Investec plc silo (excluding Investec Limited) annual financial statements 2013

Out of the Ordinary®

Investec

Corporate information

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Refer to page 118

For contact details for Investec offices refer to page 214.

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About this report

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

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

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2 Financial review

3 Risk management and corporate governance

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5 Shareholder information

Audited information

Denotes information in the risk report 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 plc in perspective

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

Investec plc, which houses our non-Southern African businesses, has been listed on the London Stock Exchange since 2002.

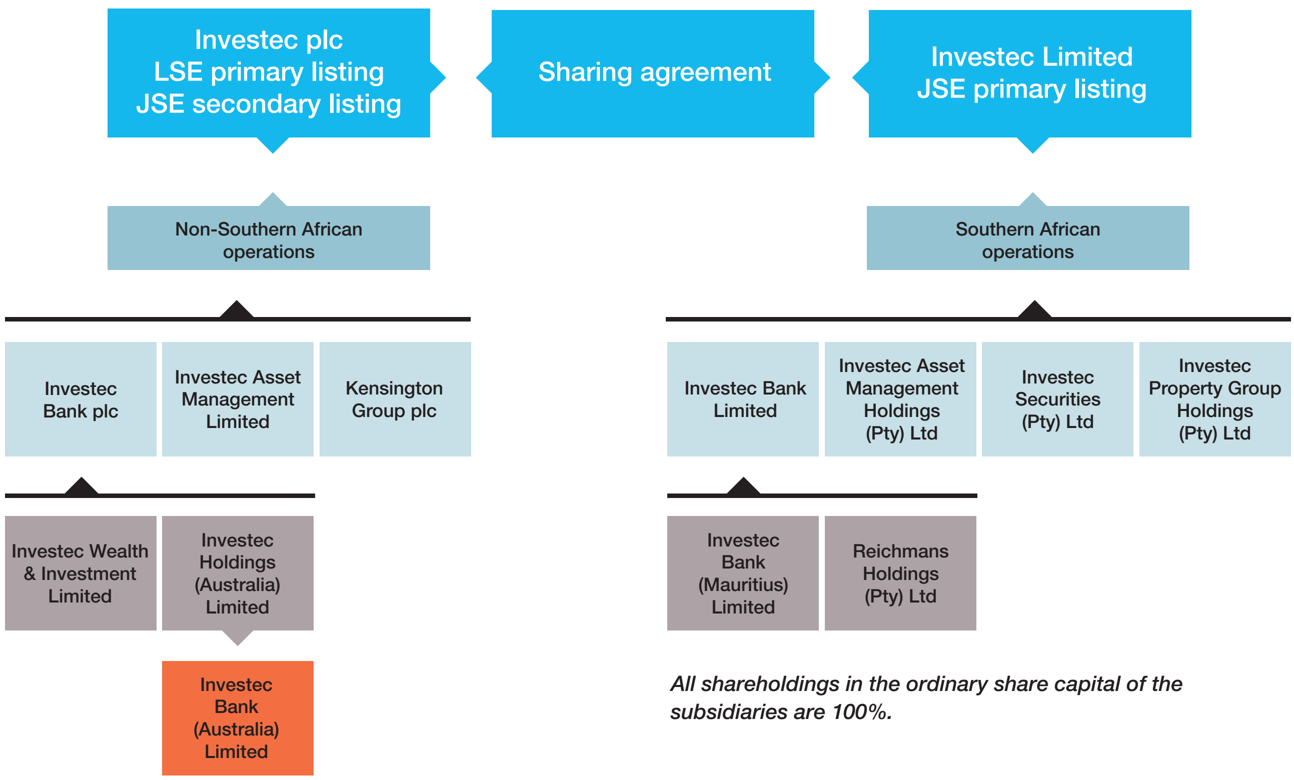
Operating structure

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

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

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

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



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

Salient features of the DLC structure

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

Overview of the activities of Investec plc

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 £69.8 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

