887)	–	(88)	(3 172)	–	–	(6 147)
Securitised liabilities	(6 144)	–	–	–	–	(703)	(6 847)
Investment/trading liabilities	(13 364)	–	–	(2 668)	–	(6 011)	(22 043)
Subordinated liabilities	(9 405)	–	–	(125)	(2 884)	(2 041)	(14 455)
Other liabilities	–	–	–	–	–	(8 607)	(8 607)
Liabilities	(206 217)	(14 383)	(7 889)	(9 247)	(3 431)	(18 745)	(259 912)
Intercompany loans	8 164	(98)	(58)	1 161	(212)	(110)	8 847
Shareholders' funds	(3 340)	–	–	–	(945)	(20 251)	(24 536)
Balance sheet	(1 908)	(3 872)	(2 762)	12 824	7 560	(8 854)	2 988
Off balance sheet	9 272	9 587	(2 326)	(13 758)	(5 726)	(37)	(2 988)
Repricing gap	7 364	5 715	(5 088)	(934)	1 834	(8 891)	–
Cumulative repricing gap	7 364	13 079	7 991	7 057	8 891	–	–

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.

	Sensitivity to the following interest rates (expressed in original currencies)					
'million	ZAR	GBP	USD	EUR	AUD	All (ZAR)
200bps down	131.4	0.4	6.9	0.9	(0.5)	206.6
200bps up	(144.2)	(0.4)	(5.5)	2.0	0.8	(169.2)

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 SARB and the Bank of Mauritius
- The group complies with the BCBS Principles for Sound Liquidity Risk Management and Supervision
- The group has committed itself to implementation of the updated BCBS guidelines for liquidity risk measurement, standards and monitoring to be phased in from 2015 to 2018
- The risk appetite is clearly defined by the board and each geographic entity must have its own board approved policies with respect to liquidity risk management
- Each geographic entity must be self sufficient from a funding and liquidity standpoint so that there is no reliance on intergroup lines either from or to other group entities
- Branches and subsidiaries have no responsibility for contributing to group liquidity
- We maintain a liquidity buffer in the form of unencumbered, cash, government or rated securities (typically eligible for repurchase with the central bank), and near cash well in excess of the statutory requirements as protection against unexpected disruptions in cash flows
- Funding is diversified with respect to currency, term, product, client type and counterparty to ensure a satisfactory overall funding mix
- We monitor and evaluate each banking entity's maturity ladder and funding gap (cashflow maturity mismatch) on a 'liquidation', 'going concern' and 'stress' basis
- Daily liquidity stress tests are carried out to measure and manage the liquidity position such that payment obligations can be met under a wide range of normal and unlikely but plausible stressed scenarios, in which the rate and timing of deposit withdrawals and drawdowns on lending facilities are varied, and the ability to access funding and to generate funds from asset portfolios is restricted. The objective is to have sufficient liquidity, in an acute stress, to continue to operate for a minimum period as detailed in the board approved risk appetite
- Our liquidity risk parameters reflect a collection of liquidity stress assumptions which are reviewed regularly and updated as needed. These stress factors go well beyond our experience during the height of the recent financial crisis
- The Balance Sheet Risk Management team independently monitors key daily funding metrics and liquidity ratios to assess potential risks to the liquidity position, which further act as early warning indicators
- The group centrally manages access to funds in both domestic and offshore markets through the Corporate and Institutional Banking division
- The maintenance of sustainable prudent liquidity resources takes precedence over profitability
- Each major banking entity maintains an internal funds transfer pricing system based on prevailing market rates. The treasury function charges out the price of long- and short-term funding to internal consumers of liquidity, which ensures that the costs, benefits, and risks of liquidity are clearly and transparently attributed to business lines and are understood by business line management. The funds transfer pricing methodology is designed to signal the right incentive to our lending business
- The group maintains adequate contingency funding plans designed to protect depositors, creditors and shareholders and maintain market confidence during adverse liquidity conditions.

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

Management uses assumptions-based planning and scenario modelling that considers market conditions, prevailing interest rates and projected balance sheet growth, to estimate future funding and liquidity needs whilst taking the desired nature and profile of liabilities into account. These metrics are used to develop our funding strategy and measure and manage the execution thereof. The funding plan details the proportion of our external assets which are funded by customer liabilities, unsecured wholesale debt, equity and loan capital, thus maintaining an appropriate mix of structural and term funding, resulting in strong balance sheet liquidity ratios.

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

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

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

We maintain a funding structure with stable private client deposits and long-term wholesale funding well in excess of illiquid assets. We target a diversified funding base, avoiding undue concentrations by investor type, maturity, market source, instrument and currency. This validates our ability to generate funding from a broad range of sources in a variety of geographic locations, which enhances financial flexibility and limits dependence on any one source so as to ensure a satisfactory overall funding mix.

We acknowledge the importance of our private client base as the principal source of stable and well diversified funding for Investec's risk assets. We continue to develop products to attract and service the investment needs of our Private Bank client base. Although the contractual repayments of many Private Bank customer accounts are on demand or at short notice, in practice such accounts remain a stable source of funds. We continued to successfully raise private client deposits despite competitive pressures with total deposits increasing by 5.2% to R185.3 billion at 31 March 2013. We also have a number of innovative retail deposit initiatives within our Corporate Banking division and these continued to experience strong inflows during the financial year. On average our fixed and notice customer deposits have amounted to approximately 70% of total deposits since April 2006 for Investec Limited, thereby displaying a strong 'stickiness' and willingness to reinvest by our retail customers.

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

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

We engage in transactions that involve the use of both special purpose entities and asset securitisation structures.

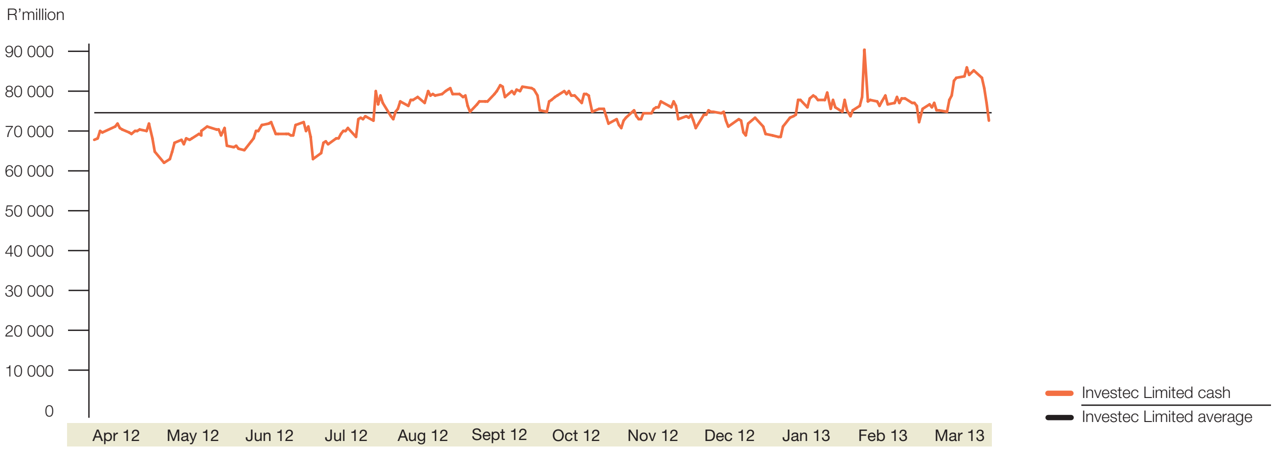
Securitisation represents a relatively modest proportion of our current funding profile, but provides additional flexibility and source of term liquidity. These entities form part of the consolidated group balance sheet as reported. Our funding and liquidity capacity is not reliant on these entities to any material extent.

As mentioned above, we hold a liquidity buffer in the form of unencumbered readily available, high quality liquid assets, typically in the form of government or rated securities eligible for repurchase with the central bank, and near cash well in excess of the statutory requirements as protection against unexpected disruptions in cash flows. Investec remains a net liquidity provider to the interbank market, placing significantly more funds with other banks than our short-term interbank borrowings. These portfolios are managed within limits and, apart from acting as a buffer under going concern conditions, also form an integral part of the broader liquidity generation strategy. We do not rely on interbank deposits to fund term lending. From 1 April 2012 to 31 March 2013 average cash and near cash balances over the period amounted to R74.5 billion.

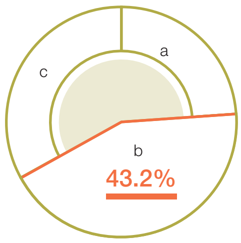
The group does not rely on committed funding lines for protection against unforeseen interruptions to cash flow. We are currently unaware of any circumstances that could significantly detract from our ability to raise funding appropriate to our needs.

The liquidity contingency plans outline extensive early warning indicators, clear lines of communication and decisive crisis response strategies. Early warning indicators span bank specific and systemic crises. Rapid response strategies address action plans, roles and responsibilities, composition of decision making bodies involved in liquidity crisis management, internal and external communications including public relations, sources of liquidity, avenues available to access additional liquidity, as well as supplementary information requirements. This plan helps to ensure that cash flow estimates and commitments can be met in the event of general market disruption or adverse bank specific events, while minimising detrimental long-term implications for the business.

Cash and near cash trend



An analysis of cash and near cash

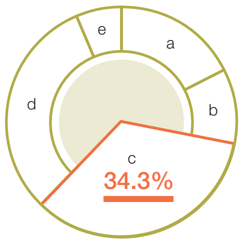


31 March 2013

R72 974 million

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

Bank and non-bank depositor concentration by type



31 March 2013

R203 172 million

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

Liquidity mismatch

The tables that follow show our contractual liquidity.

The tables will not agree directly to the balances disclosed in the balance sheet 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 liquidity position of the group strengthened in 2013, and we continued to enjoy strong inflows of customer deposits.

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.

Contractual liquidity as at 31 March 2013

R'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	>Five years	Total
Cash and short-term funds – banks*	22 237	4 230	1 416	464	1 227	393	1 087	31 054
Cash and short-term funds – non-banks	5 858	6	11	–	–	–	–	5 875
Investment/trading assets and statutory liquids**	52 771	–	1 571	1 137	1 960	27 860	22 403	107 702
Securitised assets	1 043	26	161	173	559	1 445	4 307	7 714
Advances	3 070	5 839	8 461	9 745	13 326	61 775	34 188	136 404
Other assets	349	3 348	93	205	2	2 079	3 773	9 849
Assets	85 328	13 449	11 713	11 724	17 074	93 552	65 758	298 598
Deposits – banks	(2 105)	(833)	(198)	(10 178)	(412)	(4 135)	–	(17 861)
Deposits – non-banks	(66 763)^	(19 027)	(32 690)	(21 079)	(23 397)	(20 136)	(2 219)	(185 311)
Negotiable paper	–	(8)	(1 376)	(40)	(828)	(3 895)	–	(6 147)
Securitised liabilities	(32)	(618)	(835)	(459)	(2 000)	(2 600)	(303)	(6 847)
Investment/trading liabilities	–	(15 869)	(1 077)	(520)	(1 289)	(14 132)	(1 226)	(34 113)
Subordinated liabilities	(3 003)	(96)	–	–	–	(125)	(11 231)	(14 455)
Other liabilities	(1 293)	(1 105)	(118)	(156)	(692)	(423)	(5 534)	(9 321)
Liabilities	(73 196)	(37 556)	(36 294)	(32 432)	(28 618)	(45 446)	(20 513)	(274 055)
Shareholders' funds	–	–	–	–	–	–	(24 543)	(24 543)
Contractual liquidity gap	12 132	(24 107)	(24 581)	(20 708)	(11 544)	48 106	20 702	–
Cumulative liquidity gap	12 132	(11 975)	(36 556)	(57 264)	(68 808)	(20 702)	–	–

Note: contractual liquidity adjustments

As discussed on page 67.

R'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	>Five years	Total
*Cash and short-term funds – banks	17 217	4 230	1 416	464	1 227	393	6 107	31 054
**Investment/trading assets and statutory liquids	235	18 451	10 518	11 909	7 327	33 200	26 062	107 702

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

Behavioural liquidity

As discussed on page 67 and 68.

R'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	>Five years	Total
Behavioural liquidity gap	14 953	2 708	(2 182)	(5 901)	(5 353)	(49 371)	45 145	–
Cumulative	14 953	17 661	15 479	9 578	4 226	(45 145)	–	–

Balance sheet risk year in review

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

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

The Rand ended the year substantially weaker at R9.23/USD (R11.81/EUR and R13.96/GBP) from R7.64/USD (R10.18/EUR and R12.27/GBP), with the steady depreciation driven initially by negative global risk aversion levels due to the perceived deterioration in the global environment, and then, in the second half of the year, by the downgrades to South Africa's perceived sovereign credit rating and negative investor sentiment in the equity space following prolonged strike action. The Rand has ended the financial year well removed from its fair value of R8.30/USD, although over the longer term it typically returns to fair valuation (purchasing power parity) given the historical depreciation of around 4% a year in South Africa's purchasing power valuation of the Rand. The long-term depreciation in the domestic currency is due to the enduring differential between South Africa and its chief trading partner's inflation rates.

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

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

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

Regulatory considerations – balance sheet risk

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

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

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

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

The group has committed itself to implementation of the BCBS guidelines for liquidity risk measurement standards and the enhanced regulatory framework to be established. Investec has been proactively reporting on these ratios internally according to the emerging Basel definitions since February 2010. In some jurisdictions Investec already exceeds minimum requirements of these standards, whilst in other geographies we have commenced with strategies to reshape our liquidity and funding profile where necessary, as we move towards the compliance timeline.

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

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

Basel III

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

Investec is involved in the process in the following ways:

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

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

Notwithstanding the above, the South African banking industry will find it difficult to meet the NSFR ratio, as currently defined, as a result of the shortcomings and constraints in the South African environment. The banking sector in South Africa is characterised by certain structural features such as a low discretionary savings rate and a higher degree of contractual savings that are captured by institutions such as pension funds, provident funds and providers of asset management services. The proposed liquidity measures have the potential to impact growth and job creation in the economy. In recognition thereof, the Finance Minister instituted a Structural Funding and Liquidity task team to investigate the constraints in the South African market and make recommendations to address these limitations. BCBS have committed to finalise the NSFR ratio in 2014.

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

Operational risk

Operational risk definition

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

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

Operational risk management framework

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

Governance

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

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.

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.

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.

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

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

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

Conduct risk

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

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

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

Capital management and allocation

Capital measurement

Although Investec Limited (and its subsidiaries) and Investec plc (and its subsidiaries) are managed independently and have their respective capital bases ring-fenced, the governance of capital management is consistent across the two groups. The DLC structure requires the two groups to independently manage each group's balance sheet and hence capital is managed on this basis. This approach is overseen by the BRCC (via the Investec DLC capital committee) which is a board 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 Limited

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

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

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

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

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

Capital targets

Over recent years, capital adequacy standards for banks have been raised as part of attempts to increase the stability and resilience of the global banking sector. Investec Limited and Investec 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% and a total capital adequacy ratio target of 14% to 17%. These targets are continuously assessed for appropriateness.

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

Capital management

Philosophy and approach

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

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

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

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

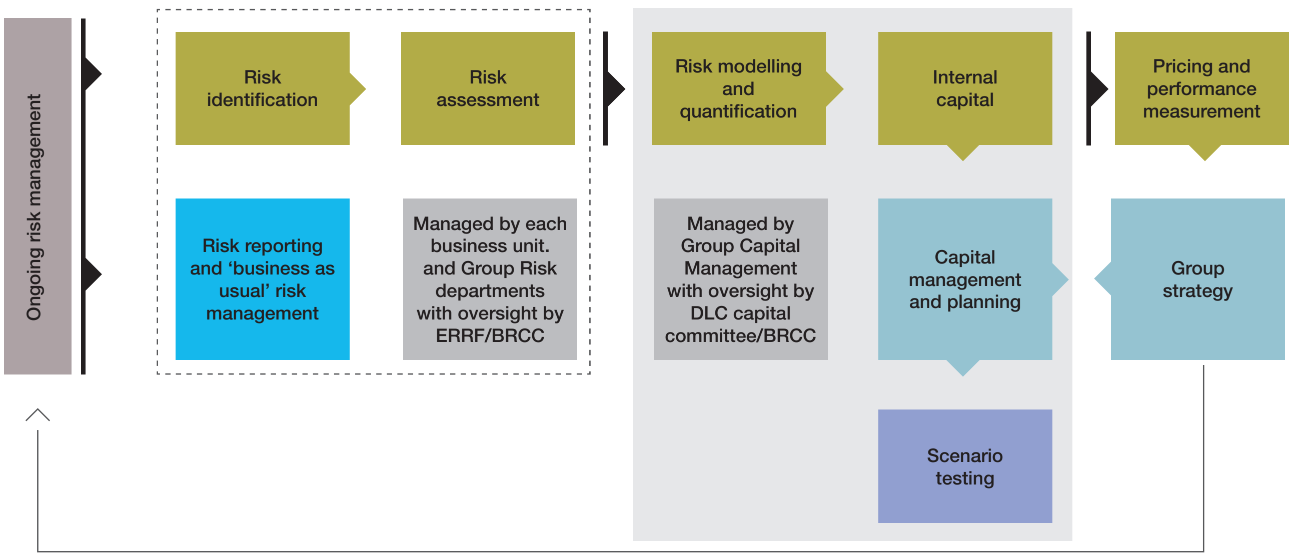
The DLC capital committee seeks to optimise the balance sheet such that capital held is in excess of internal capital. Internal capital performs a critical role in:

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

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

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

The (simplified) integration of risk and capital management



Risk assessment and reporting

We review the business continuously to maintain a close understanding of our universe of risks, which are analysed through the risk management governance framework under stewardship of BRCC. Key risks are reviewed and debated by senior management on a continuous basis. Assessment of the materiality of risks is directly linked to the board's stated risk appetite and approved risk management policies covering all key risks.

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

- Credit and counterparty risk
- Market risk
- Equity and investment risk in the banking book
- Balance sheet liquidity and non-trading interest rate risk
- Operational, conduct and reputational risk
- Legal risk (considered within operational risk for capital purposes).

Each of these risk categories may consist of a number of specific risks, each of which 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
- 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, and Basel III (where applicable).

Accounting and regulatory treatment of group subsidiaries

Investec plc and Investec Limited are the two listed holding companies in terms of the DLC structure. Investec Bank Limited (IBL) is the main banking subsidiary of Investec Limited.

Investec Limited

Identity of investment/ interest held	Regulatory	% interest held	Regulatory treatment Fully consolidated	Country of operation	Restrictions and major impediments on the transfer of funds and regulatory capital within the Investec Limited group
Bank controlling company					
Investec Limited	SARB	100%	Yes	SA	None
Regulated subsidiaries banking and securities trading					
Investec Bank Limited	SARB	100%	Yes	SA	None
Investec Bank (Mauritius) Limited	Bank of Mauritius	100%	Yes	Mauritius	None
Investec Securities (Pty) Ltd	JSE/FSB	100%	Yes	SA	None
Asset Management					
Investec Asset Management Holdings (Pty) Ltd		100%	Yes	SA	None
Investec Asset Management (Pty) Ltd	FSB/JSE	100%	Yes	SA	None
Investec Fund Managers SA (RF) (Pty) Ltd	FSB/JSE	100%	Yes	SA	None
Insurance					
Investec Employee Benefits Holdings (Pty) Ltd	FSB	100%	Deconsolidated*	SA	None
Investec Employee Benefits Limited	FSB	100%	Deconsolidated*	SA	None
Investec Assurance Limited	FSB	100%	Deconsolidated from a regulatory perspective i.e. exposures to those entities are risk weighted*	SA	None

* *For regulatory purposes these entities are treated as external parties.*

Identity of investment/ interest held	Regulatory	% interest held	Regulatory treatment Fully consolidated	Country of operation	Restrictions and major impediments on the transfer of funds and regulatory capital within the Investec Limited group
Unregulated subsidiaries	Not regulated subject to consolidated supervision				
Reichmans Holdings (Pty) Ltd		100%	Yes	SA	None
AEL Investment Holdings (Pty) Ltd		100%	Yes	SA	None
Investpref Limited		100%	Yes	SA	None
KWJ Investments (Pty) Ltd		100%	Yes	SA	None
Securities Equities (Pty) Ltd		100%	Yes	SA	None
Sechold Finance Services (Pty) Ltd		100%	Yes	SA	None
Investec Personal Financial Services (Pty) Ltd		100%	Yes	SA	None
Fedsure International (Pty) Ltd		100%	Yes	SA	None
Investec Share Plan Services (Pty) Ltd		100%	Yes	SA	None
Investec International Holdings (Gibraltar) Limited		100%	Yes	Gibraltar	None
World Axis Management (Pty) Ltd		100%	Yes	SA	None
Investec Group Data (Pty) Ltd		100%	Yes	SA	None
Fuzztique (Pty) Ltd		100%	Yes	SA	None
Investec Property Group Holdings (Pty) Ltd		100%	Yes	SA	None

No entities are given a deduction treatment for regulatory purposes.

There are no current or foreseen material practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities among the parent undertaking and its subsidiary undertakings, other than indicated on the table above.

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 74 to 77.

	Investec Limited*^ R'million	IBL*^ R'million
As at 31 March 2013		
Tier 1 capital		
Shareholders' equity	19 819	21 975
Shareholders' equity per balance sheet	23 002	23 509
Perpetual preference share capital and share premium	(3 183)	(1 534)
Non-controlling interests	–	–
Non-controlling interests per balance sheet	10	–
Non-controlling interests excluded for regulatory purposes	(10)	–
Regulatory adjustments to the accounting basis	446	446
Cash flow hedging reserve	446	446
Deductions	(235)	(90)
Goodwill and intangible assets net of deferred tax	(235)	(90)
Common equity tier 1 capital	20 030	22 331
Additional tier 1 capital before deductions	4 222	1 381
Additional tier 1 instruments	4 717	1 534
Phase out of non-qualifying additional tier 1 instruments	(472)	(153)
Non-qualifying surplus capital attributable to minorities	(23)	–
Total tier 1 capital	24 252	23 712
Tier 2 capital		
Total qualifying tier 2 capital before deductions	10 961	11 493
Collective impairment allowances	122	122
Tier 2 instruments	12 496	12 496
Phase out of non-qualifying tier 2 instruments	(1 125)	(1 125)
Non qualifying surplus capital attributable to non-controlling interests	(532)	–
Deductions	(435)	–
Investments that are not material holdings or qualifying holdings	(435)	–
Total tier 2 capital	10 526	11 493
Total regulatory capital	34 778	35 205
Risk-weighted assets	223 865	217 715
Capital ratios		
Common equity tier 1 ratio	8.9%	10.3%
Tier 1 ratio	10.8%	10.9%
Total capital ratio	15.5%	16.2%

* *Where: IBL is Investec Bank Limited. The information for Investec Limited includes the information for IBL.*

^ *The 2013 capital information for Investec Limited, and IBL is based on Basel III capital requirements as currently applicable in South Africa. Comparative information is disclosed on a Basel II basis.*

Capital management and allocation (continued)

Capital structure and capital adequacy (continued)

	Investec Limited*^ R'million	IBL*^ R'million
As at 31 March 2012		
Tier 1 capital		
Shareholders' equity	17 818	19 399
Shareholders' equity per balance sheet	20 698	20 933
Perpetual preference share capital and share premium	(2 880)	(1 534)
Non-controlling interests	–	–
Non-controlling interests per balance sheet	10	–
Non-controlling interests excluded for regulatory purposes	(10)	–
Regulatory adjustments to the accounting basis	505	437
Unrealised gains on available-for-sale equities	(19)	(64)
Cash flow hedging reserve	253	253
Foreign currency translation reserve	271	248
Deductions	(514)	(344)
Goodwill and intangible assets net of deferred tax	(266)	(96)
Securitisation positions	(248)	(248)
Core tier 1 capital	17 809	19 492
Additional tier 1 capital before deductions	4 414	1 534
Additional tier 1 instruments	4 414	1 534
Total tier 1 capital	22 223	21 026
Tier 2 capital		
Total qualifying tier 2 capital before deductions	8 915	8 915
Collective impairment allowances	206	206
Tier 2 instruments	8 709	8 709
Deductions	(248)	(248)
Securitisation positions	(248)	(248)
Total tier 2 capital	8 667	8 667
Total regulatory capital	30 890	29 693
Risk-weighted assets	192 376	184 253
Capital ratios		
Core tier 1 ratio	9.3%	10.6%
Tier 1 ratio	11.6%	11.4%
Total capital ratio	16.1%	16.1%

* *Where: IBL is Investec Bank Limited. The information for Investec Limited includes the information for IBL.*

^ *The 2013 capital information for Investec Limited and IBL is based on Basel III capital requirements as currently applicable in South Africa. Comparative information is disclosed on a Basel II basis.*

Capital management and allocation (continued)

Capital requirements

	Investec Limited*^ R'million	IBL*^ R'million
As at 31 March 2013		
Capital requirements	21 268	20 681
Credit risk – prescribed standardised exposure classes	15 360	14 798
Corporates	9 498	9 023
Secured on real estate property	1 513	1 513
Short-term claims on institutions and corporates	2 223	2 155
Retail	326	325
Institutions	1 058	1 058
Other exposure classes	91	73
Securitisation exposures	651	651
Equity risk – Standardised approach	2 845	3 472
Listed equities	145	789
Unlisted equities	2 700	2 683
Counterparty credit risk	716	716
Market risk	449	426
Interest rate	117	117
Foreign exchange	74	74
Commodities	2	2
Equities	256	233
Operational risk – Standardised approach	1 898	1 269
As at 31 March 2012		
Capital requirements	18 276	17 504
Credit risk – prescribed standardised exposure classes	13 085	12 965
Corporates	7 881	7 773
Secured on real estate property	1 246	1 246
Short-term claims on institutions and corporates	2 041	2 033
Retail	314	314
Institutions	1 125	1 125
Other exposure classes	96	92
Securitisation exposures	382	382
Equity risk – Standardised approach	2 428	2 376
Listed equities	281	229
Unlisted equities	2 147	2 147
Counterparty credit risk	498	498
Market risk	463	421
Interest rate	125	125
Foreign exchange	120	120
Commodities	2	2
Equities	216	174
Operational risk – Standardised approach	1 802	1 244

* *Where: IBL is Investec Bank Limited. The information for Investec Limited includes the information for IBL.*

^ *The 2013 capital information for Investec Limited and IBL is based on Basel III capital requirements as currently applicable in South Africa. Comparative information is disclosed on a Basel II basis.*

Capital management and allocation (continued)

Risk-weighted assets

	Investec Limited*^ R'million	IBL*^ R'million
As at 31 March 2013		
Risk-weighted assets (banking and trading)	223 865	217 715
Credit risk – prescribed standardised exposure classes	161 678	155 781
Corporates	99 975	94 983
Secured on real estate property	15 925	15 925
Short-term claims on institutions and corporates	23 397	22 685
Retail	3 428	3 426
Institutions	11 141	11 141
Other exposure classes	959	768
Securitisation exposures	6 853	6 853
Equity risk – Standardised approach	29 948	36 548
Listed equities	1 531	8 306
Unlisted equities	28 417	28 242
Counterparty credit risk	7 537	7 537
Market risk	4 728	4 488
Interest rate	1 229	1 229
Foreign exchange	783	783
Commodities	20	20
Equities	2 696	2 456
Operational risk – Standardised approach	19 974	13 361
As at 31 March 2012		
Risk-weighted assets (banking and trading)	192 376	184 253
Credit risk – prescribed standardised exposure classes	137 737	136 476
Corporates	82 961	81 824
Secured on real estate property	13 117	13 117
Short-term claims on institutions and corporates	21 489	21 401
Retail	3 301	3 301
Institutions	11 846	11 846
Other exposure classes	1 006	970
Securitisation exposures	4 017	4 017
Equity risk – Standardised approach	25 558	25 011
Listed equities	2 954	2 407
Unlisted equities	22 604	22 604
Counterparty credit risk	5 245	5 245
Market risk	4 867	4 424
Interest rate	1 314	1 314
Foreign exchange	1 266	1 266
Commodities	17	17
Equities	2 270	1 827
Operational risk – Standardised approach	18 969	13 097

* *Where: IBL is Investec Bank Limited. The information for Investec Limited includes the information for IBL.*

^ *The 2013 capital information for Investec Limited and IBL is based on Basel III capital requirements as currently applicable in South Africa. Comparative information is disclosed on a Basel II basis.*

Analysis of rated counterparties in each standardised credit exposure class

The capital requirement disclosed as held against credit risk as at 31 March 2013 includes a small amount of capital held for counterparty credit risk, mainly within the group's trading businesses. On the basis of materiality no detail has been provided on this risk in the following analysis.

The table below shows the exposure amounts associated with the credit quality steps and the relevant risk weightings as at 31 March 2013.

		31 March 2013		31 March 2012	
Credit quality step	Risk weight	Exposure R'million	Exposure after credit risk mitigation R'million	Exposure R'million	Exposure after credit risk mitigation R'million
Central banks and sovereigns					
1	0%	39 475	39 475	38 679	38 679
2	20%	–	–	–	–
3	50%	42	42	29	29
4	100%	–	–	–	–
5	100%	–	–	–	–
6	150%	–	–	–	–
Institutions original effective maturity of more than three months					
1	20%	627	466	2 450	2 308
2	50%	10 180	10 180	15 901	12 239
3	50%	12 665	12 664	10 185	10 171
4	100%	–	–	–	–
5	100%	–	–	–	–
6	150%	–	–	–	–
Short-term claims on institutions					
1	20%	1 083	1 083	841	841
2	20%	9 111	9 111	12 324	12 324
3	20%	6 646	6 646	1 745	1 745
4	50%	–	–	–	–
5	50%	–	–	–	–
6	150%	–	–	–	–
Corporates					
1	20%	444	367	1 052	620
2	50%	1 315	822	149	149
3	100%	3 050	1 223	142	142
4	100%	672	264	125	125
5	150%	–	–	–	–
6	150%	–	–	–	–
Securitisation positions					
1	20%	788	788	1 332	1 332
2	50%	4 124	4 124	2 691	2 691
3	100%	1 357	1 357	980	980
4	350%	369	369	286	286
5	1 250%	62	62	496	496
Total rated counterparty exposure		92 010	89 043	89 407	85 157

Credit ratings

In terms of our dual listed companies structure, Investec plc and Investec Limited are treated separately from a credit point of view. As a result, the rating agencies have assigned ratings to the significant banking entities within the group, namely Investec Bank plc, Investec Bank Limited and Investec Bank (Australia) Limited. Certain rating agencies have assigned ratings to the holding companies, namely, Investec plc and Investec Limited. Our ratings as at 31 March 2013 are as follows:

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

Internal audit

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

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

Annually, Internal Audit conducts a formal risk assessment of the entire business from which a comprehensive risk-based audit plan is derived. The assessment and programme are validated by executive management and approved by the responsible audit committee. High risk businesses and processes are audited 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 local assurance forums, where remediation procedures and progress are considered and monitored in detail by management. The audit committee receives a report on significant issues and actions taken by management to enhance related controls. An update on the status of previously raised issues is provided by Internal Audit to each audit committee. If there are concerns in relation to overdue issues, these will be escalated to the executive risk review forum to expedite resolution.

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

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

Compliance

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

Compliance risk is the risk that Investec fails to comply with the letter and spirit of statutes, regulations, supervisory requirements and industry codes of conduct which apply to our businesses. At Investec we manage compliance risk through internal policies and processes, which include legal, regulatory and operational requirements relevant to the business. Those responsible for compliance work closely with the business and operational units to ensure consistent management of compliance risk. They also provide regular training and advice on emerging policy issues to ensure that all employees are familiar with their regulatory obligations.

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

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

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

Year in review

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

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

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

Consumer protection

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

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

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

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

Anti-money laundering and terror financing

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

An accountable institution's primary supervisor assumes the responsibility of supervising compliance on all other AML matters.

Corporate governance

Introduction

This section provides a summary of our corporate governance philosophy and practices. A more detailed review is provided in the Investec group's 2013 annual report.

Regulatory context

The board, management and employees of Investec are committed to complying with the JSE Limited (JSE) listings requirements, regulatory requirements in the countries in which we operate and the King Code of Governance Principles for South Africa (King III). Therefore all stakeholders are assured that we are being managed ethically and in compliance with the latest legislation, regulations and best practices.

Our culture and values

Underpinning these 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 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.

All international business units operate in accordance with the above determined corporate governance requirements, in addition to those of their jurisdiction, but with clear adherence at all times to group values and culture.

Governance framework

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

The group has adopted a risk and governance structure which allows for the operation of the various committees and forums at group level.

Investec's governance framework is depicted on page 32.

This avoids the necessity of having to duplicate various committees and forums at group subsidiary level. Due to the DLC structure, we have combined board committees of Investec Limited and Investec plc. Full disclosure of the functioning and responsibilities of these board committees can be found in the Investec group's 2013 annual report.

Statement of compliance

King III

The board is of the opinion that, based on the practices disclosed throughout this report, which were in operation during the year under review, Investec has applied the King III principles.

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

Financial reporting and going concern

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

Our financial statements are prepared on a going concern basis.

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.

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

Further information on our liquidity and capital position is provided on pages 65 to 70 and pages 74 to 83.

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

Management and succession planning

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

Our management structure, reporting lines and the division of responsibilities are built around a geographic, divisional and functional network.

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

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

Internal control

Risks and controls are reviewed and monitored regularly for relevance and effectiveness. The DLC 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 financial statements.

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 regularly considered by the executive risk review forum (ERRF) and by the BRCC. Material incidents and losses and significant breaches of systems and controls are reported to the BRCC and the audit 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' conflict of interest are in force under the South African Companies Act 2008, as amended. In accordance with the Act and the Memorandum of Incorporation (MOI), the board may authorise any matter that otherwise may involve the directors breaching their duty to avoid conflicts of interest.

Internal financial controls

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

Board of directors

Biographical details of the directors are set out on pages 90 and 91, with more information in the Investec group's 2013 annual report.

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

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

For more information on the board's objectives, role and responsibilities refer to the Investec group's 2013 annual report.

Composition, structure and process

At the end of the year under review, the board, excluding the joint chairmen, comprised four executive directors and 11 non-executive directors.

Refer to the Investec group's 2013 annual report for disclosures on:

- Board changes during the past year
- Independence of board members and the chairmen
- Skills, knowledge, experience and attributes of directors
- Board and directors' performance evaluation
- Terms of appointment
- Ongoing training and development
- The role of the joint chairmen and chief executive officer
- Board meetings
- Dealings in securities
- Directors' dealings.

Board committees

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

The reports of the chairmen of the board committees are provided in the Investec group's 2013 annual report.

For ease of reference, the report by the chairman of the Investec group audit committees is included on pages 92 to 94.

The full terms of reference are available on our website.

Remuneration

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

The type of people the organisation attracts, and the culture and environment within which they work, remain crucial in determining our success and long-term progress. Our reward programmes are clear and transparent, designed and administered to align directors' and employees' interests with those of all stakeholders and ensure the group's short-, medium- and long-term success. In summary, we recognise that financial institutions have to divide the return from their enterprises between the suppliers of capital and labour and the societies in which they do business, the latter through taxation and corporate social responsibility activities.

Our group-wide remuneration philosophy seeks to maintain an appropriate balance between the interests of these stakeholders, and is closely aligned to our core values and philosophies which include risk consciousness, meritocracy, material employee ownership and an unselfish contribution to colleagues, clients and society. Further information regarding our remuneration philosophy and processes and directors' remuneration is provided in the Investec group's 2013 annual report.

South African Companies Act, 2008 disclosures

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

In keeping with the group's integrated global management structure as well as the three distinct business activities of the group, i.e. Asset Management, Wealth & Investment and Specialist Banking, the prescribed officers for Investec Limited, as per the Act are the following global heads of the group's three distinct business activities:

- Asset Management
  - Hendrik du Toit
- Wealth & Investment
  - Steve Elliott
- Specialist Banking
  - Stephen Koseff
  - Bernard Kantor
  - Glynn Burger.

Hendrik, Stephen, Bernard and Glynn are also the four executive directors of Investec Limited and their remuneration is disclosed in the Investec group's 2013 annual report. Steve is remunerated by Investec plc (a UK domiciled company) and is not required to disclose his remuneration under the South African Companies Act.

Pillar Three remuneration disclosures

The bank in South Africa is required to make certain quantitative and qualitative remuneration disclosures on an annual basis in terms of the South African Reserve Bank's Basel Pillar Three Disclosure requirements. These disclosures can be found in the Investec group's 2013 annual report.

External audit

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

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

The external auditors are invited to attend audit committee meetings and have access to the chairman of each audit committee. Recommendations on the rotation of auditors, as laid out in Directive 6/2008 of the South African Banks Act, were adhered to during the year under review. Non-audit services are dealt with in terms of an agreed policy.

For further details on non-audit services see note 6 on page 125.

Regulation and supervision

Investec is subject to external regulation and supervision by various supervisory authorities in each of the jurisdictions in which we operate, the main ones being the Banking Supervision Department (BSD) of the South African Reserve Bank (SARB). Some of our businesses are subject to supervision by the South African Financial Services Board, South African National Credit Regulator and the South African Financial Intelligence Centre.

Values and code of conduct

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

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

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

Company secretary

Benita Coetsee is the company secretary of Investec Limited. More information regarding her role and the review by the board in compliance with the JSE Listings Requirements is provided in the Investec group's 2013 annual report.

Directorate

Executive directors

(details as at the date of this report)

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

Investec committees: DLC board risk and capital, DLC capital, DLC social and ethics and global credit

Appointed to the board in October 1986

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

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

Bernard Kantor (63)
Managing director
CTA

Investec committees: DLC board risk and capital, DLC capital, DLC social and ethics and global credit

Appointed to the board in June 1987

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

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

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

Investec committees: DLC board risk and capital, DLC capital and global credit

Appointed to the board in July 2002

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

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

Hendrik du Toit (51)
Investec Asset Management chief executive officer
BCom Law, BCom (Hons) (cum laude), MCom (cum laude), MPhil (Cambridge)

Appointed to the board in December 2010

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

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

Non-executive directors

(details as at the date of this report)

Sir David J Prosser* (69)
Joint chairman
BSc (Hons), FIA

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

Appointed to the board in March 2006

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

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

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

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

Appointed to the board in January 2004

Fani is chairman of Investec Bank Limited and former chairman of Tiso Group Limited.

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

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

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

Appointed to the board in October 1996

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

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

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

Investec committees: DLC audit, Investec plc audit, Investec Limited group audit and DLC nominations and directors' affairs

Appointed to the board in June 2002

George is a former head of private banking and personnel at Kleinwort Benson Group and was a senior adviser to the UK Financial Services Authority. He is former chairman and now director on the Advisory Board of London Metropolitan Business School and chair of the Foundation Trust Financing Facility of the Department of Health

Current directorships: Investec Bank plc

Cheryl A Carolus (54)
BA (Law), BEd, Honorary doctorate in Law

Investec committees: DLC social and ethics

Appointed to the board in March 2005

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

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

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

Perry KO Crosthwaite (64)
MA (Hons) in modern languages

Investec committees: DLC remuneration

Appointed to the board in June 2010

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

Current directorships: Investec Bank plc, Jupiter Green Investment Trust, Melrose plc, Neontar Limited, Investec Securities Holdings Ireland Limited and Investec Capital and Investments (Ireland) Limited.

Olivia C Dickson (52)
MA (Oxon), MSc (Lon), CDipAF

Investec committees: DLC audit, Investec plc audit, Investec Limited group audit and DLC remuneration

Appointed to the board in March 2011

Olivia is a non-executive director and chair of the risk committee of Canada Life Limited. She is also a non-executive director, member of the codes and standards committee and chair of the Actuarial Council of the Financial Reporting Council, and a member of the Financial Services Authority's regulatory decisions committee.

Olivia was previously, among other positions, Senior Adviser to the Financial Services Authority, a managing director of JP Morgan and a non-executive director and chair of the audit committee of the London International Financial Futures Exchange.

Current directorships: Canada Life Limited, Canada Life Group (UK) Limited, Canada Life Asset Management Limited, Invista Real Estate Investment Management Holdings plc, Invista Real Estate Investment Management Limited.

Bradley Fried (47)
BCom, CA(SA), MBA

Investec committees: DLC board risk and capital

Appointed to the board in April 2010

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

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

David Friedland (59)
BCom, CA(SA)

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

Appointed to the board in March 2013

David is a former partner of both Arthur Andersen and KPMG where he also served as Head of Audit and Risk in KPMG, Cape Town Office.

Current directorships: Investec Bank Limited and Investec Bank plc.

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

Investec committees: DLC board risk and capital

Appointed to the board in July 2003

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

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

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

Appointed to the board in July 1980

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

M Peter Malungani (55)
BCom, MAP, LDP

Investec committees: DLC board risk and capital

Appointed to the board in June 2002

Peter is chairman and founder of Peu Group (Pty) Ltd, chairman of the deals and acquisitions committee and a member of the social and ethics committee of Pretoria Portland Cement Limited

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

Peter RS Thomas (68)
CA(SA)

Investec committees: DLC audit, Investec plc audit, Investec Limited group audit, DLC board risk and capital, DLC nominations and directors' affairs, DLC social and ethics and global credit
Appointed to the board in June 1981

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

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

Details of the Investec committees can be found in the Investec group's 2013 annual report.

Details of the board members of our major subsidiaries are available on our website.

Audit committee report to shareholders

Introduction

This report to the board and shareholders, on how the audit committees have discharged their duties, has been prepared in accordance with sound governance principles.

Background

In terms of Investec's DLC structure, the board has mandated authority to Investec plc audit committee and the Investec Limited audit committee to be the audit committees for those respective companies and their subsidiaries with each having their own regulatory requirements to meet. A DLC audit committee – which is the combined audit committee of Investec plc and Investec Limited – has responsibility to the board for matters common to both Investec plc and Investec Limited, and, in particular, the combined group financial statements and results.

The audit committees comply with all legal and regulatory requirements as necessary under both UK and South African legislation and listings rules, and apply the corporate governance principles for audit committees as required by both the UK Corporate Governance Code and King III. External auditors from both the UK and South Africa are represented.

The board recognises the important role of the audit committees as part of the risk management and corporate governance processes and procedures of the Investec group. In this regard the audit committees have oversight of:

- Financial reporting risks
- Internal financial risks
- Fraud and IT risks as they relate to financial reporting.

At each audit committee meeting, the group chief executive officer, group managing director and group finance director provide an in-depth assessment of their current risk related concerns and the procedures introduced by management to control or mitigate these risks.

Following the completion of all group audit committee meetings, the chairman provides a written report to the next meeting of the board of directors highlighting matters of which the audit committee believes the board should be aware.

The board has approved terms of reference for the audit committees which can be found on our website.

All responsibilities are covered in the audit committees' terms of reference.

The audit committees approve the annual internal audit plan. The heads of internal audit for both Investec plc and Investec Limited have free access to the chairman of the audit committees or any member of the audit committees and they attend all audit committee meetings by invitation.

Membership and attendance

All audit committee members are required to meet pre-determined skills, competency and experience requirements. We believe the audit committees have the necessary expertise to discharge their responsibilities effectively. In aggregate the audit committees meet 12 times per year.

Attendance by current members at audit committee meetings during the financial year ended 31 March 2013:

	DLC audit committee		Investec plc audit committee		Investec Limited audit committee	
Members	Number of meetings	Number of meetings attended	Number of meetings	Number of meetings attended	Number of meetings	Number of meetings attended
SE Abrahams (chairman)	4	4	4	4	4	4
GFO Alford	4	4	4	4	4	4
OC Dickson	4	4	4	4	4	4
D Friedland*	–	-	4	1	4	1
PRS Thomas	4	4	4	4	4	4
CB Tshili**	4	4	n/a	n/a	4	4

* *D Friedland was appointed to the audit committees with effect from 1 March 2013.*

** *CB Tshili is a non-executive director of Investec Bank Limited, a major subsidiary of Investec Limited, and represents its interest on this committee.*

Audit committees' structure

Audit committees of Investec plc and Investec Limited	DLC audit committees

External auditors
- Planning/budget
- Conflict/independence
- Attest and non-attest fees
- Reports to regulators
- Management letter
- Quality of earnings (overs and unders schedule)
- Appointment/re-appointment

Compliance
- Planning/budget
- Resources
- High level reporting of non-compliance
- Monitoring of special projects
- Regulatory matters

Tax
- High level only

Internal auditors
- Planning/budget
- Resources
- Annual audit plan
- Adequacy of staffing complement
- Succession planning
- Charter
- Execution
- Reporting
- Special ad hoc work
- Review of high level reports
- Internal controls
- Sustainability report

Operational risk
- Fundamental internal controls
- Fraud and loss statistics
- Insurance coverage
- Corporate governance (SA Banks Act requirements)
- Disaster recovery and business continuity
- Key staff issues

Finance
- Accounting policies
- Annual financial statements
  - Half-year results
  - Year-end results
- Production of audited financial statements of companies and subsidiaries
- Accounting for one-off transactions
- Accounting updates and conventions – IFRS
- Basel
- Reconciliations
- Regulatory reports
- Representation letters

Audit sub-committees
- Distil only major issues to audit committees

Audit compliance implementation forum
- High level reports

Information technology
- Status
- Major risks
- Change control
- Capacity management
- Security and fraud awareness
- Staffing
- Projects
- Governance

Current risk review
- Chief executive officer
- Managing director
- Financial director

Summary of conclusions reached by the audit committees for the year ended 31 March 2013

Following a review and meeting the requirements of each of the terms of reference, the individual and combined audit committees, to the best of my and our knowledge and belief, are satisfied that:

- The finance functions of both Investec plc and its subsidiaries and Investec Limited and its subsidiaries are adequately skilled, resourced and experienced
- The group finance director, GR Burger, has the appropriate expertise and experience to meet the responsibilities of the position
- The group's internal financial controls are effective and all material weaknesses in financial control have been identified and mitigated in due course
- The external auditors of both Investec plc and Investec Limited are, and remain, independent
- The external auditors perform their functions with the appropriate expertise, competence and experience.