United Kingdom

Investments and savings

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

Pensions and retirement

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

Tax planning and mitigation

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

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

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

What we do . . .
Specialist Banking

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

Corporates/government/institutional clients		High income and high net worth private clients
Corporate Advisory and Investment Activities	**Corporate and Institutional Banking Activities**	**Private Banking Activities**
Advisory Institutional, research, sales and trading Principal investments Property activities	Treasury and trading services Specialised finance Debt capital markets	Transactional banking Lending Deposits Investments
Australia Hong Kong India UK and Europe USA	Australia Canada India UK and Europe	Australia UK and Europe
Corporate Advisory and Investment Activities engages in a range of investment banking activities and positions itself as an integrated business focused on local client delivery with international access. We target clients seeking a highly customised service, which we offer through a combination of domestic depth and expertise within each geography and a client-centric approach. Our activities include: advisory; institutional research, sales and trading and principal investments. Our target market includes: listed and unlisted companies, fund managers, government and parastatals. Our Property business focuses on property fund management and property investments.	Corporate and Institutional Banking Activities provides a wide range of specialist products, services and solutions to select corporate clients, public sector bodies and institutions. The division undertakes the bulk of Investec's wholesale debt, structuring, proprietary trading, capital markets and derivatives business.	Private Banking positions itself as the 'investment bank for private clients', offering both credit and investment services to our select clientele. Through strong partnerships, we have created a community of clients who thrive on being part of an entrepreneurial and innovative environment. Our target market includes ultra high net worth individuals, active wealthy entrepreneurs, high income professionals, owner managers in mid-market companies and sophisticated investors.

Integrated systems and infrastructure

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.

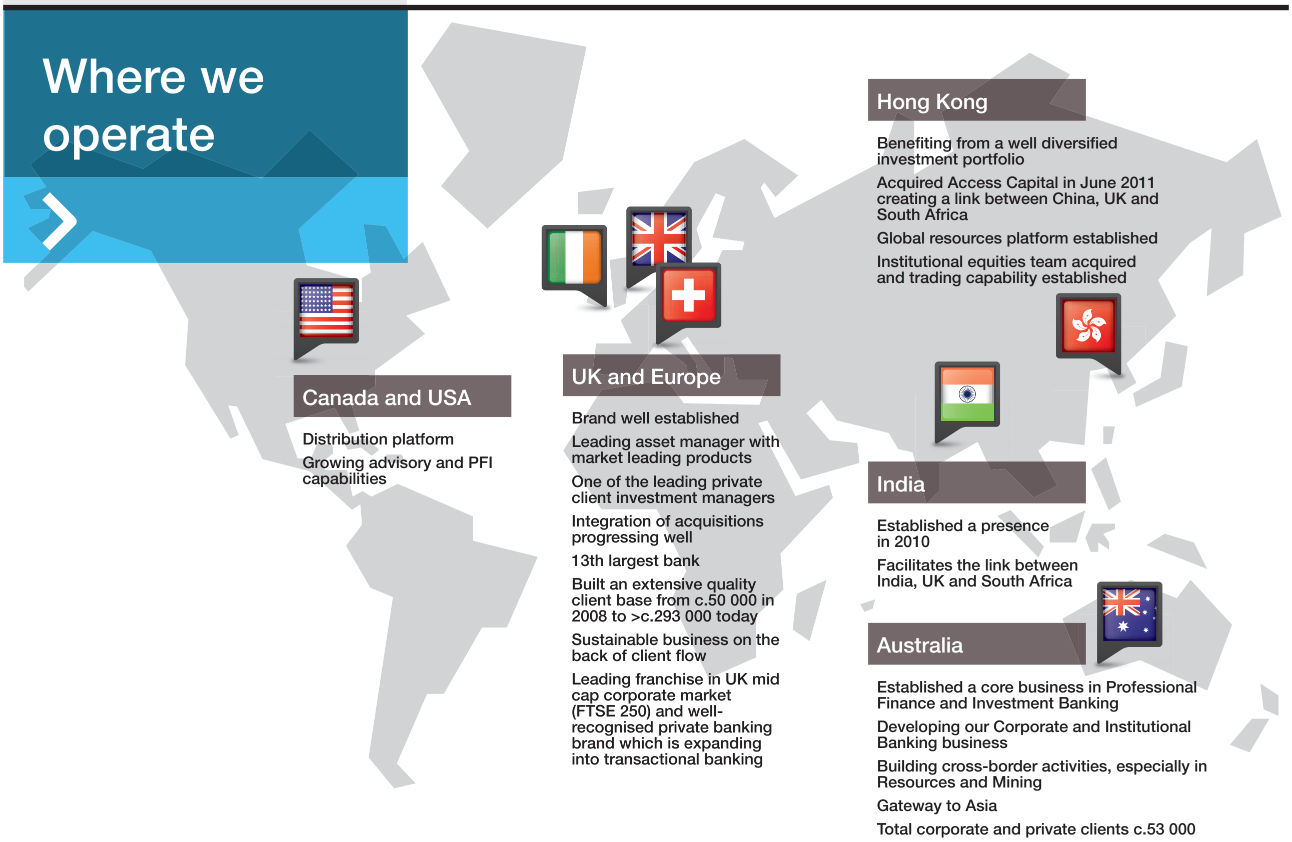
Wealth & Investment value proposition

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

Specialist Banking value proposition

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

Where we operate



Highlights

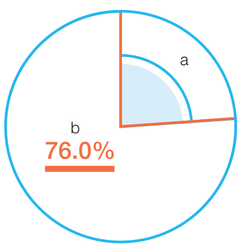
We have a strong franchise and a diversified business model that supports a solid revenue base

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 significant increase in operating profit, largely due to lower impairments

Operating profit before taxation* increased 30.3% to £122.8 million

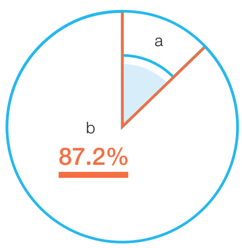
(2012: £94.2 million)

Contribution to operating profit before taxation*



31 March 2013

a	Specialist Banking	24.0%
b	Asset Management and Wealth Management businesses	76.0%



31 March 2012

a	Specialist Banking	12.8%
b	Asset Management and Wealth Management businesses	87.2%

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

Our financial performance

Investec plc recorded a 3.0% increase in total operating income

2012
£1 142.1mn

2013
£1 176.8mn

Earnings attributable to ordinary shareholders increased >100.0%

2012
£27.9mn

2013
£63.9mn

Improving credit loss ratio

2012
1.65%

2013
1.16%

Cash and near cash balances increased 0.6%

2012
£4 576mn

2013
£4 605mn

Our financial performance

Core loans and advances increased 6.6%

2012 £7 736mn › 2013 £8 250mn

Customer deposits increased 2.3%

2012 £11 008mn › 2013 £11 262mn

Third party assets under management increased 15.9%

2012 £57 492mn › 2013 £66 623mn

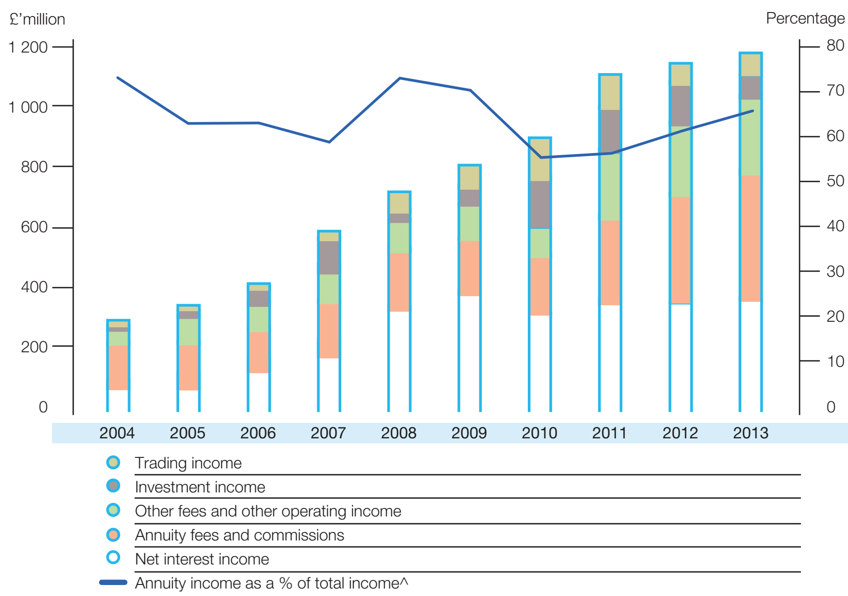
Low gearing ratios with core loans and advances to equity remaining below 4 times

2012 3.5 times › 2013 3.7 times

Other financial features

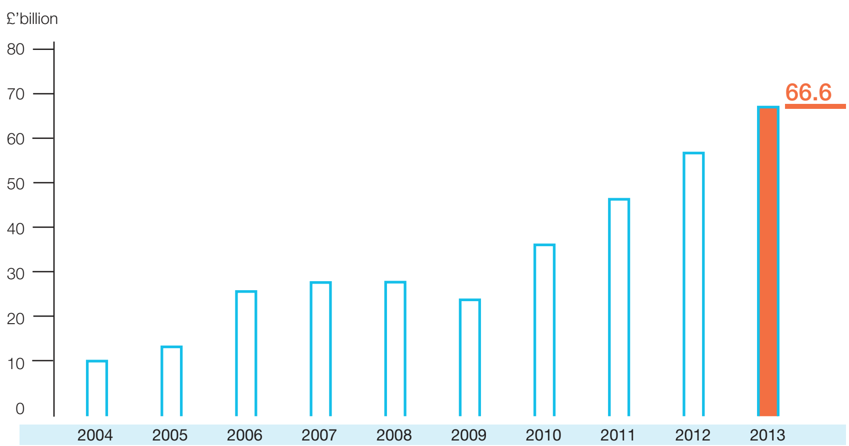
	31 March 2013	31 March 2012	% change
Total capital resources (including subordinated liabilities) (£'000)	3 007 498	2 943 828	2.2%
Total shareholders' equity (£'000)	2 260 253	2 235 552	1.1%
Total assets (£'000)	24 088 830	24 215 070	(0.5%)
Capital adequacy ratio	16.9%	17.5%	
Tier 1 ratio	11.0%	11.6%	