In fulfilling their duties, the audit committees have:

- Reviewed and discussed the audited annual financial statements with the external auditors, the chief executive officer and the finance director
- Reviewed the adjustments resulting from external audit queries and accepted the unadjusted audit differences as they were not material
- Reviewed the quality of the financial reporting and disclosures
- Received and considered reports from the internal auditors
- Reviewed and overseen the integrated reporting process
- Considered and approved the annual internal audit plan
- Reviewed and considered representation by management on the going concern statement for the group and recommended the adoption of the going concern concept to the board.

The audit committees recommended the adoption of the integrated report to the board.

In this regard the audit committees:

- Considered all facts and risks that may impact on the integrity of the integrated report
- Reviewed and commented on the financial statements included in the integrated report
- Reviewed the disclosure of sustainability issues in the integrated report to ensure they are reliable and do not conflict with the financial information
- Engaged Grant Thornton to verify all the environmental data included in the report. Neither of the audit firms engaged in the group's external audit were considered for the project.

The board subsequently approved the integrated report, including the financial statements, which will be open for approval at the forthcoming annual general meeting.

For each audit committee and audit sub-committee meeting a comprehensive meeting pack is prepared with written reports received from the finance, internal audit, operational risk, compliance and IT functions as well as external audit. Representatives from these functions attend the meetings by invitation and present on the significant matters included in their reports.

The flow chart overleaf depicts the Investec group audit committees' structure and ambit of activities.

Audit sub-committees

Audit sub-committees for Investec plc and Investec Limited, and other regulated subsidiaries, have been established. Reports on the risk and control environment of all business units and principal operating subsidiaries are made to one of the audit sub-committees, with major issues being escalated to the audit committees. These allow senior managers of the business units, who do not attend the main Investec plc and Investec Limited audit committee meetings, to meet with the risk and control functions and to provide input on the risk and control environment of the business units. Members of the Investec plc and Investec Limited audit committees are entitled to attend these meetings and, as a general rule, at least one non-executive director attends these meetings.

Audit and compliance implementation forums

Audit and compliance implementation forums have been established for Investec plc and Investec Limited and their principal operating subsidiaries. Each audit and compliance implementation forum is attended by key executives and heads of risk and control functions. Non-executive directors have an open invitation to attend. These forums monitor and report on the implementation of recommendations and other matters that the relevant audit committee or audit sub-committee consider important. They facilitate the timely understanding and escalation of, and reaction to, risk and control matters that require a response from management.

The forums are key to enhancing risk and control consciousness and the associated control environment of the group. The forums support and provide important insight to the audit committees. Essentially, the forums act as a filter, enabling the audit committees to concentrate their efforts on matters of appropriate materiality.

Key risks addressed during the year under review

During the year under review, the following key risks were debated at all audit committee meetings:

- The process and procedures undertaken by senior management to review the impairment provisions and valuation techniques adopted in arriving at the carrying values of financial instruments, investments, etc
- The adequacy and appropriateness of liquidity throughout the group's operations
- The implementation of measures taken to further enhance group IT governance. In addition, the audit committee has had significant influence in ensuring that IT global management has assessed the controls over 'super users/privileged users' to ensure audit trails are monitored and controlled. One of the major risks facing all banking groups globally is that third parties often have direct access to banks' computer environment
- The year under review has seen a significant escalation in attempted IT fraud throughout the group. Considerable effort and time has been devoted by management and reviewed by the audit committees to ensure that IT controls are robust and that the efforts of fraudsters are countered aggressively
- Adherence to key regulatory issues facing the group via strict compliance and the result of ongoing compliance monitoring procedures
- The integration of the Evolution Group businesses into the group remained a key element of the Investec Wealth & Investment sub-audit process. In particular the Williams de Broë business acquisition and integration was carefully monitored with most major integration issues resolved during the year
- Obtained feedback on the risk assessment project conducted by the UK Regulator in the United Kingdom during the year. This process formerly referred to as 'Arrow' concentrated on both the prudential and conduct reviews. Progress on dealing with the issues raised by the regulators is being monitored by the audit committees as well as by other group risk committees
- Specific emphasis has continued to be placed on processes around the Companies Act in South Africa
- Assessing the internal control weaknesses identified by the assurance providers and ensuring appropriate steps taken within prescribed and specified time limits to mitigate and remedy such weaknesses.

With the assistance of Internal Audit, assisted by Operational Risk, we have received written combined assurance from the entire DLC group comprising all business units and assurance providers as well as support functions.

I have also met with representatives of various shareholder representative bodies during the year.

After serving as a non-executive director for 15 years and chairman of the group's audit committees for eight years, I have advised my fellow board members that it is my intention not to seek re-election to the board with effect from 8 August 2013, the date of the group's annual general meetings, with the result that I will automatically step down as chairman of the audit committees.

In this regard David Friedland was appointed as a non-executive director of the board on 1 March 2013 and the board has resolved that David Friedland succeed me as chairman of the audit committees when I step down from that role on 8 August 2013. David retired as a senior partner of one of the major international audit firms on 28 February 2013. David has extensive audit experience of listed companies across a broad range of sectors. We have commenced the process of handover to David. I have given assurance to the board that I will make myself available for as long as David needs me to provide the necessary guidance and training. I wish David all the best in this critical role, but have no doubt that he is up to the challenge and is suitably skilled and experienced to take up the role.

Sam Abrahams
Chairman, audit committees

25 June 2013

Annexure 1: Summary employment equity progress report as at 31 March 2013

Every designated employer that is a public company is required in terms of Section 22 of the Employment Equity Act to publish a summary report of their employment equity progress in their annual report. Investec Limited's progress in this regard is reported in the table below.

Occupational level

	Male			
	African	Coloured	Indian	White
Top management	3		1	16
Senior management	35	22	54	523
Professionally qualified and experienced specialist and mid-management	107	33	79	299
Skilled, academic, junior management, supervisors, foremen and superintendents	64	24	20	26
Semiskilled and discretionary decision making	124	24	8	8
Total permanent	333	103	162	872
Non-permanent employee	36	8	10	70
Grand total	369	111	172	942

	Female				Foreign		Grand total
	African	Coloured	Indian	White	Male	Female	
Top management	1			3			24
Senior management	24	13	38	268	15	5	997
Professionally qualified and experienced specialist and mid-management	190	101	178	504	11	8	1 510
Skilled, academic, junior management, supervisors, foremen and superintendents	81	105	44	110	–	–	474
Semiskilled and discretionary decision making	79	43	14	16	1	–	317
Total permanent	375	262	274	901	27	13	3 322
Non-permanent employee	44	10	10	63	4	–	255
Grand total	419	272	284	964	31	13	3 577

Annexure 2: Home loan mortgage disclosure as at 31 March 2013

In terms of the Home Loan Mortgage Disclosure Act 63 of 2003, all financial institutions are required to disclose information regarding the provision of home loans. Investec offers home loans to individuals through its Private Banking division. The information required to be disclosed by the Act can be seen in the tables below.

	Number of applications	Rand amount
Received	11 680	20 373 022 553
Approved	8 738	15 310 224 217
Expired (approved – not taken up)	1 716	2 853 392 628
Declined	180	377 393 826
New instruction	1 043	1 822 262 949
Disbursed/paid out	4 777	9 641 403 352

Race groups

	African		Coloured		Indian	
	Number of applications	Rand amount	Number of applications	Rand amount	Number of applications	Rand amount
Received	1 105	1 655 381 111	301	382 232 927	752	1 109 736 678
Approved	758	1 155 932 294	224	305 356 023	547	787 669 981
Expired (approved – not taken up)	161	227 250 222	48	46 219 272	134	203 697 020
Declined	48	94 773 245	1	3 002 052	10	16 596 020
New instruction	138	177 425 350	28	27 655 580	60	96 779 058
Disbursed/paid out	413	589 522 737	109	148 236 558	357	522 202 630

	White		Other		Unknown	
	Number of applications	Rand amount	Number of applications	Rand amount	Number of applications	Rand amount
Received	6 489	10 967 217 490	89	117 997 492	2 944	6 140 456 855
Approved	4 889	8 405 378 712	61	86 975 756	2 259	4 568 911 452
Expired (approved – not taken up)	952	1 554 887 198	24	27 509 636	397	793 829 280
Declined	95	184 025 433			26	78 997 076
New instruction	551	818 171 815	4	3 512 100	262	698 719 046
Disbursed/paid out	2 724	5 056 916 656	36	49 100 912	1 138	3 275 423 859

Province

	Eastern Cape		Free State	
	Number of applications	Rand amount	Number of applications	Rand amount
Received	419	578 153 244	112	134 343 320
Approved	358	490 971 549	91	108 392 652
Expired (approved – not taken up)	15	32 630 280	17	20 148 600
Declined	12	25 386 810	2	2 397 068
New instruction	33	26 162 325	2	3 405 000
Disbursed/paid out	166	319 602 708	59	69 909 348

	Gauteng		KwaZulu-Natal	
	Number of applications	Rand amount	Number of applications	Rand amount
Received	6 374	11 100 405 515	1 094	2 160 917 437
Approved	4 732	8 302 755 947	877	1 585 629 570
Expired (approved – not taken up)	928	1 512 727 446	93	356 756 893
Declined	129	277 705 039	15	27 060 912
New instruction	584	1 002 222 483	109	191 470 062
Disbursed/paid out	2 642	5 152 623 803	516	1 153 902 714

	Limpopo		Mpumalanga	
	Number of applications	Rand amount	Number of applications	Rand amount
Received	54	76 447 598	170	288 812 718
Approved	42	58 735 798	139	250 015 818
Expired (approved – not taken up)	3	2 672 700	19	18 712 200
Declined	2	6 310 700	1	4 205 700
New instruction	7	8 728 400	11	15 879 000
Disbursed/paid out	19	24 755 410	83	157 944 252

	North West		Northern Cape	
	Number of applications	Rand amount	Number of applications	Rand amount
Received	113	274 732 877	34	40 530 177
Approved	92	229 968 093	22	32 022 826
Expired (approved – not taken up)	10	14 502 800	11	7 628 564
Declined	1	1 805 700	–	–
New instruction	10	28 456 284	1	878 787
Disbursed/paid out	42	127 956 088	14	23 042 982

	Western Cape		Unknown	
	Number of applications	Rand amount	Number of applications	Rand amount
Received	3 154	5 473 492 505	156	245 187 163
Approved	2 268	4 058 548 638	117	193 183 327
Expired (approved – not taken up)	598	855 048 593	22	32 564 552
Declined	15	28 523 545	3	3 998 352
New instruction	272	529 619 676	14	15 440 932
Disbursed/paid out	1 175	2 517 293 892	61	94 372 155

Building trust and credibility among our stakeholders is vital to good business

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

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

As a requirement of our DLC structure, we comply with the disclosure obligations contained in the applicable listing rules of the UKLA and JSE and other exchanges on which our shares are listed and with any public disclosure obligations as required by the UK Regulators and SARB. We also recognise that from time to time we may be required to adhere to public disclosure obligations in other countries where we have operations, for example Australia.

The Investor Relations division has day-to-day responsibility for ensuring appropriate communication with stakeholders and, together with the Company Secretarial division, ensures that we meet our public disclosure obligations.

We have a board approved policy statement in place to ensure that we comply with all relevant public disclosure obligations and uphold the board's communication and disclosure philosophy.

Employees

- Communication policy
- Quarterly magazine (Impact)
- Comprehensive intranet site
- Staff updates hosted by executive management

Investors and shareholders

- Annual general meeting
- Four investor presentations
- Stock exchange announcements
- Comprehensive investor relations website
- Shareholder road shows and presentations
- Regular meetings with Investor Relations team and executive management
- Regular email and telephonic communication
- Investor days
- Annual and interim reports

Government and regulatory bodies

- Active participation in policy forums
- Response and engagement on regulatory matters
- Industry consultative bodies

Clients

- Four investor presentations
- Regular email and telephonic communication
- Comprehensive investor relations website
- Regular meetings with Investor Relations team and executive management
- Tailored client presentations
- Annual and Interim reports

Suppliers

- Centralised negotiation process

Rating agencies

- Four investor presentations
- Regular email and telephonic communication
- Comprehensive investor relations website
- Regular meetings with Investor Relations team and executive management
- Tailored presentations
- Annual and interim reports

Media

- Regular email and telephonic communication
- Stock exchange announcements
- Comprehensive investor relations website
- Regular meetings with Investor Relations team and executive management

Equity and debt analysts

- Four investor presentations
- Stock exchange announcements
- Comprehensive investor relations website
- Regular meetings with Investor Relations team and executive management
- Regular email and telephonic communication
- Investor days
- Annual and interim reports

Sustainable business practices…

Our sustainability philosophy

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

We do this by empowering communities through entrepreneurship and education and leveraging the value in our diversity. We recognise the challenges that climate change presents to the global economy and we will consider supporting any meaningful activity that either reduces the negative impact on, or prolongs the life of, our planet.

Sustainability at Investec is about:

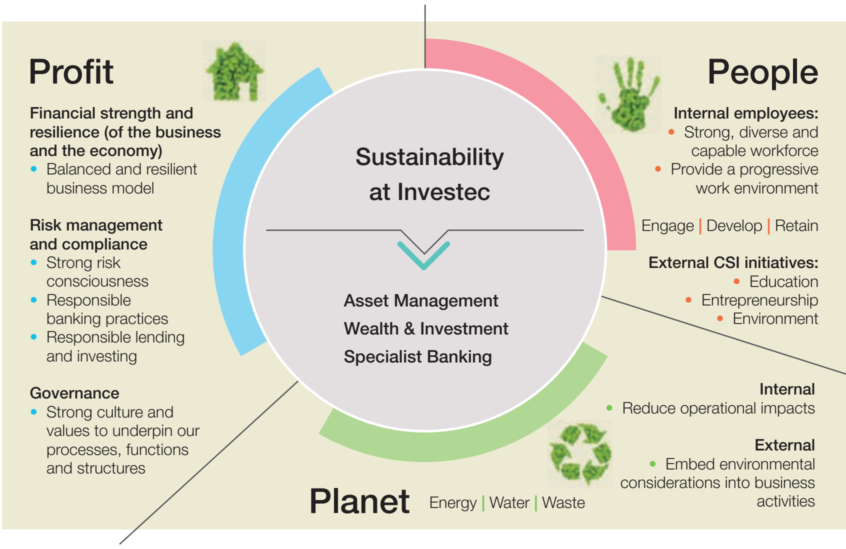
- Managing and positioning the group for the long term
- Building a sustainable business model that allows Investec to make a valuable contribution to society, to macro-economic stability and to our environment
- Developing a strong, diverse and capable workforce
- Growing and preserving clients' and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

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

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

Sustainability at Investec

Investec's sustainability focus encompasses endurance and the interdependence of the three key areas of profit, people and planet.



During the period under review, a variety of engagements took place across the group on sustainability issues including presentations on climate change issues, changes in local environmental laws and discussions around materiality. A sustainability management system was designed and implemented to ensure consistent, comprehensive carbon information is captured. We are now in a position to start setting measurable targets.

Investec maintained its inclusion in the JSE SRI Index, the FTSE4Good Index, the Dow Jones Sustainability Index and the Carbon Disclosure Project.

Annual financial
statements

Directors' responsibility statement

The annual financial statements and the group annual financial statements of Investec Limited, as set out on pages 103 to 170, are prepared to present the financial position, results and cash flows of Investec Limited and its directly owned subsidiaries in the manner required by the Companies Act of South Africa, as if Investec Limited were a standalone component of the dual listed companies structure of Investec Limited and Investec plc, as explained in the paragraph of the directors' report headed: Purpose and basis of preparation of financial statements, and are prepared in accordance with International Financial Reporting Standards on this basis.

The directors consider that in preparing the financial statements, the company and group have used appropriate accounting policies supported by reasonable and prudent judgement and estimates.

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group and to enable them to ensure that the financial statements comply with the Companies Act of South Africa. They are also responsible for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approval of group annual financial statements and company annual financial statements

The group annual financial statements and company annual financial statements of Investec Limited, as identified in the first paragraph, were approved by the board of directors on 25 June 2013 and signed on its behalf by:

On behalf of the boards of Investec plc and Investec Limited

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

Declaration by the company secretary

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

Benita Coetsee
Company secretary, Investec Limited

25 June 2013

Independent auditor's report to the members of Limited

We have audited the consolidated and separate financial statements of Investec Limited, which comprise the balance sheets as at 31 March 2013 and the income statements and statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of accounting policies and other explanatory notes, and the directors' report, as set out on pages 103 to 170 and the specified disclosures within the risk management and corporate governance sections that are marked as audited.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards, as if Investec Limited were a standalone component of the dual listed companies structure of Investec Limited and Investec plc, as explained in the paragraph of the directors' report headed: Purpose and basis of preparation of financial statements. The directors' responsibility includes a responsibility for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

Opinion

In our opinion, these financial statements are prepared to present, in all material respects, the consolidated and separate financial position of Investec Limited at 31 March 2013, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, as if Investec Limited were a standalone component of the dual listed companies structure of Investec Limited and Investec plc, as explained in the directors' report.

For an understanding of the combined consolidated financial position of the dual listed companies structure of Investec Limited and Investec plc at 31 March 2013, and their combined consolidated financial performance and combined consolidated cash flows for the year then ended, the user is referred to the combined consolidated financial statements contained in the 2013 Annual Integrated Report of Investec Limited and Investec plc.

Other reports required by the Companies Act

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

Ernst & Young Inc.
Registered Auditors
Director – Farouk Mohideen
Chartered Accountant (SA)
Registered Auditor

Wanderers Office Park
52 Corlett Drive, Illovo

Sandton
25 June 2013

KPMG Inc.
Registered Auditors
Director – Gavin de Lange
Chartered Accountant (SA)
Registered Auditor

KPMG Crescent
85 Empire Road
Parktown, Johannesburg

Sandton
25 June 2013

Directors' report

Extended business review

We are an international specialist bank and asset manager that provides a diverse range of financial products and services to a niche client base in Southern Africa. Investec focuses on delivering distinctive profitable solutions for its clients in three core areas of activity namely, Asset Management, Wealth & Investment and Specialist Banking.

The operating financial review on pages 13 to 27 provides an overview of our strategic position, performance during the financial year and outlook for the business.

Authorised and issued share capital

Details of the share capital are set out in notes 41 and 42 to the financial statements.

During the year, the following shares were issued:

- 3 494 641 non-redeemable, non-cumulative, non-participating preference shares on 25 April 2012 at R86.90 (R0.01 par and premium of R86.89 per share)
- 3 618 943 ordinary shares on 14 June 2012 at R43.78 (R0.0002 par and premium of R42.7798 per share)
- 6 857 159 special convertible redeemable preference shares on 14 June 2012 of R0.0002 each at par.

As at 31 March 2013, Investec Limited held 19.7 million shares in treasury (2012: 16.6 million).

Financial results

The results of Investec Limited are set out in the financial statements and accompanying notes for the year ended 31 March 2013. The preparation of these consolidated results was supervised by the group risk and finance director, Glynn Burger.

Ordinary dividends

An interim dividend of 112.0 cents per ordinary share (2012: 103.0 cents) was declared to shareholders registered on 14 December 2012 and was paid on 28 December 2012.

The directors have proposed a final dividend of 144.0 cents per ordinary share (2012: 121.0 cents) to shareholders registered on 2 August 2013 to be paid on 12 August 2013. The final dividend is subject to the approval of members of Investec Limited at the annual general meeting scheduled for 8 August 2013.

Preference dividends

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

Preference dividend number 16 for the period 1 April 2012 to 30 September 2012, amounting to 343.14681 cents per share, was declared to members holding preference shares registered on 7 December 2012 and was paid on 18 December 2012.

Preference dividend number 17 for the period 1 October 2012 to 31 March 2013, amounting to 329.61696 cents per share, was declared to members holding preference shares registered on 14 June 2013 and will be paid on 25 June 2013.

Redeemable cumulative preference shares

Dividends amounting to R24 152 712 were paid on the redeemable cumulative preference shares.

Directors and secretaries

Details of directors and secretaries of Investec Limited are reflected on pages 90 and 91.

In accordance with the UK Corporate Governance Code (which Investec plc is subject to and therefore impacts the DLC and Investec Limited governance requirements), the entire board will offer itself for re-election at the 2013 annual general meeting, other than SE Abrahams who will not offer himself for re-election.

D Friedland was appointed to the board on 1 March 2013.

Directors and their interests

Directors' shareholdings and options to acquire shares are set out in the Investec group's 2013 annual report.

The register of directors' interests contains full details of directors' shareholdings and options to acquire shares.

Corporate governance

The group's corporate governance board statement and governance framework are set out on pages 32 and 87 to 89.

Share incentive trusts

Details regarding options granted during the year are set out in the Investec group's 2013 annual report.

Audit committee

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

The audit committee comprising non-executive directors meets regularly with senior management, the external auditors, Operational Risk, Internal Audit, Compliance and the Finance division, to consider the nature and scope of the audit reviews and the effectiveness of our risk and control systems.

The report to shareholders by the chairman of the audit committee can be found on pages 92 to 94.

Auditors

Ernst & Young Inc. and KPMG Inc. have indicated their willingness to continue in office as auditors of Investec Limited.

A resolution to re-appoint them as auditors will be proposed at the next annual general meeting scheduled to take place on 8 August 2013.

Contracts

Refer to the Investec group's 2013 annual report.

Subsidiary and associated companies

Details of principal subsidiary and associated companies are reflected on pages 150, 154 and 155.

Major shareholders

The largest shareholders of Investec Limited are reflected on pages 172 to 174.

Special resolutions

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

- A renewable authority was granted to Investec Limited and any of its subsidiaries to acquire its own ordinary and non-redeemable, non-cumulative, non-participating preference shares in terms of the provisions of the South African Companies Act, No 71 of 2008
- A renewable authority was granted to Investec Limited to provide financial assistance in order to comply with the provisions of sections 44 and 45 of the South African Companies Act, No 71 of 2008
- A renewable authority was granted to Investec Limited to approve directors' remuneration in order to comply with the provisions of sections 65(11)(h), 66(8) and 66(9) of the South African Companies Act No 71 of 2008
- Article 152 of the existing Memorandum of Incorporation of Investec Limited was amended by the deletion of certain paragraphs and the replacement thereof by new paragraphs
- The abrogation of the existing Memorandum of Incorporation of Investec Limited in its entirety and the replacement thereof with a new Memorandum of Incorporation.

Accounting policies and disclosure

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

Purpose and basis of preparation of financial statements

Under the contractual arrangements implementing the dual listed companies (DLC) structure, Investec Limited and Investec plc, the latter a company incorporated in the United Kingdom, effectively form a single economic enterprise, in which the economic and voting rights of shareholders are equalised. In accordance with this structure the appropriate presentation under International Financial Reporting Standards is achieved by combining the results and the financial position of both companies using merger accounting principles. Those combined consolidated financial statements have been separately prepared.

The Companies Act of South Africa does not specifically envisage a reporting structure such as the DLC structure. The combined consolidated financial statements of Investec Limited and Investec plc are considered the statutory financial statements of Investec Limited and Investec plc. The attached annual financial statements and the group annual financial statements of Investec Limited are prepared to present the financial position, results and cash flows of Investec Limited and its directly owned subsidiaries in the manner required by the Companies Act of South Africa, in the absence of a DLC structure, and are prepared in accordance with International Financial Reporting Standards as if Investec Limited were a standalone component of the DLC structure, but with earnings per share disclosed in the DLC combined consolidated financial statements by virtue of the sharing arrangement. For an understanding of the financial position, results and cash flows of the Investec DLC structure the user is referred to the combined consolidated financial statements of Investec Limited and Investec plc.

These policies are set out on pages 113 to 121.

Financial instruments

Detailed information on the group's risk management process and policy can be found in the risk management report on pages 29 to 84.

Information on the group's hedge accounting policy and the use of derivatives and hedges can be found on pages 117 and 118 and in notes 22 and 51.

Creditor payment policy

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

Employees

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

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

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

Donations

During the year Investec Limited made donations for charitable purposes, totalling R70.6 million.

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

Environment

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

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

Going concern

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

Post-balance sheet events

Investec Asset Management senior management to acquire 15% shareholding in Investec Asset Management

As announced on 14 March 2013, the boards of directors of Investec have reached an agreement with Forty Two Point Two (NewCo) and the senior management team of Investec Asset Management Limited and Investec Asset Management Holdings (Pty) Ltd (together Investec Asset Management) to acquire an initial 15% shareholding (the Interest) in Investec Asset Management for £180 million in cash. NewCo has also been granted an option (the Option) to acquire up to a further 5% of Investec Asset Management equity over the next seven years (together with the Interest, the 'Transaction'). The Participants, led by Investec Asset Management chief executive officer, Hendrik du Toit, comprise 40 senior management and employees of Investec Asset Management. The option for NewCo to acquire up to a further 5% of Investec Asset Management equity over the next seven years will provide an opportunity for wider participation amongst Investec Asset Management employees. The Transaction is conditional upon, among other things, the approval of shareholders of Investec plc and Investec Limited at general meetings to be convened for that purpose as well as certain regulatory approvals. Subject to the conditions being met, completion of the Transaction is expected to take place in the third quarter of 2013.

On behalf of the board of Investec Limited

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

25 June 2013

Income statements

For the year to 31 March R'million	Notes	Group 2013	Group 2012	Company 2013	Company 2012
Interest income	2	16 155	15 942	74	192
Interest expense	2	(11 564)	(11 857)	(27)	(25)
Net interest income		4 591	4 085	47	167
Fee and commission income	3	4 804	4 380	–	–
Fee and commission expense	3	(135)	(146)	–	–
Investment income	4	1 099	758	2 224	2 740
Trading income arising from					
– customer flow		174	270	–	–
– balance sheet management and other trading activities		213	183	–	–
Other operating income	5	77	54	–	–
Total operating income before impairment losses on loans and advances		10 823	9 584	2 271	2 907
Impairment losses on loans and advances	25	(833)	(824)	–	–
Operating income		9 990	8 760	2 271	2 907
Operating costs	6	(6 118)	(5 432)	(76)	(26)
Operating profit before goodwill impairment		3 872	3 328	2 195	2 881
Impairment of goodwill	32	(24)	(34)	–	–
Profit before taxation		3 848	3 294	2 195	2 881
Taxation	8	(608)	(576)	(1)	(20)
Profit after taxation		3 240	2 718	2 194	2 861
Earnings attributable to non-controlling interests		(3)	(4)	–	–
Earnings attributable to shareholders		3 237	2 714	2 194	2 861

Statements of comprehensive income

For the year to 31 March R'million	Notes	Group 2013	Group 2012	Company 2013	Company 2012
Profit after taxation		3 240	2 718	2 194	2 861
Other comprehensive income:					
Fair value movements on cash flow hedges taken directly to other comprehensive income	8	(193)	(352)	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	8	78	69	–	–
Gain on realisation of available-for-sale assets recycled through the income statement	8	(39)	(42)	–	–
Foreign currency adjustments on translating foreign operations		480	250	–	–
Total comprehensive income		3 566	2 643	2 194	2 861
Total comprehensive income attributable to non-controlling interests		3	4	–	–
Total comprehensive income attributable to ordinary shareholders		3 238	2 352	1 978	2 679
Total comprehensive income attributable to perpetual preference shareholders		325	287	216	182
Total comprehensive income		3 566	2 643	2 194	2 861

Balance sheets

At 31 March R'million	Notes	Group 2013	 2012	Company 2013	 2012
Assets					
Cash and balances at central banks	16	5 677	9 303	–	–
Loans and advances to banks	17	25 376	20 511	30	28
Non-sovereign and non-bank cash placements		5 875	7 885	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	18	15 846	5 570	–	–
Sovereign debt securities	19	33 730	29 699	–	–
Bank debt securities	20	20 969	27 695	–	–
Other debt securities	21	7 006	5 825	435	–
Derivative financial instruments	22	12 159	10 595	–	–
Securities arising from trading activities	23	3 598	3 284	–	–
Investment portfolio	24	8 202	7 316	41	41
Loans and advances to customers	25	135 733	122 621	–	–
Own originated loans and advances to customers securitised	26	6 130	6 126	–	–
Other loans and advances	25	672	669	–	–
Other securitised assets	26	1 584	1 712	–	–
Interests in associated undertakings	27	45	38	–	–
Deferred taxation assets	28	531	372	–	–
Other assets	29	8 444	6 286	55	149
Property and equipment	30	644	542	–	–
Investment properties	31	6 147	4 858	–	–
Goodwill	32	145	169	–	–
Intangible assets	33	90	97	–	–
Investments in subsidiaries	34	–	–	14 424	13 568
		298 603	271 173	14 985	13 786
Other financial instruments at fair value through profit or loss in respect of liabilities to customers	35	86 893	76 903	–	–
		385 496	348 076	14 985	13 786
Liabilities					
Deposits by banks		17 861	13 933	–	–
Derivative financial instruments	22	9 237	8 570	–	–
Other trading liabilities	36	6 687	4 188	–	–
Repurchase agreements and cash collateral on securities lent	18	18 188	18 174	–	–
Customer accounts (deposits)		185 311	176 094	–	–
Debt securities in issue	37	6 147	4 389	400	400
Liabilities arising on securitisation of own originated loans and advances	26	6 259	6 256	–	–
Liabilities arising on securitisation of other assets	26	588	492	–	–
Current taxation liabilities	38	1 720	1 625	247	247
Deferred taxation liabilities	28	390	319	–	–
Other liabilities	39	7 214	5 263	124	56
		259 602	239 303	771	703
Liabilities to customers under investment contracts	35	86 864	76 880	–	–
Insurance liabilities, including unit-linked liabilities	35	29	23	–	–
		346 495	316 206	771	703
Subordinated liabilities	40	14 455	9 628	–	–
		360 950	325 834	771	703
Equity					
Ordinary share capital	41	1	1	1	1
Share premium	43	9 814	9 352	9 863	9 401
Treasury shares	44	(954)	(825)	–	–
Other reserves		203	(123)	62	62
Retained income		13 938	12 293	4 288	3 619
Shareholders' equity excluding non-controlling interests		23 002	20 698	14 214	13 083
Non-controlling interests	45	1 544	1 544	–	–
– Perpetual preferred securities issued by subsidiaries		1 534	1 534	–	–
– Non-controlling interests in partially held subsidiaries		10	10	–	–
Total equity		24 546	22 242	14 214	13 083
Total liabilities and equity		385 496	348 076	14 985	13 786

Cash flow statements

For the year to 31 March R'million	Notes	Group 2013	Group 2012	Company 2013	Company 2012
Profit before taxation adjusted for non-cash items	47	5 393	4 478	2 311	3 008
Taxation paid		(602)	(1 058)	(1)	–
Increase in operating assets	47	(46 344)	(30 385)	(341)	(91)
Increase/(decrease) in operating liabilities	47	29 228	36 427	68	(3)
Net cash (outflow)/inflow from operating activities		(12 325)	9 462	2 037	2 914
Cash flow on net disposal of associates		–	101	–	–
Cash flow on acquisition and disposal of property, equipment and intangible assets		(262)	(214)	–	–
Net cash outflow from investing activities		(262)	(113)	–	–
Dividends paid to ordinary shareholders		(1 383)	(1 169)	(1 425)	(1 210)
Dividends paid to other equity holders		(328)	(292)	(216)	(182)
Proceeds on issue of ordinary shares, net of related costs		159	168	159	193
Proceeds on acquisition of treasury shares, net of related costs		(401)	(333)	–	–
Proceeds on issue of perpetual preference shares		303	–	303	–
Proceeds on subordinated debt raised		6 335	2 942	–	–
Repayment of subordinated debt		(1 508)	(180)	–	–
Net increase in subsidiaries and loans to group companies		–	–	(856)	(1 714)
Net cash inflow/(outflow) from financing activities		3 177	1 136	(2 035)	(2 913)
Effects of exchange rates on cash and cash equivalents		169	146	–	–
Net (decrease)/increase in cash and cash equivalents		(9 241)	10 631	2	1
Cash and cash equivalents at the beginning of the year		26 313	15 682	28	27
Cash and cash equivalents at the end of the year		17 072	26 313	30	28
Cash and cash equivalents is defined as including:					
Cash and balances at central banks		5 677	9 303	–	–
On demand loans and advances to banks		5 520	9 125	30	28
Non-sovereign and non-bank cash placements		5 875	7 885	–	–
Cash and cash equivalents at the end of the year		17 072	26 313	30	28

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

Statement of changes in equity

R'million	Ordinary share capital	Share premium	Treasury shares
Group			
At 1 April 2011	1	9 184	(807)
Movement in reserves 1 April 2011 – 31 March 2012			
Profit after taxation	–	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–	–
Gain on realisation of available-for-sale assets recycled through the income statement	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	–
Total comprehensive income for the year	–	–	–
Issue of ordinary shares	–	168	–
Movement of treasury shares	–	–	(333)
Share-based payment adjustments	–	–	–
Transfer from share-based payment reserve to treasury shares	–	–	315
Transfer from retained income to regulatory general risk reserve	–	–	–
Transfer from capital reserve account to retained income	–	–	–
Movement in non-controlling interests due to acquisitions and disposals	–	–	–
Dividends paid to ordinary shareholders	–	–	–
Dividends declared to perpetual preference shareholders included in non-controlling interests	–	–	–
Dividends paid to perpetual preference shareholders included in non-controlling interests	–	–	–
Dividends paid to non-controlling interests	–	–	–
At 31 March 2012	1	9 352	(825)
Movement in reserves 1 April 2012 – 31 March 2013			
Profit after taxation	–	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–	–
Gain on realisation of available-for-sale assets recycled through the income statement	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	–
Total comprehensive income for the year	–	–	–
Issue of ordinary shares	–	159	–
Issue of perpetual preference shares	–	303	–
Movement of treasury shares	–	–	(401)
Share-based payment adjustments	–	–	–
Transfer from share-based payment reserve to treasury shares	–	–	272
Dividends paid to ordinary shareholders	–	–	–
Dividends declared to perpetual preference shareholders included in non-controlling interests	–	–	–
Dividends paid to perpetual preference shareholders included in non-controlling interests	–	–	–
Dividends paid to non-controlling interests	–	–	–
At 31 March 2013	1	9 814	(954)

	Other reserves								
	Capital reserve account	Available-for-sale reserves	Regulatory general risk reserve	Foreign currency reserve	Cash flow hedge reserve	Retained income	Shareholders' equity excluding non-controlling interests	Non-controlling interests	Total
	62	(7)	255	(520)	99	10 971	19 238	1 544	20 782
	–	–	–	–	–	2 714	2 714	4	2 718
	–	–	–	–	(352)	–	(352)	–	(352)
	–	69	–	–	–	–	69	–	69
	–	(42)	–	–	–	–	(42)	–	(42)
	–	–	–	250	–	–	250	–	250
	–	27	–	250	(352)	2 714	2 639	4	2 643
	–	–	–	–	–	–	168	–	168
	–	–	–	–	–	–	(333)	–	(333)
	–	–	–	–	–	442	442	–	442
	–	–	–	–	–	(315)	–	–	–
	–	–	64	–	–	(64)	–	–	–
	(1)	–	–	–	–	1	–	–	–
	–	–	–	–	–	–	–	1	1
	–	–	–	–	–	(1 169)	(1 169)	–	(1 169)
	–	–	–	–	–	(287)	(287)	104	(183)
	–	–	–	–	–	–	–	(104)	(104)
	–	–	–	–	–	–	–	(5)	(5)
	61	20	319	(270)	(253)	12 293	20 698	1 544	22 242
	–	–	–	–	–	3 237	3 237	3	3 240
	–	–	–	–	(193)	–	(193)	–	(193)
	–	78	–	–	–	–	78	–	78
	–	(39)	–	–	–	–	(39)	–	(39)
	–	–	–	480	–	–	480	–	480
	–	39	–	480	(193)	3 237	3 563	3	3 566
	–	–	–	–	–	–	159	–	159
	–	–	–	–	–	–	303	–	303
	–	–	–	–	–	–	(401)	–	(401)
	–	–	–	–	–	388	388	–	388
	–	–	–	–	–	(272)	–	–	–
	–	–	–	–	–	(1 383)	(1 383)	–	(1 383)
	–	–	–	–	–	(325)	(325)	109	(216)
	–	–	–	–	–	–	–	(109)	(109)
	–	–	–	–	–	–	–	(3)	(3)
	61	59	319	210	(446)	13 938	23 002	1 544	24 546

Statement of changes in equity (continued)

R'million	Ordinary share capital	Share premium	Other reserves Capital reserve account	Retained income	Total equity
Company					
At 1 April 2011	1	9 208	62	2 023	11 294
Movement in reserves 1 April 2011 – 31 March 2012					
Profit after taxation	–	–	–	2 861	2 861
Total comprehensive income for the year	–	–	–	2 861	2 861
Issue of ordinary shares	–	193	–	–	193
Share-based payment adjustments	–	–	–	127	127
Dividends paid to ordinary shareholders	–	–	–	(1 210)	(1 210)
Dividends paid to perpetual preference shareholders	–	–	–	(182)	(182)
At 31 March 2012	1	9 401	62	3 619	13 083
Movement in reserves 1 April 2012 – 31 March 2013					
Profit after taxation	–	–	–	2 194	2 194
Total comprehensive income for the year	–	–	–	2 194	2 194
Issue of ordinary shares	–	159	–	–	159
Issue of perpetual preference shares	–	303	–	–	303
Share-based payment adjustments	–	–	–	116	116
Dividends paid to ordinary shareholders	–	–	–	(1 425)	(1 425)
Dividends paid to perpetual preference shareholders	–	–	–	(216)	(216)
At 31 March 2013	1	9 863	62	4 288	14 214

Basis of presentation

The group and company financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and the Companies Act, as if Investec Limited were a standalone component of the DLC structure as explained in the director's report but with earnings per share and specific directors' remuneration disclosed in the combined consolidated financial statements of Investec plc and Investec Limited by virtue of the sharing arrangement.

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

Accounting policies applied are consistent with those of the prior year.

Group refers to group and company in the accounting policies that follow.

Presentation of information

Disclosure under IFRS 7 Financial Instruments: Disclosures and IAS 1 Presentation of Financial Statements: Capital Disclosures relating to the nature and extent of risks have been included in sections marked as audited in the risk management report and corporate governance sections on pages 29 to 89.

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

Basis of consolidation

All subsidiaries and special purpose entities (SPEs) in which the group holds more than one half of the voting rights or which it has the ability to control (either directly or in substance) are consolidated from the effective dates of acquisition (that is from when control exists) up to the effective dates of loss of control, except entities which are classified as non-current assets held-for-sale. Subsidiaries classified as non-current assets held-for-sale are consolidated in one income statement line item as discontinued operations.

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

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

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

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

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

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

Segmental reporting

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

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

For further detail on the group's segmental reporting basis refer to pages 3 to 5 of the financial 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.

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.

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

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

Foreign currency transactions and foreign operations

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

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

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

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

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

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

Revenue recognition

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

Revenue is recognised when it can be reliably measured and it is probable that the economic benefits will flow to the entity. Revenue related to provision of services is recognised when the related services are performed. Revenue is measured at the fair value of the consideration received or receivable.

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

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

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

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

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

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

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

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

Included in other operating income is incidental rental income, gains on realisation of properties (other than investment properties which is included in investment income), operating lease income, income from interests in associated undertakings and income from assurance activities.

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 an inconsistent measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy and information about the group is provided internally on that basis to the group's key management personnel; and
- 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 predominantly 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 an SPE, and the SPE issues debt securities to external investors to fund the purchase of the securitised assets. The group's exposure to the SPE is the reserves provided as credit enhancement to the holders of the SPEs' debt securities, with the first loss position treated as a long-term interest rate borrowing to the SPEs.

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

Available-for-sale financial assets

Available-for-sale financial assets are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity, or loans and receivables. They include strategically held equity instruments that are not interests in associated undertakings, joint ventures or subsidiaries of the group. Further, certain loans and receivables that are held at fair value due to being quoted on an active market, which are neither actively traded nor held-to-maturity instruments, are classified as available-for-sale financial assets.

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

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

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

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

Financial liabilities

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

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

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

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

Valuation of financial instruments

All financial instruments are initially recognised at fair value. On initial recognition, the fair value of a financial instrument is the transaction price unless it is deemed appropriate that the fair value of a financial instrument is more accurately determined by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. In circumstances where unobservable data has a significant impact on the valuation of a financial instrument, the entire difference between the model determined fair value and the transaction price is not recognised on initial recognition. Refer to the 'Day 1' profit or loss accounting policy.

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

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

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

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

'Day 1' profit or loss

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

Impairments of financial assets held at amortised cost

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

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

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

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

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

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

Derecognition of financial assets and liabilities

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

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

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

Reclassification of financial instruments

The group may reclassify, in rare circumstances, non-derivative financial assets out of the held-for-trading category 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 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 derivatives. Subsequently the derivatives are carried at fair value with movements in the fair value through profit or loss based on the 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 arising 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 standalone derivative if and only if:

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

Offsetting of financial assets and liabilities

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

Issued debt and equity financial instruments

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

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

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

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

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

Sale and repurchase agreements (including securities borrowing and lending)

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

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

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

Financial guarantees

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

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

Instalment credit, leases and rental agreements

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

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

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

Property and equipment

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

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

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

The current and comparative annual depreciation rates for each class of property and equipment is as follows:

• Computer and related equipment	20% – 33%
• Motor vehicles	20% – 25%
• Furniture and fittings	10% – 20%
• Freehold buildings	2%
• Leasehold improvements*	

* *Leasehold improvements' depreciation rates are determined by reference to the appropriate useful life of its separate components, limited to the period of the lease.*

No depreciation is provided on freehold land, however, similar to other property related assets, it is subject to impairment testing when deemed necessary.

Routine maintenance and service costs of assets are expensed as incurred. Subsequent expenditure is only capitalised if it is probable that future economic benefits associated with the item will flow to the group.

Investment property

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

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

Dealing properties

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

Intangible assets

Intangible assets are recorded at cost less accumulated amortisation and impairments.

For intangible assets with a finite life, amortisation is provided on the depreciable amount of each intangible asset on a straight-line basis over the anticipated useful life of the asset (currently three to eight years). The depreciable amount related to each intangible asset is determined as the difference between the cost and the residual value of the asset. The residual value is the estimated amount, net of disposal costs, which the group would currently obtain from the disposal of an intangible asset in similar age and condition as expected at the end of its useful life.

Impairment of non-financial assets

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

Impairment losses are recognised as an expense in the income statement in the period in which they are identified. Reversals of impairment losses are recognised in income in the period in which the reversal is identified, to the extent that the carrying value of the asset does not exceed the amount that would have been calculated without impairment.

Trust and fiduciary activities

The group acts as a trustee or in other fiduciary capacities that result in the holding, placing or managing of assets for the account of and at the risk of clients.

As these are not assets of the group, they are not recognised on the balance sheet but are included at market value as part of assets under administration.

Taxation and deferred taxation

Current tax payable is provided on the amount expected to be payable on taxable profits at rates that are enacted or substantively enacted and applicable to the relevant period.

Deferred taxation is provided using the balance sheet method on temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base, except where such temporary differences arise from:

- The initial recognition of goodwill
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction has no effect on the income statement
- In respect of temporary differences associated with the investments in subsidiaries and interests in associated undertakings, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

Insurance contracts

Insurance contracts are those contracts in which the group assumes significant insurance risk. The deposit components of insurance contracts are unbundled and accounted for separately.

Insurance premiums are recognised in income in the period in which the group is entitled to the premium. Insurance claims are recognised in the income statement in the period in which a contractual obligation arises for the group to make payment under an insurance contract.

Reinsurance assets and liabilities and associated premiums/claims are not offset in the income statement or balance sheet.

Insurance liabilities are measured at their actuarial values, and are tested for adequacy on an annual basis. Any deficiency identified is recognised in the income statement.

Insurance income is included in other operating income.

Employee benefits

The group operates various defined contribution schemes.

All employer contributions are charged to income as incurred, in accordance with the rules of the scheme, and included under staff costs.

The group has no liabilities for other post-retirement benefits.

Borrowing costs

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

Provisions, contingent liabilities and contingent assets

Provisions are liabilities of uncertain timing or amount and are recognised as soon as the group has created a legal or constructive obligation which will lead to an outflow of economic resources to settle the obligation as a result of a past event. Expenses related to provisions are recognised in the income statement. Contingent assets and contingent liabilities are not recognised on balance sheet.

Standards and interpretations issued but not yet effective

The following standards and interpretations, which have been issued but are not yet effective, are applicable to the group. These standards and interpretations have not been applied in these financial statements. The group intends to comply with these standards from the effective dates.

New standards:

IFRS 10 – Consolidated Financial Statements

The standard replaces consolidation principles contained in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Special Purpose Entities. The standard defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The standard is retrospectively effective for the group for the year commencing 1 April 2013. The impact of the adoption of IFRS 10 on the group is currently under evaluation.

IFRS 11 – Joint Arrangements

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

IFRS 12 – Disclosure of Interests in Other Entities

The standard requires disclosure of the significant judgements and assumptions made in determining the nature of interests in subsidiaries, joint ventures and interest in associated undertakings and the interest that non-controlling interests have in the group's activities and cash flows. The standard further provides disclosure requirements relating to consolidated and unconsolidated structured entities that the group is associated with. The standard is retrospectively effective for the group for the year commencing 1 April 2013. The impact of the standard is further disclosure, with no changes to measurement or recognition requirements.