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



Investec in perspective

1

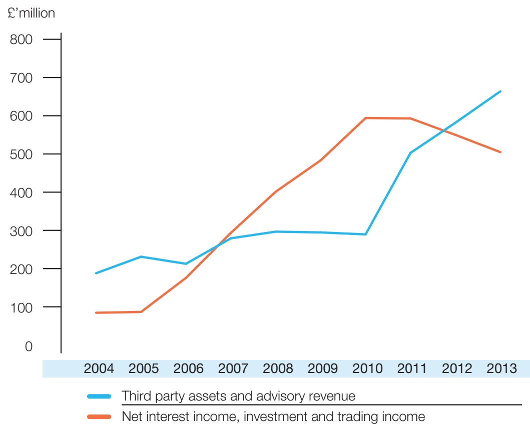
We have realigned our business model by building capital light revenues

Sustainable business model

Capital light businesses
£666 million
57%
of total revenue

Net fees and commissions of
£629 million
54% of total

Other of
£37 million
3% of total



Capital intensive businesses
£511 million
43%
of total revenue

Net interest income of
£360 million
30% of total

Investment income of
£74 million
6% of total

Trading income of
£77 million
7% of total

Third party asset management and advisory revenue

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

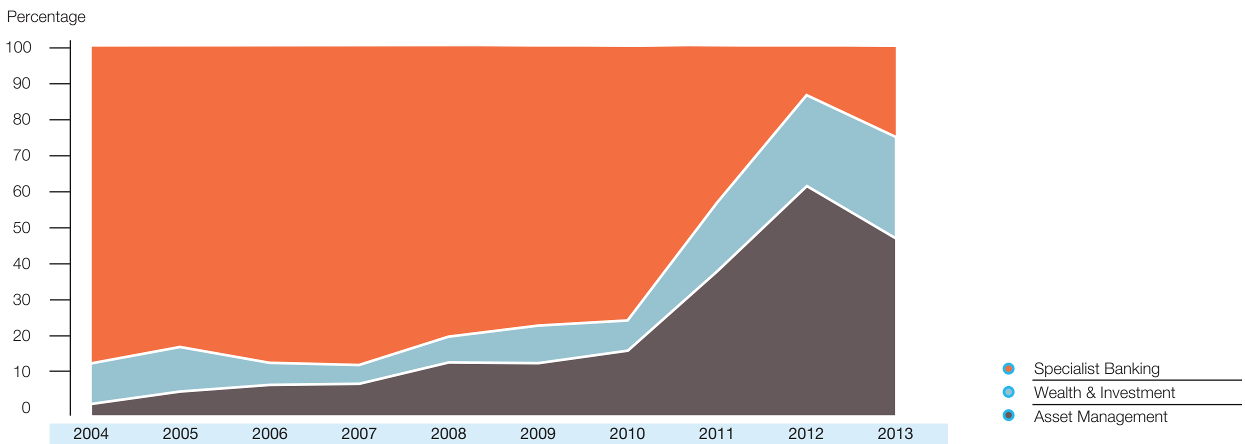
- **Containing costs**
- **Maintaining credit quality**
- **Strictly managing risk and liquidity**