IFRS 13 – Fair Value Measurement

The standard defines fair value as being a market-based measurement and sets out in a single IFRS, a framework for measuring fair value. This standards 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 review.

IFRS 9 – Financial Instruments

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

- Classification and measurement of financial assets and financial liabilities – the standard requires that all financial assets be classified as either held at fair value or amortised cost. The amortised cost classification is only permitted where it is held within a business model where the underlying cash flows are held in order to collect contractual cash flows and that the cash flows arise solely from payment of principal and interest. The standard further provides that gains and losses on assets held at fair value are measured through the income statement unless the entity has elected to present gains and losses on non-trading equity investments (individually elected) directly through comprehensive income. With reference to financial liabilities held at fair value, the standard proposes that changes to fair value attributable to credit risk is taken directly to other comprehensive income without recycling. These are current deliberations which may result in limited modifications to IFRS 9 relating to classification and measurement.
- Impairment methodology – The key change is related to a shift from an incurred loss to an expected loss impairment methodology. Revisions to the methodology are subject to deliberation, with expected amendments to IFRS 9 in 2013.

The standard is effective for the group for the year commencing 1 April 2015, and does not require the restatement of comparative-period financial statements upon initial application.

IFRS 7 – Disclosures – Offsetting Financial Assets and Financial Liabilities (amendments to IFRS 7)

These amendments require additional disclosures which the group will be in a position to provide. The amendments are effective for the year commencing 1 April 2013.

There are other proposed amendments which do not have a material impact to the financial statements and thus have not been highlighted or discussed above.

Key management assumptions

In preparation of the financial statements the group makes estimations and applies judgement that could affect the reported amount of assets and liabilities within the next financial year. Key areas in which judgement is applied include:

- Valuation of unlisted investments in the private equity and direct investments portfolios. Key valuation inputs are based on the most relevant observable market inputs, adjusted where necessary for factors that specifically apply to the individual investments and recognising market volatility

Details of unlisted investments can be found in note 24 with further analysis contained in the risk management section on pages 54 to 56.

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

Refer to note 31 for the carrying value of investment property with further analysis contained in the risk management section on pages 54 to 56.

- 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 33 to 53 in the risk management section for further analysis on impairments.

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

Notes to the annual financial statements

For the year to 31 March R'million	Asset Management	Wealth & Investment	Specialist Banking	Total
1. Segmental analysis				
Group				
Business analysis				
2013				
Net interest income	54	(18)	4 555	4 591
Fee and commission income	2 366	742	1 696	4 804
Fee and commission expense	–	(13)	(122)	(135)
Investment income	–	–	1 099	1 099
Trading income arising from				
– customer flow	–	4	170	174
– balance sheet management and other trading activities	2	5	206	213
Other operating income	70	–	7	77
Total operating income before impairment losses on loans and advances	2 492	720	7 611	10 823
Impairment losses on loans and advances	–	–	(833)	(833)
Operating income	2 492	720	6 778	9 990
Operating costs	(1 402)	(495)	(4 221)	(6 118)
Operating profit before goodwill impairment	1 090	225	2 557	3 872
Impairment of goodwill	(24)	–	–	(24)
Profit before taxation	1 066	225	2 557	3 848
Cost to income ratio	56.3%	68.8%	55.5%	56.5%
Total assets (excluding assurance assets)	2 464	7 776	288 363	298 603
Business analysis				
2012				
Net interest income	53	17	4 015	4 085
Fee and commission income	1 960	653	1 767	4 380
Fee and commission expense	–	(38)	(108)	(146)
Investment income	–	–	758	758
Trading income arising from				
– customer flow	–	6	264	270
– balance sheet management and other trading activities	4	1	178	183
Other operating income	30	–	24	54
Total operating income before impairment losses on loans and advances	2 047	639	6 898	9 584
Impairment losses on loans and advances	–	–	(824)	(824)
Operating income	2 047	639	6 074	8 760
Operating costs	(1 164)	(457)	(3 811)	(5 432)
Operating profit before goodwill impairment	883	182	2 263	3 328
Impairment of goodwill	(34)	–	–	(34)
Profit before taxation	849	182	2 263	3 294
Cost to income ratio	56.9%	71.5%	55.2%	56.7%
Total assets (excluding assurance assets)	1 986	4 426	264 761	271 173

The company's activities mainly comprise central funding activities within the Specialist Banking segment.

Net assets by class of business is not disclosed as the directors do not view it to be meaningful to provide the information by class of business since the economic capital of certain significant businesses of the group is not held in, or allocated to, these businesses, but is centrally held.

No geographical analysis has been presented as the group only operates in one geographical segment, namely Southern Africa.

2. Net interest income

For the year to 31 March R'million	Notes	Group 2013 Balance sheet value	Group 2013 Interest received	Group 2012 Balance sheet value	Group 2012 Interest received	Company 2013 Balance sheet value	Company 2013 Interest received	Company 2012 Balance sheet value	Company 2012 Interest received
Cash, near cash and bank debt and sovereign debt securities	1	107 473	4 225	100 663	4 539	30	1	28	1
Core loans and advances	2	141 863	11 419	128 747	10 927	–	–	–	–
Private client		96 313	7 455	96 183	7 961	–	–	–	–
Corporate, institutional and other clients		45 550	3 964	32 564	2 966	–	–	–	–
Other debt securities and other loans and advances		7 678	247	6 494	326	435	11	–	–
Other interest earning assets	3	1 584	264	2 015	150	256	62	(101)	191
Total interest earning assets		258 598	16 155	237 919	15 942	721	74	(73)	192

For the year to 31 March R'million	Notes	Group 2013 Balance sheet value	Group 2013 Interest paid	Group 2012 Balance sheet value	Group 2012 Interest paid	Company 2013 Balance sheet value	Company 2013 Interest paid	Company 2012 Balance sheet value	Company 2012 Interest paid
Deposits by banks and other debt related securities	4	42 196	(947)	36 496	(457)	400	(27)	400	(25)
Customer accounts (deposits)		185 311	(8 941)	176 094	(9 773)	–	–	–	–
Other interest bearing liabilities	5	6 847	(741)	6 748	(766)	–	–	–	–
Subordinated liabilities		14 455	(935)	9 628	(861)	–	–	–	–
Total interest bearing liabilities		248 809	(11 564)	228 966	(11 857)	400	(27)	400	(25)
Net interest income			4 591		4 085		47		167

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

For the year to 31 March R'million	Group 2013	 2012
3. Fees and commissions		
Fund management fees/fees for assets under management	2 711	2 237
Private client transactional fees	844	769
Corporate and institutional transactional and advisory services	1 249	1 374
Fee and commission income	4 804	4 380
Fee and commission expense	(135)	(146)
Net fees and commissions	4 669	4 234

Fee and commission income from trust and fiduciary activities amounts to R24.7 million (2012: R19.9 million) and is included in private client transactional fees.

For the year to 31 March R'million	Asset portfolio Investment portfolio (listed and unlisted equities)*	 Debt securities (sovereign, bank and other)	 Investment properties	 Other asset categories	Total
4. Investment income					
The following table analyses investment income generated by the asset portfolio shown on the balance sheet:					
Group					
2013					
Realised	727	–	843	(36)	1 534
Unrealised	(288)	66	(132)	(1)	(355)
Dividend income	163	–	–	–	163
Funding and other net related (costs)/income	(169)	–	(98)	24	(243)
	433	66	613	(13)	1 099
2012					
Realised	562	7	(39)	–	530
Unrealised	(238)	55	272	(70)	19
Dividend income	397	(1)	1	–	397
Funding and other net related costs	(188)	–	–	–	(188)
	533	61	234	(70)	758
Company					
2013					
Realised	–	–	–	591	591
Dividend income	–	–	–	1 633	1 633
	–	–	–	2 224	2 224
2012					
Realised	(37)	–	–	–	(37)
Unrealised	(28)	–	–	–	(28)
Dividend income	2 805	–	–	–	2 805
	2 740	–	–	–	2 740

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

For the year to 31 March R'million	Group 2013	Group 2012
5. Other operating income		
Rental income from properties	4	3
(Loss)/gain on realisation of properties	(7)	11
Unrealised gains on investments	59	30
Operating loss from associates	–	(1)
Assurance income	21	11
	77	54

For the year to 31 March R'million	Group 2013	Group 2012	Company 2013	Company 2012
6. Operating costs				
Staff costs	3 995	3 583	76	24
– Salaries and wages (including directors' remuneration)^	3 302	2 886	60	–
– Training and other costs	91	79	–	–
– Share-based payment expense	388	442	16	24
– Social security costs	51	26	–	–
– Pensions and provident fund contributions	163	150	–	–
Premises expenses (excluding depreciation)	419	418	–	–
Equipment expenses (excluding depreciation)	469	309	–	–
Business expenses*	770	729	–	2
Marketing expenses	297	238	–	–
Depreciation, amortisation and impairment of property, equipment and intangibles	168	155	–	–
	6 118	5 432	76	26
The following amounts were paid to the auditors:				
Audit fees	51	42	7	5
Other services	4	1	–	–
	55	43	7	5
				–
Fees by audit firm:				
Ernst & Young Inc	28	22	6	5
KPMG Inc	27	21	1	–
	55	43	7	5
Minimum operating lease payments recognised in operating costs	295	322	–	–

^ *Details of the directors' emoluments, pensions and their interests are disclosed in the remuneration report in the combined consolidated financial statements of Investec plc and Investec Limited.*

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

For the year to 31 March R'million	Group Asset Management	Wealth & Investment	Specialist Banking	Total group
7. Share-based payments				
The group operates share option and long-term incentive plans for employees, which are on an equity-settled basis. The purpose of the staff share schemes is to promote an *esprit de corps* within the organisation, create an awareness of Investec's performance and provide an incentive to maximise individual and group performance by allowing all staff to share in the risks and rewards of the group. Further information on the group share options and long-term incentive plans are provided in the remuneration report of the combined consolidated financial statements of Investec plc and Investec Limited and on our website.				
Equity-settled share-based payments expense charged to income statement (included in operating costs)				
2013	47	32	309	388
2012	55	34	353	442

	Group			
	2013		2012	
For the year to 31 March	Number of share options	Weighted average exercise price R	Number of share options	Weighted average exercise price R
Details of options outstanding during the year				
Outstanding at the beginning of the year	42 423 893	–	42 984 422	0.74
Granted during the year	8 609 725	–	9 020 438	–
Exercised during the year	(5 168 582)	–	(7 223 129)	4.38
Expired during the year	(1 564 490)	–	(2 357 838)	–
Outstanding at the end of the year	44 300 546	–	42 423 893	–
Exercisable at the end of the year	445 767	–	1 011 438	–

* *The weighted average share price during the year was R52.76 (2012: R49.26). The accelerated vesting charge for the year was R1 million (2012: Rnil).*

At 31 March	Group 2013	Group 2012
7. Share-based payments (continued)		
The exercise price range and weighted average remaining contractual life for the options outstanding, were as follows:		
Long-term incentive options with no strike price		
Weighted average remaining contractual life	2.67 years	2.99 years
Weighted average fair value of options granted at measurement date	R34.31	R37.25
The fair values of options granted were calculated using a Black-Scholes option pricing model.		
For options granted during the year, the inputs into the model were as follows:		
– Share price at date of grants	R43.85 – R56.86	R44.00 – R56.29
– Exercise price	Rnil	Rnil
– Expected volatility	30%	30%
– Option life	2.5 – 5 years	5 years
– Expected dividend yields	5.42% – 6.70%	3.87 % – 5.33%
– Average risk-free rate	5.46 % – 6.29%	6.44% – 7.58%

Expected volatility was determined based on the implied volatility levels quoted by the Equity Derivatives trading desk. The expected volatility is based on the respective share price movement over the last six months, but also includes an element of forward expectation. The expected attrition rates used were determined based on historical group data with an adjustment to actual attrition on final vesting.

For information on the share options granted to directors, refer to the remuneration report in the combined consolidated financial statements of Investec plc and Investec Limited.

For the year to 31 March R'million	Group 2013	Group 2012	Company 2013	Company 2012
8. Taxation				
Income statement taxation charge				
South Africa				
– Current taxation	602	967	1	20
in respect of current year	643	967	1	20
in respect of prior year adjustments	(41)	–	–	–
– Capital gains taxation	84	29	–	–
– Deferred taxation	(96)	(434)	–	–
Total South African taxation	590	562	1	20
Foreign taxation				
– Mauritius	13	7	–	–
– Botswana	3	4	–	–
Total foreign taxation	16	11	–	–
Taxation on income	606	573	1	20
Secondary taxation on companies	2	3	–	–
Total taxation charge as per income statement	608	576	1	20
Tax rate reconciliation:				
Profit before taxation as per income statement	3 848	3 294	2 195	2 881
Total taxation charge as per income statement	608	576	1	20
Less: Secondary taxation on companies	(2)	(3)	–	–
Total taxation on income	606	573	1	20
Effective rate of taxation	15.7%	17.4%	0.0%	0.7%
The standard rate of South African normal taxation has been affected by:				
– Dividend income	1.4%	8.3%	20.8%	27.3%
– Foreign earnings*	3.1%	0.8%	–	–
– Impairment of goodwill	(0.2%)	(0.3%)	–	–
– Prior year taxation adjustments	1.4%	0.4%	–	–
– Assessed losses	(0.2%)	1.9%	–	–
– Other permanent differences	6.8%	(0.5%)	7.2%	–
	28.0%	28.0%	28.0%	28.0%

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

	Group 2013	Group 2012
Other comprehensive income taxation effects		
Fair value movements on cash flow hedges taken directly to other comprehensive income	(193)	(352)
– Pre-taxation	(193)	(363)
– Income taxation effect	–	11
Fair value movements on available-for-sale assets taken directly to other comprehensive income	78	69
– Pre-taxation	103	96
– Income taxation effect	(25)	(27)
Gain on realisation of available-for-sale assets recycled through the income statement	(39)	(42)
– Pre-taxation	(50)	(58)
– Income taxation effect	11	16

For the year to 31 March	Group				Company			
	2013		2012		2013		2012	
	Cents per share	Total R'million	Cents per share	Total R'million	Cents per share	Total R'million	Cents per share	Total R'million
9. Dividends								
Ordinary dividend								
Final dividend in prior year*	121.00	716	102.00	568	121.00	737	102.00	586
Interim dividend for current year*	112.00	667	103.00	601	112.00	688	103.00	624
Total dividend attributable to ordinary shareholders recognised in current financial year	233.00	1 383	205.00	1 169	233.00	1 425	205.00	1 210
Perpetual preference dividend								
Final dividend in prior year	315.86	154.00	660.45	145	315.86	102.00	318.84	91
Interim dividend for current year	343.15	171.00	654.28	142	343.15	114.00	315.86	91
Total dividend attributable to perpetual preference shareholders recognised in current financial year	659.01	325.00	1 314.73	287	659.01	216.00	634.70	182

* *This includes the dividend paid by Investec Limited on DAS share equivalent for South African resident shareholders of Investec plc.*

The directors have proposed a final dividend in respect of the financial year ended 31 March 2013 of 144 cents (2012:121 cents) per ordinary share. The final dividend will be payable to shareholders on the register at the close of business on Friday, 2 August 2013. The annual general meeting at which the proposed dividend will be considered for approval is scheduled to take place on Thursday, 8 August 2013.

The directors have declared a final dividend in respect of the financial year ended 31 March 2013 of 329.61696 cents (2012: 315.86301 cents) per Investec Limited perpetual preference share and 353.18222 cents (2012: 338.42466 cents) per Investec Bank Limited perpetual preference share. The final dividend was paid to shareholders on the register at the close of business on Friday, 14 June 2013.

For the year to 31 March R'million	Group		Company	
	2013	2012	2013	2012
10. Headline earnings				
Calculation of headline earnings				
Earnings attributable to shareholders	3 237	2 714	2 194	2 861
Dividends paid to perpetual preference shareholders	(325)	(287)	(216)	(182)
Earnings attributable to ordinary shareholders	2 912	2 427	1 978	2 679
Headline adjustments:	(271)	(35)	(591)	–
Goodwill impairment	24	34	–	–
Revaluation of investment properties, net of taxation**	(267)	(27)	–	–
Gain on realisation of available-for-sale assets, net of taxation**	(28)	(42)	–	–
Profit on sale of subsidiary^	–	–	(591)	–
Headline earnings attributable to ordinary shareholders	2 641	2 392	1 387	2 679

** *Taxation on headline earnings adjustments amounted to R114.8 million (2012: R26.9 million), with no impact on earnings attributable to non-controlling interests.*

^ *Relates to sale of investment in Investec Property Fund Limited*

For information on the earnings per share of the combined consolidated Investec plc and Investec Limited entities, refer to notes to the financial statements in the combined consolidated financial statements of Investec plc and Investec Limited.

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

For the year to 31 March R'million	At fair value through profit or loss Trading	 Designated at inception
Group		
2013		
Net interest income	547	1 981
Fee and commission income	–	4
Fee and commission expense	–	(6)
Investment income	7	494
Trading income arising from		
– customer flow	125	20
– balance sheet management and other trading activities	232	(40)
Other operating income	–	71
Total operating income before impairment losses on loans and advances	911	2 524
Impairment losses on loans and advances	–	–
Operating income	911	2 524
2012		
Net interest income	698	2 293
Fee and commission income	24	50
Fee and commission expense	(4)	–
Investment income	–	539
Trading income arising from		
– customer flow	270	–
– balance sheet management and other trading activities	149	(44)
Other operating income	–	43
Total operating income before impairment losses on loans and advances	1 137	2 881
Impairment losses on loans and advances	–	–
Operating income	1 137	2 881
Company		
2013		
Net interest income	–	–
Investment income	–	–
Total operating income before impairment losses on loans and advances	–	–
2012		
Net interest income	–	–
Investment income	–	(28)
Total operating income before impairment losses on loans and advances	–	(28)

Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non-financial instruments	Other fee income	Total
929	10 925	644	(10 435)	–	–	4 591
–	307	3	10	295	4 185	4 804
–	(42)	–	–	(2)	(85)	(135)
–	5	128	–	465	–	1 099
–	29	–	–	–	–	174
(2)	23	–	–	–	–	213
–	–	–	–	6	–	77
927	11 247	775	(10 425)	764	4 100	10 823
–	(833)	–	–	–	–	(833)
927	10 414	775	(10 425)	764	4 100	9 990
998	11 558	374	(11 863)	–	27	4 085
5	1 203	–	–	441	2 657	4 380
–	(64)	–	(20)	–	(58)	(146)
–	9	58	(70)	222	–	758
–	–	–	–	–	–	270
–	76	–	–	2	–	183
–	3	–	–	8	–	54
1 003	12 785	432	(11 953)	673	2 626	9 584
–	(824)	–	–	–	–	(824)
1 003	11 961	432	(11 953)	673	2 626	8 760
–	47	–	–	–	–	47
–	–	–	–	2 224	–	2 224
–	47	–	–	2 224	–	2 271
–	167	–	–	–	–	167
–	–	–	–	2 768	–	2 740
–	167	–	–	2 768	–	2 907

At 31 March R'million	At fair value through profit or loss Trading	At fair value through profit or loss Designated at inception	Available-for-sale
12. Analysis of financial assets and liabilities by category of financial instruments			
Group			
2013			
Assets			
Cash and balances at central banks	–	–	–
Loans and advances to banks	–	789	–
Non-sovereign and non-bank cash placements	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	5 202	–	–
Sovereign debt securities	–	25 206	5 273
Bank debt securities	8 410	93	1 028
Other debt securities	1 252	359	1 144
Derivative financial instruments*	12 159	–	–
Securities arising from trading activities	3 598	–	–
Investment portfolio	–	8 145	57
Loans and advances to customers	–	14 856	–
Own originated loans and advances to customers securitised	–	–	–
Other loans and advances	–	–	–
Other securitised assets	–	432	–
Interests in associated undertakings	–	–	–
Deferred taxation assets	–	–	–
Other assets	1	423	–
Property and equipment	–	–	–
Investment properties	–	–	–
Goodwill	–	–	–
Intangible assets	–	–	–
	30 622	50 303	7 502
Financial instruments at fair value through profit or loss in respect of liabilities to customers	–	–	–
	30 622	50 303	7 502
Liabilities			
Deposits by banks	–	5	–
Derivative financial instruments*	9 237	–	–
Other trading liabilities	6 687	–	–
Repurchase agreements and cash collateral on securities lent	2 205	–	–
Customer accounts (deposits)	–	6 252	–
Debt securities in issue	–	2 619	–
Liabilities arising on securitisation of own originated loans and advances	–	–	–
Liabilities arising on securitisation of other assets	–	588	–
Current taxation liabilities	–	–	–
Deferred taxation liabilities	–	–	–
Other liabilities	496	443	–
	18 625	9 907	–
Liabilities to customers under investment contracts	–	–	–
Insurance liabilities, including unit-linked liabilities	–	–	–
	18 625	9 907	–
Subordinated liabilities	–	1 959	–
	18 625	11 866	–

* *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 51 on pages 167 and 168.

Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Insurance related	Non-financial instruments	Total
–	–	5 677	–	5 677	–	–	5 677
789	–	24 587	–	24 587	–	–	25 376
–	–	5 875	–	5 875	–	–	5 875
5 202	–	10 644	–	10 644	–	–	15 846
30 479	3 251	–	–	3 251	–	–	33 730
9 531	10 387	1 051	–	11 438	–	–	20 969
2 755	469	3 782	–	4 251	–	–	7 006
12 159	–	–	–	–	–	–	12 159
3 598	–	–	–	–	–	–	3 598
8 202	–	–	–	–	–	–	8 202
14 856	–	120 877	–	120 877	–	–	135 733
–	–	6 130	–	6 130	–	–	6 130
–	–	672	–	672	–	–	672
432	–	1 152	–	1 152	–	–	1 584
–	–	–	–	–	–	45	45
–	–	–	–	–	–	531	531
424	–	5 709	–	5 709	–	2 311	8 444
–	–	–	–	–	–	644	644
–	–	–	–	–	–	6 147	6 147
–	–	–	–	–	–	145	145
–	–	–	–	–	–	90	90
88 427	14 107	186 156	–	200 263	–	9 913	298 603
–	–	–	–	–	86 893	–	86 893
88 427	14 107	186 156	–	200 263	86 893	9 913	385 496
5	–	–	17 856	17 856	–	–	17 861
9 237	–	–	–	–	–	–	9 237
6 687	–	–	–	–	–	–	6 687
2 205	–	–	15 983	15 983	–	–	18 188
6 252	–	–	179 059	179 059	–	–	185 311
2 619	–	–	3 528	3 528	–	–	6 147
–	–	–	6 259	6 259	–	–	6 259
588	–	–	–	–	–	–	588
–	–	–	–	–	–	1 720	1 720
–	–	–	–	–	–	390	390
939	–	–	4 112	4 112	–	2 163	7 214
28 532	–	–	226 797	226 797	–	4 273	259 602
–	–	–	–	–	86 864	–	86 864
–	–	–	–	–	29	–	29
28 532	–	–	226 797	226 797	86 893	4 273	346 495
1 959	–	–	12 496	12 496	–	–	14 455
30 491	–	–	239 293	239 293	86 893	4 273	360 950

At 31 March R'million	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 (continued)			
Group			
2012			
Assets			
Cash and balances at central banks	–	–	–
Loans and advances to banks	–	759	–
Non-sovereign and non-bank cash placements	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	5 091	–	–
Sovereign debt securities	–	23 106	4 559
Bank debt securities	13 132	149	1 241
Other debt securities	–	624	302
Derivative financial instruments*	10 595	–	–
Securities arising from trading activities	3 284	–	–
Investment portfolio	–	7 290	26
Loans and advances to customers	–	14 820	–
Own originated loans and advances to customers securitised	–	–	–
Other loans and advances	–	–	–
Other securitised assets	–	335	–
Interests in associated undertakings	–	–	–
Deferred taxation assets	–	–	–
Other assets	164	327	–
Property and equipment	–	–	–
Investment properties	–	–	–
Goodwill	–	–	–
Intangible assets	–	–	–
	32 266	47 410	6 128
Financial instruments at fair value through profit or loss in respect of liabilities to customers	–	–	–
	32 266	47 410	6 128
Liabilities			
Deposits by banks	–	–	–
Derivative financial instruments*	8 570	–	–
Other trading liabilities	4 188	–	–
Repurchase agreements and cash collateral on securities lent	3 817	–	–
Customer accounts (deposits)	–	6 748	–
Debt securities in issue	–	–	–
Liabilities arising on securitisation of own originated loans and advances	–	–	–
Liabilities arising on securitisation of other assets	–	492	–
Current taxation liabilities	–	–	–
Deferred taxation liabilities	–	–	–
Other liabilities	340	323	–
	16 915	7 563	–
Liabilities to customers under investment contracts	–	–	–
Insurance liabilities, including unit-linked liabilities	–	–	–
	16 915	7 563	–
Subordinated liabilities	–	–	–
	16 915	7 563	–

* *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 51 on pages 167 and 168.

	Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Insurance related	Non-financial instruments	Total
	–	–	9 303	–	9 303	–	–	9 303
	759	–	19 752	–	19 752	–	–	20 511
	–	–	7 885	–	7 885	–	–	7 885
	5 091	–	479	–	479	–	–	5 570
	27 665	2 034	-	–	2 034	–	–	29 699
	14 522	9 002	4 171	–	13 173	–	–	27 695
	926	4 874	25	–	4 899	–	–	5 825
	10 595	–	–	–	–	–	–	10 595
	3 284	–	–	–	–	–	–	3 284
	7 316	–	–	–	–	–	–	7 316
	14 820	–	107 801	–	107 801	–	–	122 621
	–	–	6 126	–	6 126	–	–	6 126
	–	–	669	–	669	–	–	669
	335	–	1 377	–	1 377	–	–	1 712
	–	–	–	–	–	–	38	38
	–	–	–	–	–	–	372	372
	491	–	3 774	–	3 774	–	2 021	6 286
	–	–	–	–	–	–	542	542
	–	–	–	–	–	–	4 858	4 858
	–	–	–	–	–	–	169	169
	–	–	–	–	–	–	97	97
	85 804	15 910	161 362	–	177 272	–	8 097	271 173
	–	–	–	–	–	76 903	–	76 903
	85 804	15 910	161 362	–	177 272	76 903	8 097	348 076
	–	–	–	13 933	13 933	–	–	13 933
	8 570	–	–	–	–	–	–	8 570
	4 188	–	–	–	–	–	–	4 188
	3 817	–	–	14 357	14 357	–	–	18 174
	6 748	–	–	169 346	169 346	–	–	176 094
	–	–	–	4 389	4 389	–	–	4 389
	–	–	–	6 256	6 256	–	–	6 256
	492	-	-	–	–	–	–	492
	–	–	–	–	–	–	1 625	1 625
	–	–	–	–	–	–	319	319
	663	–	–	3 046	3 046	–	1 554	5 263
	24 478	–	–	211 327	211 327	–	3 498	239 303
	–	–	–	–	–	76 880	–	76 880
	–	–	–	–	–	23	–	23
	24 478	–	–	211 327	211 327	76 903	3 498	316 206
	–	–	–	9 628	9 628	–	–	9 628
	24 478	–	–	220 955	220 955	76 903	3 498	325 834

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

At 31 March R'million	At fair value through profit or loss Designated at inception	Total instruments at fair value	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
Company							
2013							
Assets							
Loans and advances to banks	–	–	30	–	30	–	30
Other debt securities	–	–	435	–	435	–	435
Investment portfolio	41	41	–	–	–	–	41
Other assets	–	–	55	–	55	–	55
Investment in subsidiaries	–	–	–	–	–	14 424	14 424
	41	41	520	–	520	14 424	14 985
Liabilities							
Debt securities in issue	–	–	–	400	400	–	400
Current taxation liabilities	–	–	–	–	–	247	247
Other liabilities	–	–	–	84	84	40	124
	–	–	–	484	484	287	771
2012							
Assets							
Loans and advances to banks	–	–	28	–	28	–	28
Investment portfolio	41	41	–	–	–	–	41
Other assets	–	–	149	–	149	–	149
Investment in subsidiaries	–	–	–	–	–	13 568	13 568
	41	41	177	–	177	13 568	13 786
Liabilities							
Debt securities in issue	–	–	–	400	400	–	400
Current taxation liabilities	–	–	–	–	–	247	247
Other liabilities	–	–	–	56	56	–	56
	–	–	–	456	456	247	703

13. Fair value hierarchy

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

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

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

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

Assets and liabilities related to the long-term assurance business attributable to policyholders have been excluded from the analysis as the change in fair value of related assets is attributable to policyholders. These are all level 1 assets.

At 31 March R'million	Total instruments at fair value	Valuation technique applied		
		Level 1	Level 2	Level 3
2013				
Group				
Financial assets				
Loans and advances to banks	789	–	789	–
Reverse repurchase agreements and cash collateral on securities borrowed	5 202	–	5 202	–
Sovereign debt securities	30 479	30 479	–	–
Bank debt securities	9 531	1 121	8 410	–
Other debt securities	2 755	2 396	253	106
Derivative financial instruments	12 159	13	12 231	(85)
Securities arising from trading activities	3 598	3 598	–	–
Investment portfolio	8 202	470	7 670	62
Loans and advances to customers	14 856	–	14 856	–
Other securitised assets	432	–	432	–
Other assets	424	424	–	–
	88 427	38 501	49 843	83
Financial liabilities				
Deposits by banks	5	–	5	–
Derivative financial instruments	9 237	5	9 232	–
Other trading liabilities	6 687	6 687	–	–
Repurchase agreements and cash collateral on securities lent	2 205	–	2 205	–
Customer accounts (deposits)	6 252	–	6 252	–
Debt securities in issue	2 619	–	2 619	–
Liabilities arising on securitisation of other assets	588	588	–	–
Other liabilities	939	443	496	–
Subordinated liabilities	1 959	–	1 959	–
	30 491	7 723	22 768	–

.

At 31 March R'million	Total instruments at fair value	Valuation technique applied		
		Level 1	Level 2	Level 3
13. Fair value hierarchy (continued)				
2012				
Group				
Financial assets				
Loans and advances to banks	759	–	759	–
Reverse repurchase agreements and cash collateral on securities borrowed	5 091	3 245	1 846	–
Sovereign debt securities	27 665	26 806	859	–
Bank debt securities	14 522	1 287	13 235	–
Other debt securities	926	302	572	52
Derivative financial instruments	10 595	1	10 683	(89)
Securities arising from trading activities	3 284	2 597	687	–
Investment portfolio	7 316	1 046	6 206	64
Loans and advances to customers	14 820	–	14 820	–
Other securitised assets	335	–	335	–
Other assets	491	482	9	–
	85 804	35 766	50 011	27
Financial liabilities				
Derivative financial instruments	8 570	5	8 565	–
Other trading liabilities	4 188	4 188	–	–
Repurchase agreements and cash collateral on securities lent	3 817	3 817	–	–
Customer accounts (deposits)	6 748	–	6 748	–
Liabilities arising on securitisation of other assets	492	–	492	–
Other liabilities	663	653	10	–
	24 478	8 663	15 815	–

At 31 March R'million	Total instruments at fair value	Valuation technique applied		
		Level 1	Level 2	Level 3
2013				
Company				
Financial assets				
Investment portfolio	41	–	41	–
	41	–	41	–
2012				
Financial assets				
Investment portfolio	41	–	41	–
	41	–	41	–

13. Fair value hierarchy (continued)

Transfers between level 1 and level 2

In line with market practice, repurchase agreements have been moved from level 1 to level 2

There is no change to the level of observability, however these are based on principal to principal pricing rather than quoted market prices.

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

Level 3 instruments

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

For the year to 31 March R'million	Group 2013	 2012
Group		
Net opening balance at 1 April	27	70
Total gains or losses recognised in the current year	46	43
Purchases	–	6
Sales	–	(105)
Issues	(9)	(57)
Transfers out of level 3	(3)	–
Transfers into level 3	15	63
Foreign exchange adjustments	7	7
Net closing balance at 31 March	83	27
The following table quantifies the gains and losses recognised on level 3 financial instruments:		
Total gains or losses on level 3 financial instruments included in the income statement:		
Interest income	1	1
Investment income	29	28
Trading income arising from customer flow	16	14
	46	43

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

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

For the year ended 31 March 2012, instruments to the value of R63.0 million were transferred from level 2 to level 3 due to certain significant inputs no longer being observable in the market.

13. Fair value hierarchy (continued)

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

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

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

The above variations have been determined with reference to the key unobservable inputs which mainly relate to future cash flows and discount rates applied.

14. Fair value of financial instruments at amortised cost

At 31 March R'million	2013 Carrying value	2013 Fair value	2012 Carrying value	2012 Fair value
Group				
Financial assets				
Cash and balances at central banks	5 677	5 677	9 303	9 303
Loans and advances to banks	24 587	24 587	19 752	19 752
Non-sovereign and non-bank cash placements	5 875	5 875	7 885	7 885
Reverse repurchase agreements and cash collateral on securities borrowed	10 644	10 644	479	479
Sovereign debt securities	3 251	3 610	2 034	2 078
Bank debt securities	11 438	12 004	13 173	12 952
Other debt securities	4 251	4 283	4 899	4 910
Loans and advances to customers	120 877	122 034	107 801	107 857
Own originated loans and advances to customers securitised	6 130	6 130	6 126	6 126
Other loans and advances	672	672	669	669
Other securitised assets	1 152	1 152	1 377	1 376
Other assets	5 709	5 709	3 774	3 858
	200 263	202 377	177 272	177 245
Financial liabilities				
Deposits by banks	17 856	17 822	13 933	13 993
Repurchase agreements and cash collateral on securities lent	15 983	15 964	14 357	14 534
Customer accounts (deposits)	179 059	179 498	169 346	169 780
Debt securities in issue	3 528	3 528	4 389	4 389
Liabilities arising on securitisation of own originated loans and advances	6 259	6 259	6 256	6 256
Other liabilities	4 112	3 385	3 046	3 046
Subordinated liabilities	12 496	12 821	9 628	9 712
	239 293	239 277	220 955	221 710
Company				
Financial assets				
Loans and advances to banks	30	30	28	28
Other debt securities	435	435	–	–
Other assets	55	55	149	149
	520	520	177	177
Financial liabilities				
Debt securities in issue	400	400	400	400
Other liabilities	84	84	56	56
	484	484	456	456

14. Fair value of financial instruments at amortised cost (continued)

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.

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

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

15. Designated at fair value: loans and receivables and financial liabilities

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

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

At 31 March R'million	Carrying value	Remaining contractual amount to be repaid at maturity	Fair value adjustment Year to date	Fair value adjustment Cumulative
15. Designated at fair value: loans and receivables and financial liabilities (continued)				
Group				
Financial liabilities				
2013				
Deposits by banks	5	5	–	–
Customer accounts (deposits)	6 252	5 972	47	280
Debt securities in issue	2 619	2 772	3	(153)
Liabilities arising on securitisation of other assets	588	588	–	–
Other liabilities	443	443	70	-
Subordinated liabilities	1 959	1 803	101	156
	11 866	11 583	221	283
2012				
Customer accounts (deposits)	6 748	6 508	59	240
Liabilities arising on securitisation of other assets	492	492	–	–
Other liabilities	323	323	48	–
	7 563	7 323	107	240

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

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

At 31 March R'million	Group 2013	Group 2012
16. Cash and balances at central banks		
The country risk of cash and balances at central banks lies in the following geographies:		
South Africa	5 635	9 300
Other	42	3
	5 677	9 303

At 31 March R'million	Group 2013	Group 2012	Company 2013	Company 2012
17. Loans and advances to banks				
The country risk of loans and advances to banks lies in the following geographies:				
South Africa	17 679	6 543	30	28
United Kingdom	2 128	5 047	–	–
Europe (excluding UK)	2 898	8 486	–	–
United States of America	1 727	226	–	–
Australia	175	209	–	–
Other	769	–	–	–
	25 376	20 511	30	28

At 31 March R'million	Group 2013	Group 2012
18. Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent		
Assets		
Reverse repurchase agreements	4 802	3 252
Cash collateral on securities borrowed	11 044	2 318
	15 846	5 570

As part of the reverse repurchase and securities borrowing agreements, the group has received securities that it is allowed to sell or re-pledge. R2.5 billion (2012: R3.3 billion) has been re-sold or re-pledged to third parties in connection with financing activities to comply with commitments under short sale transactions.

	Group 2013	Group 2012
Liabilities		
Repurchase agreements	18 188	18 174

The assets transferred and not derecognised in the above repurchase agreements are valued at R19.9 billion (2012: R19.0 billion). They are pledged as security for the term of the underlying repurchase agreement.

At 31 March R'million	Group 2013	Group 2012
19. Sovereign debt securities		
Bonds	11 690	6 594
Debentures	–	2 175
Liquid asset bills	22 040	20 930
	33 730	29 699

The country risk of sovereign debt securities lies in the following geography:

	Group 2013	Group 2012
South Africa	33 730	29 699

At 31 March R'million	Group	
	2013	2012
20. Bank debt securities		
Bonds	9 915	14 324
Debentures	309	–
Floating rate notes	10 745	10 838
Liquid asset bills	–	239
Promissory notes	–	2 294
	20 969	27 695
The country risk of bank debt securities lies in the following geographies:		
South Africa	9 195	14 902
United Kingdom	5 766	8 100
Europe (excluding UK)	900	670
United States of America	5 086	4 005
Australia	22	18
	20 969	27 695

At 31 March R'million	Group		Company	
	2013	2012	2013	2012
21. Other debt securities				
Bonds	3 181	2 483	435	–
Commercial paper	–	198	–	–
Floating rate notes	362	–	–	–
Promissory notes	11	19	–	–
Other investments*	3 452	3 125	–	–
	7 006	5 825	435	–
The country risk of other debt securities lies in the following geographies:				
South Africa	2 096	1 206	–	–
United Kingdom	3 594	4 286	–	–
Europe (excluding UK)	104	31	–	–
United States of America	392	302	–	–
Australia	820	–	435	–
	7 006	5 825	435	–

* *Largely comprises investments relating to our securitisation and principal finance activities as discussed on page 56.*

22. Derivative financial instruments

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

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

	Group					
	2013			2012		
At 31 March R'million	Notional principal amounts	Positive fair value	Negative fair value	Notional principal amounts	Positive fair value	Negative fair value
Foreign exchange derivatives						
Forward foreign exchange contracts	15 781	179	276	12 520	266	251
Currency swaps	114 767	2 002	972	114 726	2 338	515
OTC options	7 365	45	31	3 989	49	86
Other foreign exchange contracts	14 671	74	82	6 249	13	10
	152 584	2 300	1 361	137 484	2 666	862
Interest rate derivatives						
Caps and floors	7 686	25	24	8 325	34	34
Swaps	409 657	6 076	5 473	367 228	5 724	6 892
Forward rate agreements	687 230	311	328	23 642	249	165
OTC options	3 270	29	28	9 620	34	34
Other interest rate contracts	480	222	146	189	13	–
	1 108 323	6 663	5 999	409 004	6 054	7 125
Equity and stock index derivatives						
OTC options	27 992	2 376	639	15 825	1 282	472
Equity swaps and forwards	4 660	5	1	1	1	5
OTC derivatives	32 652	2 381	640	15 826	1 283	477
Exchange traded futures	15 251	–	–	18 706	1	–
Exchange traded options	56 468	5	–	77 481	2	–
Warrants	5 224	–	705	1 666	–	–
	109 595	2 386	1 345	113 679	1 286	477
Commodity derivatives						
OTC options	500	15	243	–	–	–
Commodity swaps and forwards	1 200	322	289	4 105	195	103
	1 700	337	532	4 105	195	103
Credit derivatives						
Credit swaps	253	7	–	664	8	3
Credit linked notes	651	7	–	–	–	–
	904	14	–	664	8	3
Embedded derivatives*		459	–		386	–
Derivatives per balance sheet		12 159	9 237		10 595	8 570

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

At 31 March R'million	Group 2013	Group 2012
23. Securities arising from trading activities		
Listed equities	2 699	1 930
Bonds	776	1 231
Floating rate notes	123	123
	3 598	3 284

At 31 March R'million	Group 2013	Group 2012	Company 2013	Company 2012
24. Investment portfolio				
Listed equities	593	1 046	–	–
Unlisted equities	7 609	6 270	41	41
	8 202	7 316	41	41

At 31 March R'million	Group 2013	Group 2012
25. Loans and advances to customers and other loans and advances		
Gross loans and advances to customers	137 081	123 924
Impairments of loans and advances to customers	(1 348)	(1 303)
Net loans and advances to customers	135 733	122 621
Gross other loans and advances	684	680
Impairments of other loans and advances to customers	(12)	(11)
Net other loans and advances to customers	672	669

For further analysis on loans and advances refer to pages 47 to 53 in the risk management section.

At 31 March R'million	Group 2013	2012
25. Loans and advances to customers and other loans and advances (continued)		
Reconciliation of movements in specific and portfolio impairments		
Loans and advances to customers		
Specific impairment		
Balance at beginning of year	1 099	1 137
Charge to the income statement	1 084	964
Recoveries/reversals recognised in the income statement	(153)	(32)
Utilised	(803)	(977)
Exchange adjustment	–	7
Balance at end of year	1 227	1 099
Portfolio impairment		
Balance at beginning of year	204	319
Charge to the income statement	(95)	(116)
Exchange adjustment	12	1
Balance at end of year	121	204
Other loans and advances		
Specific impairment		
Balance at beginning of year	11	76
Charge to the income statement	1	11
Utilised	–	(76)
Balance at end of year	12	11
Total specific impairments	1 239	1 110
Total portfolio impairments	121	204
Total impairments on the balance sheet	1 360	1 314

At 31 March R'million	Group 2013	2012
Reconciliation of income statement charge:		
Total impairment on loans and advances	836	816
Specific impairment charged to income statement	931	932
Portfolio impairment charged to income statement	(95)	(116)
Total impairment on securitised assets	(4)	(3)
Specific impairment charged to income statement	(4)	–
Portfolio impairment charged to income statement	–	(3)
Total impairment on other loans and advances	1	11
Specific impairment charged to income statement	1	11
Total income statement charge	833	824

At 31 March R'million	Group 2013	Group 2012
26. Securitised assets and liabilities arising on securitisation		
Gross own originated loans and advances to customers securitised	6 136	6 132
Impairments of own originated loans and advances to customers securitised	(6)	(6)
Net own originated loans and advances to customers securitised	6 130	6 126
Other securitised assets are made up of the following categories of assets:		
– Cash and cash equivalents	994	1 219
– Loans and advances to customers	590	158
– Other debt securities	–	335
Total other securitised assets	1 584	1 712

At 31 March R'million	Group 2013	Group 2012
The associated liabilities are recorded on the balance sheet in the following line items:		
Liabilities arising on securitisation of own originated loans and advances	6 259	6 256
Liabilities arising on securitisation of other assets	588	492
Reconciliation of specific and portfolio impairments		
The impairments below relate only to own originated loans and advances to customers.		
Specific impairment		
Balance at beginning of year	4	4
Charge to the income statement	(4)	–
Recoveries	4	–
Balance at end of year	4	4
Portfolio impairment		
Balance at beginning of year	2	5
Charge to the income statement	–	(3)
Balance at end of year	2	2
Total impairments on the balance sheet	6	6

At 31 March R'million	Group 2013	Group 2012
27. Interests in associated undertakings		
Analysis of the movement in our share of net assets:		
Balance at beginning of year	38	135
Exchange differences	7	5
Operating income from associates (included in other operating income)	–	(1)
Disposals	–	(101)
Share of net asset value at end of year	45	38
Associated undertakings comprise unlisted investments.		
The group's holding in Dolphin Coast Marina Estate Limited is 34.54% (2012: 34.54%).		
The directors' valuation of the investment in associate approximates its carrying value.		
Dolphin Coast Marina Estate Limited		
Summarised financial information at 31 March		
Total assets	198	184
Total liabilities	68	81
Total revenue for the year	162	31
Total loss before taxation for the year	(3)	(3)

At 31 March R'million	Group 2013	Group 2012
28. Deferred taxation		
Deferred taxation assets	531	372
Deferred taxation liabilities	(390)	(319)
Net deferred taxation assets	141	53
Net deferred taxation assets arise from:		
Income and expenditure accruals	780	752
Tax relief from tax losses brought forward	103	110
Finance lease accounting	34	–
Revaluations on investment properties	(307)	(287)
Unrealised fair value adjustments on financial instruments	(455)	(522)
Unrealised gains on available-for-sale instruments	(14)	–
	141	53
Reconciliation of net deferred taxation assets		
Opening balance	53	(419)
Credit to the income statement	96	434
Charge directly to other comprehensive income	(14)	–
Arising on acquisitions/disposals	–	2
Other	6	36
Closing balance	141	53

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

At 31 March R'million	Group 2013	Group 2012	Company 2013	Company 2012
29. Other assets				
Settlement debtors	4 349	2 322	–	–
Dealing properties	1 885	1 895	–	–
Accruals and prepayments	278	342	–	–
Trading initial margins	237	268	–	–
Other debtors	1 695	1 459	55	149
	8 444	6 286	55	149

At 31 March R'million	Freehold properties	Leasehold improvements	Furniture and vehicles	Equipment	Total
30. Property and equipment					
Group					
2013					
Cost					
At beginning of year	215	21	168	663	1 067
Additions	171	3	12	87	273
Disposals	–	–	(2)	(54)	(56)
At end of year	386	24	178	696	1 284
Accumulated depreciation and impairment					
At beginning of year	(11)	(19)	(106)	(389)	(525)
Disposals	–	–	1	4	5
Depreciation	(6)	(1)	(6)	(107)	(120)
At end of year	(17)	(20)	(111)	(492)	(640)
Net carrying value	369	4	67	204	644
2012					
Cost					
At beginning of year	159	19	163	557	898
Additions	56	2	11	113	182
Disposals	–	–	(6)	(7)	(13)
At end of year	215	21	168	663	1 067
Accumulated depreciation and impairment					
At beginning of year	(7)	(17)	(102)	(305)	(431)
Disposals	–	–	2	10	12
Depreciation	(4)	(2)	(6)	(94)	(106)
At end of year	(11)	(19)	(106)	(389)	(525)
Net carrying value	204	2	62	274	542

At 31 March R'million	Group 2013	 2012
31. Investment properties		
At beginning of year	4 858	4 127
Additions	2 119	857
Disposals	(698)	(398)
Revaluation	(132)	272
At end of year	6 147	4 858

Investment properties are carried at fair value.