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 66.2% of operating income

Contribution to operating profit before taxation*

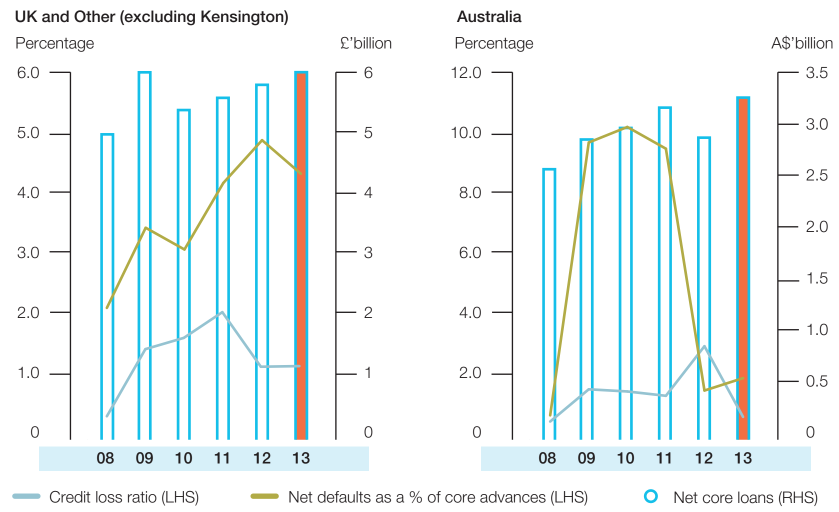


* *Before goodwill, acquired intangibles, non-operating items and after non-controlling interests.*

Credit quality on loans and advances has improved

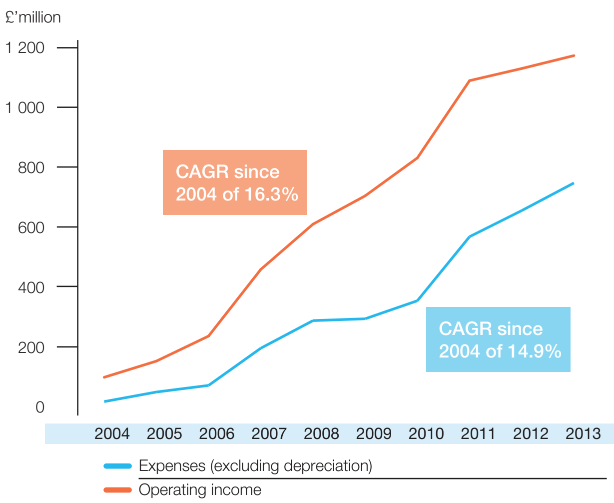
- Default loans (net of impairments) as a percentage of core loans and advances decreased from 4.10% to 3.75%
- Impairments have decreased significantly since 31 March 2012, with a substantial improvement reported in the Australian business and a moderate decrease reported in the UK business
- The credit loss ratio on core loans improved from 1.65% to 1.16%
- Net defaults (after impairments) remain adequately collateralised.

Asset quality ratios

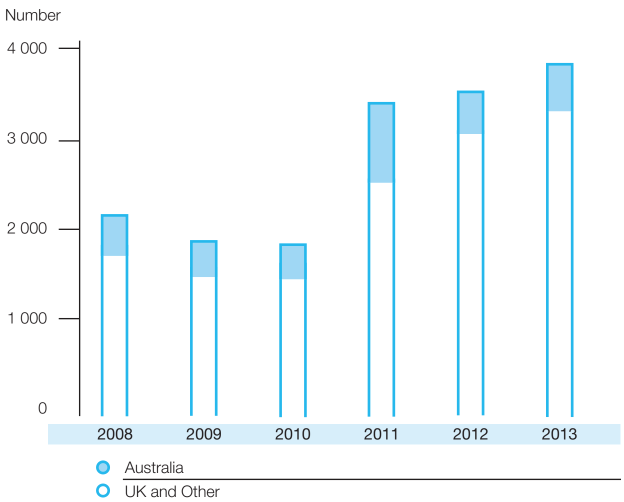


Moderate increase in costs… mainly as a result of acquisitions

Cost to income ratio 73.1% (2012: 69.3%)



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 68.9% (2012: 65.4%)

Continue to focus on:

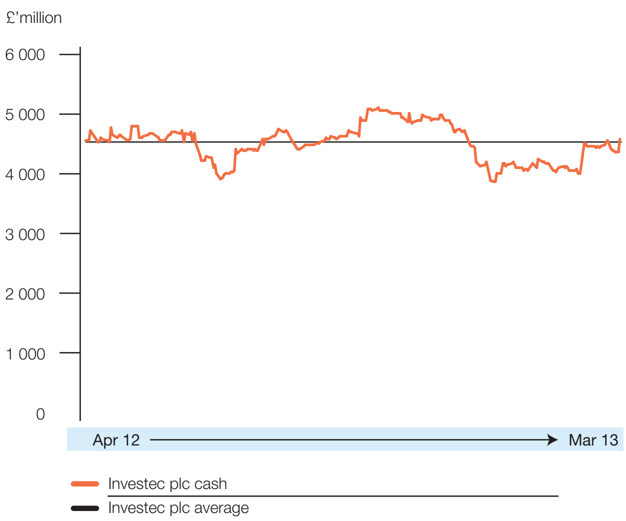
- Maintaining a high level of readily available, high quality liquid assets – approximately 32.8% of its liability base
- Diversifying funding sources
- Limiting concentration risk
- Reduced reliance on wholesale funding.