The group values its investment properties twice annually. The properties are valued by directors. The valuation is performed by capitalising the annual net income of a property at a market related yield applicable at the time.

At 31 March R'million	Group 2013	 2012
32. Goodwill		
Cost		
At beginning and end of year	1 283	1 283
Accumulated impairments		
At beginning of year	(1 114)	(1 080)
Impairment of goodwill	(24)	(34)
At end of year	(1 138)	(1 114)
Net book value	145	169
Analysis of goodwill by line of business		
Asset Management	104	128
Wealth & Investment	37	37
Specialist Banking	4	4
Total group	145	169

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

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

Discount rates are 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 and adjusted for expected future events.

Impairment losses comprise:
R24 million (2012: R34 million) in respect of the Asset Management segment. The impairment calculation was based on a discounted cash flow valuation. The discount rate applied of 13.4% is determined using the South African risk-free adjusted for the risk related to the cash-generating unit.

The majority of the goodwill relates to Investec Asset Management, particularly to the businesses from the Fedsure acquisition, which have been identified as a separate cash-generating unit.

At 31 March R'million	Acquired software	Internally generated software	Total
33. Intangible assets			
Group			
2013			
Cost or valuation			
At beginning of year	370	64	434
Additions	34	8	42
Disposals	(1)	–	(1)
At end of year	403	72	475
Accumulated amortisation and impairments			
At beginning of year	(273)	(64)	(337)
Amortisation	(40)	(8)	(48)
At end of year	(313)	(72)	(385)
Net carrying value	90	–	90
2012			
Cost or valuation			
At beginning of year	353	46	399
Additions	22	18	40
Disposals	(5)	–	(5)
At end of year	370	64	434
Accumulated amortisation and impairments			
At beginning of year	(259)	(29)	(288)
Amortisation	(14)	(35)	(49)
At end of year	(273)	(64)	(337)
Net carrying value	97	–	97

At 31 March	Nature of business	Issued ordinary share capital	Holding %	Shares at book value R'million 2013	Shares at book value R'million 2012	Net indebtedness R'million 2013	Net indebtedness R'million 2012
34. Investment in subsidiaries							
Direct subsidiaries of Investec Limited							
Investec Bank Limited Ä	Registered bank	R29 383 478	100.0%	13 600	12 240	127	(238)
Investec Asset Management Holdings (Pty) Ltd Ä	Investment holding	R200	100.0%	80	*	*	*
Investec Employee Benefits Holdings (Pty) Ltd Ä	Investment holding	R1	100.0%	*	*	137	120
Investec Int. Holdings (Gibraltar) Limited §	Investment holding	£1 000	100.0%	148	148	*	*
Investec Securities (Pty) Ltd Ä	Stockbroking	R172 000	100.0%	152	112	(36)	(36)
Fedsure International (Pty) Ltd Ä	Investment holding	R1 012 456	100.0%	200	200	*	*
Investec Property Group Holdings (Pty) Ltd Ä	Investment holding	R3 000	100.0%	*	*	*	*
Investec Property Fund Limited Ä •	Engage in long-term immovable property investment	R3 172	50.0%	–	850	–	*
Invested Assurance Limited Ä •	Insurance company	R10 000 000	100.0%	–	10	–	*
Other subsidiaries ^^				(12)	109	28	53
				14 168	13 669	256	(101)

* *Less than R1 million.*

^^ *Investec Personal Financial Services (Pty) Ltd and Sibvest Limited have been included in 'Other subsidiaries'.*

Ä *South Africa.*

§ *Gibraltar.*

• *Investec Assurance Limited and Investec Property Fund Limited are indirect subsidiaries for the year ended 31 March 2013.*

Loans to/(from) subsidiaries are unsecured, interest bearing, with no fixed terms of repayment.

34. Investment in subsidiaries (continued)

	Nature of business	Issued ordinary share capital	Holding %
Indirect subsidiaries of Investec Limited			
Grayinvest Limited [Ä]	Investment holding	R100	100.0%
Investec Assurance Limited [Ä]	Insurance company	R10 000 000	100.0%
Investec Asset Management (Pty) Ltd [Ä]	Asset management	R50 000	100.0%
Investec Insurance Brokers (Pty) Ltd [Ä]	Insurance broking	R2	100.0%
Investec International Holdings (Pty) Ltd [Ä]	Investment holding	R102	100.0%
Investec Fund Managers SA (RF) (Pty) Ltd [Ä]	Unit trust management	R8 000 000	100.0%
Investec Bank (Mauritius) Limited**	Banking	$56 478 463	100.0%
Investec Property Group (Pty) Ltd [Ä]	Property trading	R1 174	100.0%
Reichmans Holdings (Pty) Ltd [Ä]	Trade and asset finance	R15	100.0%
Investec Employee Benefits Limited [Ä]	Long-term insurance	R7 544 000	100.0%
Investec Property Fund Limited [Ä]	Engage in long-term immovable property investment	R3 172	50.0%

[Ä] *South Africa.*

Details of subsidiaries which are not material to the financial position of the group are not stated above.

Investec Limited has no equity interest in the following special purpose vehicles, but they are consolidated on the basis of the group sharing in the majority of the risks and rewards associated with the entity:

Securitisation entities

- Private Mortgages 1 (RF) (Pty) Ltd
- Private Mortgages 2 (RF) (Pty) Ltd
- Private Mortgages 3 (Pty) Ltd
- Private Residential Mortgages (RF) Ltd
- Private Commercial Mortgages (Pty) Ltd
- Grayston Conduit 1 (RF) Limited

The following subsidiaries are not consolidated for regulatory purposes:

Investec Assurance Limited
Investec Employee Benefit Holdings (Pty) Ltd and its subsidiaries

There are no subsidiaries which are consolidated for regulatory but not for accounting purposes.

At 31 March R'million	Group 2013	Group 2012
35. Long-term assurance business attributable to policyholders		
Liabilities to customers under investment contracts		
Investec Employee Benefits Limited (IEB)	655	499
Investec Assurance Limited	86 209	76 381
	86 864	76 880
Insurance liabilities, including unit-linked liabilities – IEB	29	23
Total policyholder liabilities	86 893	76 903
IEB		
The assets of the long-term assurance fund attributable to policyholders are detailed below:		
Investments	684	521
Other assets	–	1
	684	522
Investments shown above comprise:		
Interest bearing securities	272	243
Stocks, shares and unit trusts	257	182
Deposits	155	96
	684	521
Investec Assurance Limited		
The assets of the long-term assurance fund attributable to policyholders are detailed below:		
Investments	85 497	75 973
Debtors and prepayments	21	164
Other assets	691	244
Assets of long-term assurance fund attributable to policyholders	86 209	76 381
Investments shown above comprise:		
Interest-bearing securities	22 714	21 594
Stocks, shares and unit trusts	51 465	42 334
Deposits	11 318	12 045
	85 497	75 973

The business of Investec Assurance Limited is that of linked business with retirement funds. The retirement funds hold units in a pooled portfolio of assets via a linked policy issued by the company. The assets are beneficially held by Investec Assurance Limited. Due to the nature of the linked policy, Investec Assurance Limited's liability to the policyholders is equal to the market value of the assets under the policy.

	2013	2012
Income statement items related to assurance activities		
Investment income on assurance activities	26	86
Premiums and reinsurance recoveries on insurance contracts	161	175
Claims and reinsurance premiums on insurance business	(166)	(250)
Operating expenses	(9)	–
Net income before taxation	12	11
Taxation	(3)	(9)
Net income after taxation	9	2

At 31 March R'million	Group 2013	Group 2012
36. Other trading liabilities		
Short positions		
– Equities	5 680	3 616
– Gilts	1 007	572
	6 687	4 188

At 31 March R'million	Group 2013	Group 2012	Company 2013	Company 2012
37. Debt securities in issue				
Repayable in:				
Less than three months	1 376	1 063	–	–
Three months to one year	689	2 639	–	–
One to five years	4 082	87	400	400
Greater than five years	–	600	–	–
	6 147	4 389	400	400

At 31 March R'million	Group 2013	Group 2012	Company 2013	Company 2012
38. Current taxation liabilities				
Income taxation payable	1 617	1 592	247	247
Indirect taxes payable	103	33	–	–
	1 720	1 625	247	247

At 31 March R'million	Group 2013	Group 2012	Company 2013	Company 2012
39. Other liabilities				
Settlement liabilities	2 277	988	–	–
Other non-interest bearing liabilities	2 136	1 698	21	17
Other creditors and accruals	2 801	2 577	103	39
	7 214	5 263	124	56

At 31 March R'million	Group 2013	Group 2012
40. Subordinated liabilities		
Issued by Investec Bank Limited		
IV03 16% unsecured subordinated bonds	–	1 508
IV04 10.75% subordinated unsecured callable bonds	2 062	2 062
IV07 variable rate subordinated unsecured callable bonds	941	941
IV08 13.735% subordinated unsecured callable upper tier 2 bonds	200	200
IV09 variable rate subordinated unsecured callable upper tier 2 bonds	200	200
IV012 variable rate subordinated unsecured callable bonds	250	250
IV013 variable rate subordinated unsecured callable bonds	50	50
IV014 10.545% subordinated unsecured callable bonds	125	125
IV015 variable rate subordinated unsecured callable bonds	1 350	1 350
IV016 variable rate subordinated unsecured callable bonds	325	325
IV017 indexed rate subordinated unsecured callable bonds	1 813	1 698
IV019 indexed rate subordinated unsecured callable bonds	74	–
IV019A indexed rate subordinated unsecured callable bonds	273	–
IV022 variable rate subordinated unsecured callable bonds	997	–
IV023 variable rate subordinated unsecured callable bonds	860	–
IV024 variable rate subordinated unsecured callable bonds	106	–
IV025 variable rate subordinated unsecured callable bonds	1 000	–
IV026 variable rate subordinated unsecured callable bonds	750	–
IV030 indexed rate subordinated unsecured callable bonds	299	–
IV030A indexed rate subordinated unsecured callable bonds	321	–
IV031 variable rate subordinated unsecured callable bonds	500	–
	12 496	8 709
Issued by Investec Property Fund		
Variable rate unsecured subordinated debentures	1 959	919
	1 959	919
	14 455	9 628
All subordinated debt issued by Investec Limited and its subsidiaries is denominated in South African Rand.		
Remaining maturity:		
In one year or less, or on demand	3 003	1 508
In more than one year, but not more than two years	–	3 403
In more than two years, but not more than five years	4 063	2 448
In more than five years	7 389	2 269
	14 455	9 628

40. Subordinated liabilities (continued)

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

IV03 16% subordinated unsecured callable bonds

Rnil million (2012: R1 508 million) Investec Bank Limited IVO3 locally registered unsecured subordinated bonds due in 2017. Interest is paid six monthly in arrears on 31 March and 30 September at a rate of 16% per annum until 31 March 2012, whereafter the interest rate changed to a floating rate of three-month JIBAR plus 2.00% until called/maturity. The bonds were subsequently called and settled on 2 April 2012.

IV04 10.75% subordinated unsecured callable bonds

R2 062 million (2012: R2 062 million) Investec Bank Limited IVO4 locally registered unsecured subordinated bonds due in 2018. Interest is paid six monthly in arrears on 30 September and 31 March at a rate of 10.75% per annum until 31 March 2013. The settlement date is 31 March 2018, but the company has the option to call the bonds from 31 March 2013. If not called, the bonds will switch to floating rate bonds of three-month JIBAR plus 2.00% from 31 March 2013. The bonds were subsequently called and settled on 2 April 2013.

IV07 variable rate subordinated unsecured callable bonds

R941 million (2012: R941 million) Investec Bank Limited IVO7 locally registered unsecured subordinated callable bonds due in 2018. Interest is payable quarterly in arrears on 31 March, 30 June, 30 September, 31 December at a rate equal to three-month JIBAR plus 1.40% until 31 March 2013. From and including 31 March 2013 up to and excluding 31 March 2018 interest is paid at a rate equal to three-month JIBAR plus 2.00%. The maturity date is 31 March 2018, but the company has the option to call the bonds from 31 March 2013. The bonds were subsequently called and settled on 2 April 2013.

IV08 13.735% subordinated unsecured callable upper tier 2 bonds

R200 million (2012: R200 million) Investec Bank Limited IVO8 locally registered unsecured subordinated bonds without a maturity date. Interest is paid six monthly in arrears on 31 October and 30 April at a rate of 13.735% per annum until 30 April 2018. The company has the option to call the bonds from 30 April 2013 or on any interest payment date falling after 30 April 2018. If not called by 30 April 2018, the bonds will pay interest of 5.625% above JIBAR payable quarterly in arrears until called.

IV09 variable rate subordinated unsecured callable upper tier 2 bonds

R200 million (2012: R200 million) Investec Bank Limited IVO9 locally registered unsecured subordinated bonds without a maturity date. Interest is paid quarterly in arrears on 31 July, 31 October, 31 January and 30 April at a rate equal to JIBAR plus 3.75% until 30 April 2018. The company has the option to call the bonds from 30 April 2013 or on any interest payment date falling after 30 April 2018. If not called by 30 April 2018, the bonds will pay interest of 5.625% above JIBAR payable quarterly in arrears until called.

IV012 variable rate subordinated unsecured callable bonds

R250 million (2012: R250 million) Investec Bank Limited IV012 locally registered unsecured subordinated callable bonds are due in November 2019. Interest is payable quarterly in arrears on 26 November, 26 February, 26 May and 26 August at a rate equal to three-month JIBAR plus 3.25% until 26 November 2014. From and including 26 November 2014 up to and excluding 26 November 2019 interest is paid at a rate equal to three-month JIBAR plus 4.50%. The maturity date is 26 November 2019, but the company has the option to call the bonds from 26 November 2014.

IV013 variable rate subordinated unsecured callable bonds

R50 million (2012: R50 million) Investec Bank Limited IV013 locally registered unsecured subordinated callable bonds are due in June 2020. Interest is payable quarterly in arrears on 22 March, 22 June, 22 September and 22 December at a rate equal to three-month JIBAR plus 2.75% until 22 June 2015. From and including 22 June 2015 up to and excluding 22 June 2020 interest is paid at a rate equal to three-month JIBAR plus 5.50%. The maturity date is 22 June 2020, but the company has the option to call the bonds from 22 June 2015.

IV014 10.545% subordinated unsecured callable bonds

R125 million (2012: R125 million) Investec Bank Limited IV014 locally registered unsecured subordinated callable bonds are due in June 2020. Interest is payable six monthly in arrears on 22 June and 22 December at a fixed rate of 10.545% until 22 June 2015. From and including 22 June 2015 up to and excluding 22 June 2020 interest is paid quarterly in arrears on 22 June, 22 September, 22 December and 22 March at a rate equal to three-month JIBAR plus 5.50%. The maturity date is 22 June 2020, but the company has the option to call the bonds from 22 June 2015.

40. Subordinated liabilities (continued)

IV015 variable rate subordinated unsecured callable bonds

R1 350 million (2012: R1 350 million) Investec Bank Limited IV015 locally registered unsecured subordinated callable bonds are due in September 2022. Interest is payable quarterly in arrears on 20 December, 20 March, 20 June and 20 September at a rate equal to three-month JIBAR plus 2.65% basis points until 20 September 2017. From and including 20 September 2017 up to and excluding 20 September 2022 interest is paid at a rate equal to three-month JIBAR plus 4.00%. The maturity date is 22 September 2022, but the company has the option to call the bonds upon regulatory capital disqualification or from 20 September 2017.

IV016 variable rate subordinated unsecured callable bonds

R325 million (2012: R325 million) Investec Bank Limited IV016 locally registered unsecured subordinated callable bonds are due in December 2021. Interest is payable quarterly in arrears on 6 December, 6 March, 6 June and 6 September at a rate equal to three-month JIBAR plus 2.75% until 6 December 2021. The maturity date is 6 December 2021, but the company has the option to call the bonds upon regulatory disqualification or from 6 December 2016.

IV017 indexed rate subordinated unsecured callable bonds

R1 813 million (2012: R1 698 million) Investec Bank Limited IV017 locally registered unsecured subordinated callable bonds are due in January 2022. Interest on these inflation-linked bonds is payable semi-annually on 31 January and 31 July at a rate of 2.75%. The IV017 is a replica of the R212 South African government bond. The maturity date is 31 January 2022, but the company has the option to call the bonds upon regulatory capital disqualification or from 31 January 2017.

IV019 indexed rate subordinated unsecured callable bonds

R74 million Investec Bank Limited IV019 locally registered unsecured subordinated callable bonds are due in March 2028. Interest on these inflation-linked bonds is payable semi-annually on 31 March and 30 September at a rate of 2.60%. The IV019 is a replica of the R210 South African government bond. The maturity date is 31 March 2028, but the company has the option to call the bonds upon regulatory capital disqualification from 3 April 2023.

IV019A indexed rate subordinated unsecured callable bonds

R273 million Investec Bank Limited IV019A locally registered unsecured subordinated callable bonds are due in March 2028. Interest on these inflation-linked bonds is payable semi-annually on 31 March and 30 September at a rate of 2.60%. The IV019A is a replica of the R210 South African government bond. The maturity date is 31 March 2028, but the company has the option to call the bonds upon regulatory capital disqualification from 3 April 2023.

IV022 variable rate subordinated unsecured callable bonds

R997 million Investec Bank Limited IV022 locally registered unsecured subordinated callable bonds are due in April 2022. Interest is payable quarterly on 2 January, 2 April, 2 July and 2 October at a rate equal to the three-month JIBAR plus 2.50% up to and excluding 2 April 2022. The maturity date is 2 April 2022, but the company has the option to call the bonds upon regulatory capital disqualification from 2 April 2017.

IV023 variable rate subordinated unsecured callable bonds

R860 million Investec Bank Limited IV023 locally registered unsecured subordinated callable bonds are due in July 2022. Interest is payable quarterly on 11 January, 11 April, 11 July and 11 October at a rate equal to the three-month JIBAR plus 2.50% until up to and excluding 11 July 2022. The maturity date is 11 July 2022, but the company has the option to call the bonds upon regulatory capital disqualification from 11 July 2017.

IV024 variable rate subordinated unsecured callable bonds

R106 million Investec Bank Limited IV024 locally registered unsecured subordinated callable bonds are due in July 2022. Interest is payable quarterly on 27 January, 27 April, 27 July and 27 October at a rate equal to the three-month JIBAR plus 2.70% up to and excluding 27 July 2022. The maturity date is 27 July 2022, but the company has the option to call the bonds upon regulatory capital disqualification from 27 July 2017.

IV025 variable rate subordinated unsecured callable bonds

R1 000 million Investec Bank Limited IV025 locally registered unsecured subordinated callable bonds are due in September 2024. Interest is payable quarterly on 12 December, 12 March, 12 June and 12 September at a rate equal to the three-month JIBAR plus 2.50% up to and excluding 12 September 2024. The maturity date is 12 September 2024, but the company has the option to call the bonds upon regulatory capital disqualification from 12 September 2019.

IV026 variable rate subordinated unsecured callable bonds

R750 million Investec Bank Limited IV026 locally registered unsecured subordinated callable bonds are due in September 2024. Interest is payable quarterly on 27 December, 27 March, 27 June and 27 September at a rate equal to the three-month JIBAR plus 2.45% up to and excluding 27 September 2024. The maturity date is 27 September 2024, but the company has the option to call the bonds upon regulatory capital disqualification from 27 September 2019.

40. Subordinated liabilities (continued)

IV030 indexed rate subordinated unsecured callable bonds

R299 million Investec Bank Limited IV030 locally registered unsecured subordinated callable bonds are due in January 2025. Interest on these inflation-linked bonds is payable semi-annually on 31 January and 31 July at a rate of 2.00%. The IV030 is a replica of the I2025 South African government bond. The maturity date is 31 January 2025, but the company has the option to call the bonds upon regulatory capital disqualification from 31 January 2020.

IV030A indexed rate subordinated unsecured callable bonds

R321 million Investec Bank Limited IV030A locally registered unsecured subordinated callable bonds are due in January 2025. Interest on these inflation-linked bonds is payable semi-annually on 31 January and 31 July at a rate of 2.00%. The IV030A is a replica of the I2025 South African government bond. The maturity date is 31 January 2025, but the company has the option to call the bonds upon regulatory capital disqualification from 31 January 2020.

IV031 variable rate subordinated unsecured callable bonds

R500 million Investec Bank Limited IV031 locally registered unsecured subordinated callable bonds are due in March 2025. Interest is payable quarterly on 11 December, 11 March, 11 June and 11 September at a rate equal to the three-month JIBAR plus 2.95% up to and excluding 11 March 2025. The maturity date is 11 March 2025, but the company has the option to call the bonds upon regulatory capital disqualification from 11 March 2020.

Variable rate unsecured subordinated debentures

R3 940 million (2012: R1 838 million) Investec Property Fund Limited locally registered unsecured subordinated debentures are due at the 25th anniversary of each date of allotment and issue of the debentures. Interest payable on the debenture in each linked unit will be at least 999 times the dividend payable on each share. The debentures are redeemable at the instance of the debenture holders (by way of a special resolution) at the 25th anniversary of the date of each allotment and issue of the debentures.

R1 959 million of the subordinated debentures are held by group companies and are therefore eliminated at a group level.

At 31 March R'million	Group 2013	Group 2012	Company 2013	Company 2012
41. Ordinary share capital				
Authorised				
450 000 000 (2012: 450 000 000) ordinary shares of R0.0002 each				
Issued				
279 639 164 (2012: 276 020 221) ordinary shares of R0.0002 each	1	1	1	1

In terms of the dual listed companies structure, shareholders have common economic and voting rights as if Investec Limited and Investec plc were a single company. These include equivalent dividends on a per share basis, joint electorate and class right variations. The UK DAS share, UK DAN share and the special converting shares have been issued to achieve this.

The unissued shares are under the control of the directors until the next annual general meeting.

At 31 March R'million	Group 2013	Group 2012	Company 2013	Company 2012
42. Perpetual preference shares				
Authorised				
100 000 000 (2012:100 000 000) non-redeemable, non-cumulative, non-participating preference shares of one cent each				
Issued				
32 214 499 (2012: 28 719 858) non-redeemable, non-cumulative, non-participating preference shares of one cent each, issued at various premiums	3 183	2 880	3 183	2 880
– Perpetual preference share capital	*	*	*	*
– Perpetual preference share premium	3 183	2 880	3 183	2 880

* *Less than R1 million.*

Preference shareholders will be entitled to receive dividends if declared, at a rate limited to 77.7% of prime on R100 being the deemed value of the issue price of the preference share held. Preference shareholders receive dividends in priority to any payment of dividends to the holder of any other class of shares in the capital of the company not ranking prior or *pari passu* with the preference shares.

An ordinary dividend will not be declared by Investec Limited unless the preference dividend has been declared. If declared, preference dividends are payable semi-annually at least seven business days prior to the date on which Investec Limited pays its ordinary dividends, if any, but shall be payable no later than 120 business days after 31 March and 30 September respectively.

At 31 March R'million	Group 2013	Group 2012	Company 2013	Company 2012
43. Share premium				
Share premium on ordinary shares	6 631	6 472	6 680	6 521
Share premium on perpetual preference shares (refer to note 42)	3 183	2 880	3 183	2 880
	9 814	9 352	9 863	9 401

At 31 March R'million	2013	2012
44. Treasury shares		
Treasury shares held by subsidiaries of Investec Limited		
Premium paid on options held to acquire Investec Limited shares	(279)	(248)
Investec Limited ordinary shares	1 233	1 073
	954	825
Number of Investec Limited ordinary shares held by subsidiaries	19 715 016	16 579 211
Reconciliation of treasury shares	Number	Number
At beginning of year	16 579 211	23 178 288
Purchase of own shares by subsidiary companies	7 656 975	9 621 390
Shares disposed of by subsidiaries	(4 521 170)	(16 220 467)
At end of year	19 715 016	16 579 211
	R'million	R'million
Market value of treasury shares	1 267	821

At 31 March R'million	Group 2013	Group 2012
45. Non-controlling interests		
Perpetual preference shares issued by Investec Bank Limited	1 534	1 534
Non-controlling interests in partially held subsidiaries	10	10
Authorised		
70 000 000 (2012: 70 000 000) non-redeemable, non-cumulative, non-participating preference shares of one cent each		
Issued		
15 447 630 (2012: 15 447 630) non-redeemable, non-cumulative, non-participating preference shares of one cent each, issued at a premium within a range of R96.46 to R99.99 per share.		
Preference shareholders will be entitled to receive dividends, if declared, at a rate limited to 83.33% of the South African prime interest rate on R100 being the deemed value of the issue price of the preference share held.		
An ordinary dividend will not be declared by Investec Bank Limited unless the preference dividend has been declared. If declared, preference dividends are payable semi-annually at least seven business days prior to the date on which Investec Bank Limited pays its ordinary dividends, if any, but shall be payable no later than 120 business days after 31 March and 30 September respectively.		
	1 544	1 544

At 31 March R'million	Group 2013 Total future minimum payments	Group 2013 Present value	Group 2012 Total future minimum payments	Group 2012 Present value
46. Finance lease disclosures				
Finance lease receivables included in loans and advances to customers:				
Lease receivables in:				
Less than one year	490	393	400	322
One to five years	577	506	454	396
	1 067	899	854	718
Unearned finance income	168		136	

At 31 March 2013 and 31 March 2012 there were no unguaranteed residual values. There were no finance lease receivables in Investec Limited company at 31 March 2013 and 31 March 2012.

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

47. Notes to the cash flow statement

	Group 2013	Group 2012	Company 2013	Company 2012
Profit before taxation adjusted for non-cash items				
Profit before taxation	3 848	3 294	2 195	2 881
Adjustment for non-cash items:				
Impairment of goodwill	24	34	–	–
Depreciation, amortisation and impairment of property, equipment and intangibles	168	155	–	–
Impairment losses on loans and advances	833	824	–	–
Operating loss from associates	–	1	–	–
Share-based payment charges	388	442	116	127
Revaluation of investment properties	132	(272)	–	–
	5 393	4 478	2 311	3 008
Increase in operating assets				
Loans and advances to banks	(8 199)	(8 275)	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	(10 276)	6 045	–	–
Sovereign debt securities	(4 018)	(518)	–	–
Bank debt securities	6 928	(9 482)	–	–
Other debt securities	(1 123)	(1 213)	(435)	–
Derivative financial instruments	(1 713)	628	–	–
Securities arising from trading activities	(314)	(412)	–	–
Investment portfolio	(857)	106	–	56
Loans and advances to customers	(12 806)	(8 442)	–	1
Own originated loans and advances to customers securitised	(4)	208	–	–
Other loans and advances	(3)	115	–	–
Other securitised assets	128	240	–	–
Other assets	(2 676)	(1 203)	94	(148)
Investment properties	(1 421)	(459)	–	–
Assurance assets	(9 990)	(7 723)	–	–
	(46 344)	(30 385)	(341)	(91)
Increase/(decrease) in operating liabilities				
Deposits by banks	3 924	2 924	–	–
Derivative financial instruments	667	(1 978)	–	–
Other trading liabilities	2 499	771	–	–
Repurchase agreements and cash collateral on securities lent	(68)	7 441	–	–
Customer accounts (deposits)	8 425	21 236	–	–
Debt securities in issue	1 758	(753)	–	–
Liabilities arising in securitisation of own originated loans and advances	3	(54)	–	–
Liabilities arising in securitisation of other assets	96	(751)	–	–
Other liabilities	1 934	(132)	68	(3)
Assurance liabilities	9 990	7 723	–	–
	29 228	36 427	68	(3)

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

48. Related party transactions

	2013	2012
Compensation to the board of directors and other key management personnel*		
Short-term employee benefits	407	211
Share-based payments	23	66
	430	277

* *Key management personnel are board directors and members of the global operations forum.*

	Group 2013	Group 2012
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	418	233
Increase in loans	286	320
Repayment of loans	(155)	(165)
Exchange adjustments	58	30
At end of year	607	418
Guarantees		
At beginning of year	5	–
Repayment of guarantees	(16)	–
Additional guarantees granted	77	5
At end of year	66	5
Deposits		
At beginning of year	(573)	(539)
Increase in deposits	(461)	(302)
Utilisation of deposits	365	338
Exchange adjustments	(78)	(70)
At end of year	(747)	(573)
Transactions with other related parties		
Various members of key management personnel are members of the boards of directors of other companies. At 31 March the group had the following loans outstanding from these related parties	–	3

Refer to note 34 for loans to/(from) subsidiaries.

Investec provides certain banking and financial services to associates and joint ventures including loans, overdrafts, interests and non-interest bearing deposits and current accounts.

The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment. None of these loans have been impaired.

For the year to 31 March R'million	Group 2013	Group 2012
48. Related party transactions (continued)		
Transactions with Investec plc and its subsidiaries		
Assets		
Loans and advances to banks	194	201
Loans and advances to customers	112	142
Other debt securities	4 586	3 512
Derivative financial instruments	503	119
Other assets	123	203
Liabilities		
Deposits from banks	96	74
Customer accounts (deposits)	22	27
Repurchase agreements and cash collateral on securities lent	4 256	7 815
Derivative financial instruments	318	7
Other liabilities	399	164

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

During the year to 31 March 2013, interest of R227.2 million (2012: R132.7 million) was received from entities in the Investec plc group.

Interest of R400.6 million (2012: R27.3 million) was paid to entities in the Investec plc group.

In the normal course of business, services are rendered between Investec plc and Investec Limited entities. In the year to 31 March 2013, this resulted in a net payment by Investec plc group of R94.1 million (2012: R106.6 million). Specific transactions of an advisory nature between group entities have resulted in a net fee payment by Investec plc group of Rnil (2012: Rnil).

At 31 March R'million	Group 2013	Group 2012
49. Commitments		
Undrawn facilities	31 350	27 401
Other commitments	63	25
	31 413	27 426
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	335	313
One to five years	1 451	1 321
Later than five years	2 234	2 372
	4 020	4 006

At 31 March 2013, Investec was obligated under a number of operating leases for properties, computer equipment and office equipment for which the future minimum lease payments extend over a number of years. The annual escalation clauses range between 8% and 13.5% per annum. The majority of the leases have renewal options.

At 31 March R'million	Group 2013	Group 2012	Company 2013	Company 2012
50. Contingent liabilities				
Guarantees and assets pledged as collateral security:				
– Guarantees and irrevocable letters of credit	11 037	8 698	1 741	2 852
	11 037	8 698	1 741	2 852

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 Limited on behalf of third parties and other group companies. The guarantees are issued as part of the banking business.

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 an adverse effect on the financial position of the group. These claims, if any, cannot be reasonably estimated at this time.

51. Hedges

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

The accounting treatment of accounting hedges is dependent on the classification between fair value hedges, and cash flow hedges and in particular, accounting hedges require the identification of a direct relationship between a hedged item and the hedging instrument. This relationship is established in limited circumstances based on the manner in which the group manages its risk exposure. Below is a description of each category of accounting hedges achieved by the group:

Fair value hedges

Fair value hedges 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 R'million	Description of financial instrument being hedged	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
Group						
2013						
Interest rate swaps	Bonds	(752)	(120)	(115)	128	121
2012						
Interest rate swaps	Bonds	(172)	(38)	(38)	61	37

As at year end the hedges were both retrospectively and prospectively effective.

Cash flow hedges

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

51. Hedges (continued)

At 31 March R'million	Description of financial instrument being hedged	Fair value of hedging instrument	Period in which the hedged cash flows are expected to occur and affect the income statement	Ineffective portion recognised in the income statement
Group				
2013				
Interest rate swaps	Bonds	(446)	Three months	–
2012				
Cross currency swap	Fixed rate bonds	(636)	Three months to five years	–

There are cash flow hedges during the year to mitigate interest rate and currency risk. A reconciliation of the cash flow hedge reserve can be found in the statement of changes in equity.

Release to the income statement for cash flow hedges is included in net interest income.

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

At 31 March R'million	On demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
Group								
2013								
Liabilities								
Deposits by banks	1 267	1 643	204	9 998	346	4 403	–	17 861
Derivative financial instruments	9 202	–	–	–	–	10	25	9 237
– Held-for-trading	9 202	–	–	–	–	–	–	9 202
– Held for hedging risk	–	–	–	–	–	10	25	35
Other trading liabilities	6 687	–	–	–	–	–	–	6 687
Repurchase agreements and cash collateral on securities lent	–	9 235	14	26	20	8 126	1 120	18 541
Customer accounts (deposits)	72 672	22 587	25 555	17 582	24 990	20 205	1 749	185 340
Debt securities in issue	–	–	1 376	40	649	4 082	–	6 147
Liabilities arising on securitisation of own originated loans and advances	–	1	1 302	5	12	4 907	32	6 259
Liabilities arising on securitisation of other assets	–	156	432	–	–	–	–	588
Other liabilities	3 130	1 131	887	383	50	1 104	531	7 216
Subordinated liabilities	–	3 003	107	148	300	6 168	8 034	17 760
Total on balance sheet liabilities	92 958	37 756	29 877	28 182	26 367	49 005	11 491	275 636
Contingent liabilities	3 560	–	1 688	99	178	5 032	3 044	13 601
Commitments	1 292	78	1 344	831	4 950	7 453	16 277	32 225
Total liabilities	97 810	37 834	32 909	29 112	31 495	61 490	30 812	321 462

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

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

For an analysis based on discounted cash flows, please refer to page 68.

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

At 31 March R'million	On demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
Group								
2012								
Liabilities								
Deposits by banks	515	2 849	931	131	20	9 487	–	13 933
Derivative financial instruments	8 544	–	–	–	–	–	26	8 570
– Held-for-trading	8 544	–	–	–	–	–	–	8 544
– Held for hedging risk	–	–	–	–	–	–	26	26
Other trading liabilities	4 188	–	–	–	–	–	–	4 188
Repurchase agreements and cash collateral on securities lent	3 817	3 869	–	–	–	3 803	6 685	18 174
Customer accounts (deposits)	53 130	26 007	41 184	17 955	18 521	18 533	764	176 094
Debt securities in issue	–	713	350	886	1 753	87	600	4 389
Liabilities arising on securitisation of own originated loans and advances	–	2	941	15	1 150	5 972	2	8 082
Liabilities arising on securitisation of other assets	–	157	335	–	–	–	–	492
Other liabilities	1 616	956	1 369	231	214	352	584	5 322
Subordinated liabilities	–	1 508	–	–	–	5 851	2 269	9 628
Total on balance sheet liabilities	71 810	36 061	45 110	19 218	21 658	44 085	10 930	248 872
Contingent liabilities	–	1 457	194	112	412	3 714	2 809	8 698
Commitments	–	742	168	280	3 478	10 712	16 052	31 432
Total liabilities	71 810	38 260	45 472	19 610	25 548	58 511	29 791	289 002

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

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

For an analysis based on discounted cash flows, please refer to page 68.

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

At 31 March R'million	On demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
Company								
2013								
Liabilities								
Debt securities in issue	–	–	–	–	–	400	–	400
Other liabilities	12	–	112	–	–	–	–	124
Total on-balance sheet liabilities	**12**	**–**	**112**	**–**	**–**	**400**	**–**	**524**
Contingent liabilities	–	–	224	–	1 195	322	–	1 741
Total liabilities	**12**	**–**	**336**	**–**	**1 195**	**722**	**–**	**2 265**
2012								
Liabilities								
Debt securities in issue	–	–	–	–	–	400	–	400
Other liabilities	–	–	49	6	–	–	–	55
Total on-balance sheet liabilities	**–**	**–**	**49**	**6**	**–**	**400**	**–**	**455**
Contingent liabilities	–	200	350	544	375	1 383	–	2 852
Total liabilities	**–**	**200**	**399**	**550**	**375**	**1 783**	**–**	**3 307**

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

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

Shareholder information

Shareholder analysis

Investec ordinary shares

As at 31 March 2013 Investec Limited had 279.6 million ordinary shares in issue.

Spread of ordinary shareholders as at 31 March 2013

Investec Limited ordinary shares in issue

Number of shareholders	Holdings	% of total shareholders	Number of shares in issue	% of issued share capital
3 237	1 to 500	38.9%	746 986	0.3%
1 597	500 – 1 000	19.2%	1 256 147	0.4%
2 018	1 001 – 5 000	24.3%	4 712 812	1.7%
452	5 001 – 10 000	5.4%	3 341 441	1.2%
595	10 001 – 50 000	7.1%	14 263 855	5.1%
150	50 001 – 100 000	1.8%	10 924 095	3.9%
276	100 001 and over	3.3%	244 393 828	87.4%
8 325		100.0%	279 639 164	100.0%

Shareholder classification as at 31 March 2013

	Investec Limited number of shares	% holding
Public*	252 271 108	90.2%
Non-public	27 368 056	9.8%
Non-executive directors of Investec plc/Investec Limited	300 825	0.1%
Executive directors of Investec plc/Investec Limited	7 352 215	2.6%
Investec staff share schemes	19 715 016	7.1%
Total	279 639 164	100.0%

* *As per the JSE Listings Requirements.*

Largest ordinary shareholders as at 31 March 2013

In accordance with the terms provided for in the South African Companies Act, 2008, the group has conducted investigations into the registered holders of its ordinary shares (including nominee and asset management companies) and the results are as disclosed below.

Investec Limited

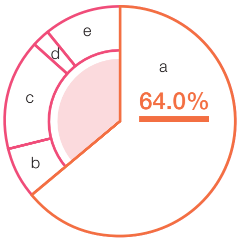
	Shareholder analysis by manager group	Number of shares	% holding
1	Public Investment Corporation (ZA)	35 395 139	12.7%
2	Investec Staff Share Schemes (ZA and UK)	19 715 016	7.1%
3	Old Mutual (ZA)	16 914 448	6.0%
4	Sanlam Group (ZA)	16 366 989	5.9%
5	Allan Gray (ZA)	16 362 919	5.9%
6	BlackRock Inc (US & UK)	12 785 777	4.6%
7	Entrepreneurial Development Trust (ZA)*	11 630 621	4.2%
8	Dimensional Fund Advisers (UK)	9 047 465	3.2%
9	Coronation Fund Managers (ZA)	7 514 791	2.7%
10	Vanguard Group (US)	7 381 064	2.6%
		153 114 229	54.9%

The top 10 shareholders account for 54.9% of the total shareholding in Investec Limited. This information is based on a threshold of 20 000 shares. Some major fund managers hold additional shares below this, which may cause the above figures to be marginally understated.

* *In November 2003, Investec Limited implemented an empowerment transaction in which empowerment partners and an employee share scheme acquired 25.1% of the equity shareholding in Investec Limited.*

Shareholder analysis (continued)

Geographical holding by beneficial ordinary share owner as at 31 March 2013



Investec Limited

a	South Africa	64.0%
b	UK	7.3%
c	USA and Canada	15.5%
d	Rest of Europe	2.6%
e	Other countries and unknown	10.6%

Share statistics

Investec Limited

For the period ended	31 March 2013	31 March 2012	31 March 2011	31 March 2010	31 March 2009	31 March 2008	31 March 2007
Closing market price per share (Rands)							
– year-end	64.26	47.16	52.80	62.49	38.86	57.43	93.3
– highest	69.89	57.36	65.50	65.40	63.19	104.4	94.6
– lowest	41.31	42.00	49.49	37.51	27.20	50.90	59.06
Number of ordinary shares in issue (million)[1]	279.6	276.0	272.8	269.8	268.4	234.3	227.7
Market capitalisation (R'million)[1]	56 857	41 232	42 768	46 299	27 715	37 766	56 848
Market capitalisation (£'million)[1]	4 061	3 340	3 872	3 993	2 083	2 229	4 009
Daily average volumes of share traded ('000)	980	1 033	794	1 068	1 168	841	620

[1] *The JSE Limited have agreed to use the total number of shares in issue for the combined group, comprising Investec plc and Investec Limited, in calculating i.e. a total of 884.8 million shares in issue.*

Investec perpetual preference shares

Investec Limited and Investec Bank Limited have issued perpetual preference shares, the details of which can be found on page 162.

Spread of perpetual preference shareholders as at 31 March 2013

Investec Limited

Number of shareholders	Holdings	% of total shareholders	Number of preference shares in issue	% of issued preference share capital
876	1 to 500	14.6%	290 575	0.9%
1 477	500 – 1 000	24.7%	1 295 942	4.0%
2 673	1 001 – 5 000	44.6%	6 385 778	19.8%
515	5 001 – 10 000	8.6%	3 759 789	11.7%
389	10 001 – 50 000	6.5%	7 112 750	22.1%
20	50 001 – 100 000	0.3%	1 452 754	4.5%
39	100 001 and over	0.7%	11 916 911	37.0%
5 989		100.0%	32 214 499	100.0%

Investec Bank Limited perpetual preference shareholders

Number of shareholders	Holdings	% of total shareholders	Number of preference shares in issue	% of issued preference share capital
911	1 to 500	20.5%	277 732	1.7%
1 337	500 – 1 000	29.9%	1 189 787	7.7%
1 719	1 001 – 5 000	38.5%	4 167 382	27.0%
277	5 001 – 10 000	6.2%	2 048 625	13.3%
189	10 001 – 50 000	4.2%	3 687 023	23.9%
15	50 001 – 100 000	0.3%	1 117 670	7.2%
19	100 001 and over	0.4%	2 959 411	19.2%
4 467		100.0%	15 447 630	100.0%

Largest perpetual preference shareholders as at 31 March 2013

There were no shareholders holding beneficial interests in excess of 5% of the issued preference shares in Investec Limited and Investec Bank Limited, as at 31 March 2013.

Contact details

Mauritius, Ebéne Cyber City

Level 8C Cyber Tower II
Ebéne Cyber City
Telephone (230) 403 0401
Facsimile (230) 403 0498
e-mail info@investec.com

Mauritius, Port Louis

6th Floor Dias Pier Building
Le Caudan Waterfront Caudan
Port Louis
Telephone (230) 207 4000
Facsimile (230) 207 4002/3
e-mail info@investec.com

Namibia, Windhoek

Office 1 Ground floor
Heritage Square Building
100 Robert Mugabe Avenue Windhoek
Telephone (264 61) 249 626
Facsimile (264 61) 249 689
e-mail info@investec.com

South Africa, Cape Town

36 Hans Strijdom Avenue
Foreshore Cape Town 8001
PO Box 1826 Cape Town 8000
Telephone (27 21) 416 1000
Facsimile (27 21) 416 1001

South Africa, Durban

5 Richefond Circle
Ridgeside Office Park
Umhlanga Durban 4319
PO Box 25278 Gateway Durban 4321
Telephone (27 31) 575 4000
Facsimile (27 865) 009 901

South Africa, East London

1st floor Pilot Mill House The Quarry
Selbourne East London 5247
PO Box 19484 Tacoma 5214
Telephone (27 43) 721 0660
Facsimile (27 43) 721 0664

South Africa, Johannesburg

100 Grayston Drive
Sandown Sandton 2196
PO Box 785700 Sandton 2146
Telephone (27 11) 286 7000
Facsimile (27 11) 286 7777
e-mail, South African offices

- Recruitment queries:
  recruitment@investec.co.za
- Client queries
  - Asset management:
    comcentre@investecmail.com
  - Institutional Securities:
    securities@investec.co.za
  - Private Client Securities:
    iso@investec.co.za
  - Property group:
    ipg@investec.co.za
  - Private Bank:
    privatebank@investec.co.za
  - Capital Markets:
    info-tsf@investec.co.za

South Africa, Knysna

TH24/TH25 Long Street Ext
Thesen Harbour Town Knysna 6571
Telephone (27 44) 302 1800
Facsimile (27 44) 382 4954

South Africa, Mbombela (formerly Nelspruit)

2nd floor 2 McAdam Street
Cnr McAdam and Rothery Streets
Mbombela 1200
PO Box 19428 The Village 1218
Telephone (27 13) 756 0900
Facsimile (27 13) 756 0990

South Africa, Pietermaritzburg

Acacia House Redlands Estate
1 George MacFarlane Lane
Pietermaritzburg 3201
PO Box 594 Pietermaritzburg 3200
Telephone (27 33) 264 5800
Facsimile (27 33) 342 1561

South Africa, Port Elizabeth

6th floor Fairview Office Park
66 Ring Road Greenacres
Port Elizabeth 6045
PO Box 27416 Greenacres 6057
Telephone (27 41) 396 6700
Facsimile (27 41) 363 1667

South Africa, Pretoria

Cnr Atterbury and Klarinet Streets
Menlo Park Pretoria 0081
PO Box 1882 Brooklyn Square 0075
Telephone (27 12) 427 8300
Facsimile (27 12) 427 8310

South Africa, Stellenbosch

Block D De Wagen Road Office Park
Stellentia Street Stellenbosch 7600
PO Box 516 Stellenbosch 7599
Telephone (27 21) 809 0700
Facsimile (27 21) 809 0730

Notes