Capital adequacy and tier 1 ratios

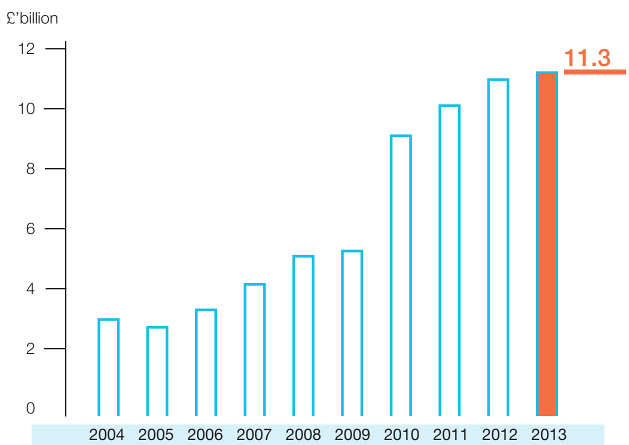
	31 March 2013 (Basel II)			31 March 2012 (Basel II)		
	Capital adequacy ratio	Tier 1 ratio	Common equity tier 1 ratio	Capital adequacy ratio	Tier 1 ratio	Common equity tier 1 ratio
Investec plc	16.9%	11.0%	8.8%	17.5%	11.6%	9.3%

Sound retail deposit franchise…

Cash and near cash trend



Customer accounts (deposits)



Financial
review

An overview of the operating environment impacting our business

The commentary and analysis of Investec plc's results for the year ended 31 March 2013 provides an overview of our financial performance relative to the bank's results for the year ended 31 March 2012. The financial information discussed below is based on the period under review, and may not necessarily reflect the financial condition or results of the operations of the bank going forward.

United Kingdom

Our views

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

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

Real income per capita has risen

2012	2013
£24 031	£24 373

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

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

The bank rate remained at a record low of 0.5% whilst the Bank of England, at the end of the period, had bought around £375 billion of assets via its Quantitative Easing (QE) programme, having upped that total by £50 billion during the course of the year. The bank also launched the Funding for Lending Scheme in August 2012 in an effort to boost overall and small business focused lending; material results have yet to be seen, though it is still relatively early days.

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

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

Australia

Our views

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

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

Real income per capita has risen

2012	2013
A$63 744	A$65 612

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

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

United States

Our views

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

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

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

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

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

Euro zone

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

Operating environment

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

	Period ended 31 March 2013	Period ended 31 March 2012	% change	Average over the period 1 April 2012 to 31 March 2013
Market indicators				
FTSE All share	3 381	3 003	12.6%	3 060
Australia All ords	4 980	4 420	12.7%	4 503
S&P	1 569	1 408	11.4%	1 420
Nikkei	12 336	10 084	22.3%	9 601
Dow Jones	14 579	13 212	10.3%	13 244
Rates				
UK overnight	0.42%	0.48%		0.45%
UK 10 year	1.76%	2.20%		1.82%
UK Clearing Banks Base Rate	0.50%	0.50%		0.50%
LIBOR – three month	0.51%	1.03%		0.69%
Reserve Bank of Australia cash target rate	3.00%	4.25%		3.38%
US 10 year	1.85%	2.21%		1.76%
Commodities				
Gold	USD1 596/oz	USD1 667/oz	(4.3%)	USD1 654/oz
Gas Oil	USD928/mt	USD1 014/mt	(8.5%)	USD950/mt
Platinum	USD1 576/oz	USD1 639/oz	(3.8%)	USD1 556/oz
Macro-economic				
UK GDP (% change over the period)	0.20%	0.30%		
UK per capita GDP	24 373	24 031	1.4%	
Australia GDP (% change over the period)	3.10%	2.60%		
Per capita GDP (A$)	65 612	63 744	2.9%	

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

Key income drivers

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

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

Specialist Banking

Asset Management

Key income drivers	Income impacted primarily by
• Fixed fees as a percentage of assets under management • Variable performance fees	• Movements in the value of the assets underlying client portfolios • Performance of portfolios against set benchmarks • Net sales

Income statement – primarily reflected as

- Fees and commissions

Wealth & Investment

Key income drivers	Income impacted primarily by
• Investment management fees levied as a percentage of assets under management • Commissions earned for executing transactions for clients	• Movement in the value of assets underlying client portfolios • The level of investment activity undertaken on behalf of clients, which, in turn, is affected by, among other things, the performance of the global stock markets (which drives investment opportunities), the equity investment risk appetite of our clients, tax considerations and market liquidity

Income statement – primarily reflected as

- Fees and commissions

Key income drivers	Income impacted primarily by	Income statement – primarily reflected as
• Lending activities	• Rate environment • Size of portfolios • Clients' capital and infrastructural investments • Client activity	• Net interest income • Fees and commissions • Investment income
• Cash and near cash balances	• Rate environment • Capital employed in the business and capital adequacy targets • Asset and liability management policies and risk appetite • Regulatory requirements	• Net interest income • Trading income arising from balance sheet management activities
• Deposit and product structuring and distribution	• The level of clients' investment activity, which, in turn, is affected by, among other things, the performance of the global markets and the investment risk appetite of our clients • Distribution channels • Ability to create innovative products • Regulatory requirements	• Net interest income • Fees and commissions
• Investments made (including listed and unlisted equities; debt securities; investment properties) • Gains or losses on investments • Dividends received	• Macro- and micro-economic market conditions • Availability of profitable exit routes • Whether appropriate market conditions exist to maximise gains on sale • Attractive investment opportunities • Credit spreads	• Net interest income • Investment income
• Advisory services	• The demand for our specialised advisory services, which, in turn, is affected by applicable tax, regulatory and other macro- and micro-economic fundamentals	• Fees and commissions
• Derivative sales, trading and hedging	• Client activity • Market conditions • Asset and liability creation • Product innovation • Market risk factors, primarily volatility and liquidity	• Fees and commissions • Trading income arising from customer flow
• Transactional banking services	• Levels of activity • Ability to create innovative products • Appropriate systems infrastructure	• Net interest income • Fees and commissions

Key risks relating to our operations

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

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

Credit and counterparty risk exposes us to losses caused by financial or other problems experienced by our clients. 38 – 64	**Operational risk** may disrupt our business or result in regulatory action. 94 – 98	**Legal and regulatory risks** are substantial in our businesses. 97
Liquidity risk may impair our ability to fund our operations. 86 – 93	**Reputational, strategic** and **business risk.** 94 – 98	Our net interest earnings and net asset value may be adversely affected by **interest rate risk.** 83 – 85
We may be **vulnerable to the failure of our systems** and breaches of our security systems. 94 – 98	We may be exposed to **pension risk** in our UK operations. 97	**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. 97 and 98
Market, business and general economic conditions and fluctuations could adversely affect our businesses in a number of ways. 66 – 81	**We may have insufficient capital** in the future and may be unable to secure additional financing when it is required. 98 – 109	**Employee misconduct** could cause harm that is difficult to detect. 94 – 98
We may be unable to **recruit, retain and motivate key personnel.** *See the Investec group's 2013 annual report on our website.*	The **financial services industry** in which we operate is intensely competitive. 13 – 15	

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

Overview

Investec plc reported a 30.3% increase in operating profit before non-operating items and taxation to £122.8 million for the year ended 31 March 2013 (2012: £94.2 million). The balance sheet remains strong, supported by sound capital and liquidity ratios.

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

Income statement analysis

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

Total operating income

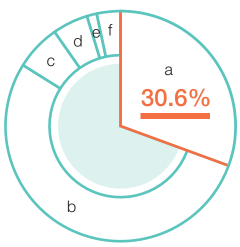
Total operating income before impairment losses on loans and advances of £1,177 million is 3.0% higher than the prior year. The various components of total operating income are analysed below.

£'000	31 March 2013	% of total income	31 March 2012	% of total income	% change
Net interest income	359 734	30.6%	352 019	30.8%	2.2%
Net fee and commission income	629 355	53.5%	525 399	46.0%	19.8%
Investment income	73 620	6.3%	134 125	11.7%	(45.1%)
Trading income arising from					
– customer flow	58 103	4.9%	54 291	4.8%	7.0%
– balance sheet management and other trading activities	19 375	1.6%	15 305	1.3%	26.6%
Other operating income	36 590	3.1%	60 949	5.4%	(40.0%)
Total operating income	1 176 777	100.0%	1 142 088	100.0%	3.0%

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

£'000	31 March 2013	% of total income	31 March 2012	% of total income	% change
Asset Management	222 035	18.9%	202 078	17.7%	9.9%
Wealth & Investment	195 490	16.6%	142 447	12.5%	37.2%
Specialist Banking	759 252	64.5%	797 563	69.8%	(4.8%)
Total operating income	1 176 777	100.0%	1 142 088	100.0%	3.0%

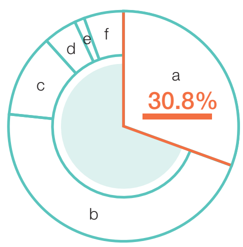
% of total operating income



31 March 2013

£1 177.0 million total operating income

a	Net interest income	30.6%
b	Net fee and commission income	53.5%
c	Investment income	6.3%
d	Trading income arising from customer flow	4.9%
e	Trading income arising from balance sheet management and other trading activities	1.6%
f	Other operating income	3.1%



31 March 2012

£1 142.1 million total operating income

a	Net interest income	30.8%
b	Net fee and commission income	46.0%
c	Investment income	11.7%
d	Trading income arising from customer flow	4.8%
e	Trading income arising from balance sheet management and other trading activities	1.3%
f	Other operating income	5.4%

Net interest income

Net interest income increased by 2.2% to £359.7 million (2012: £352.0 million) due to increased lending turnover and an improved yield earned on securitised assets, offset by less interest earned on running down legacy portfolios and higher cost of funds during the period to December 2012.

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

		UK and Other		Australia		Total group	
For the year ended 31 March 2013 £'000	Notes	Balance sheet value	Interest received	Balance sheet value	Interest received	Balance sheet value	Interest received
Cash, near cash and bank debt and sovereign debt securities	1	5 630 675	47 639	707 398	16 076	6 338 073	63 715
Core loans and advances	2	6 045 068	357 343	2 205 046	180 301	8 250 114	537 644
Private client		3 024 629	162 618	1 402 293	112 566	4 426 922	275 184
Corporate, institutional and other clients		3 020 439	194 725	802 753	67 735	3 823 192	262 460
Other debt securities and other loans and advances		2 258 521	144 138	22 506	18 205	2 281 027	162 343
Other interest earning assets	3	2 769 126	160 682	–	–	2 769 126	160 682
Total interest earning assets		16 703 390	709 802	2 934 950	214 582	19 638 340	924 384

		UK and Other		Australia		Total group	
For the year ended 31 March 2013 £'000	Notes	Balance sheet value	Interest paid	Balance sheet value	Interest paid	Balance sheet value	Interest paid
Deposits by banks and other debt related securities	4	3 944 675	70 619	470 689	32 436	4 415 364	103 055
Customer accounts		9 568 934	222 703	1 692 820	79 411	11 261 754	302 114
Other interest bearing liabilities	5	2 195 422	63 119	477 903	30 486	2 673 325	93 605
Subordinated liabilities		664 625	62 715	82 620	3 161	747 245	65 876
Total interest bearing liabilities		16 373 656	419 156	2 724 032	145 494	19 097 688	564 650
Net interest income			290 646		69 088		359 734

		UK and Other		Australia		Total group	
For the year ended 31 March 2012 £'000	Notes	Balance sheet value	Interest received	Balance sheet value	Interest received	Balance sheet value	Interest received
Cash, near cash and bank debt and sovereign debt securities	1	5 516 447	50 414	1 010 485	59 939	6 526 932	110 353
Core loans and advances	2	5 788 118	359 715	1 948 307	186 654	7 736 425	546 369
Private client		3 431 420	200 531	1 593 600	158 697	5 025 020	359 228
Corporate, institutional and other clients		2 356 698	159 184	354 707	27 957	2 711 405	187 141
Other debt securities and other loans and advances		1 483 282	78 608	81 860	4 310	1 565 142	82 918
Other interest earning assets	3	4 393 681	206 197	–	–	4 393 681	206 197
Total interest earning assets		17 181 528	694 934	3 040 652	250 903	20 222 180	945 837

Notes:

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

For the year ended 31 March 2012 £'000	Notes	UK and Other Balance sheet value	UK and Other Interest paid	Australia Balance sheet value	Australia Interest paid	Total group Balance sheet value	Total group Interest paid
Deposits by banks and other debt related securities	4	4 271 470	90 387	777 186	62 939	5 048 656	153 326
Customer accounts		9 471 155	204 366	1 536 603	83 708	11 007 758	288 074
Other interest bearing liabilities	5	2 361 985	53 614	526 946	33 569	2 888 931	87 183
Subordinated liabilities		661 921	60 890	46 355	4 345	708 276	65 235
Total interest bearing liabilities		16 766 531	409 257	2 887 090	184 561	19 653 621	593 818
Net interest income			285 677		66 342		352 019

Notes:

4. *Comprises (as per the balance sheet) deposits by banks; debt securities in issue; reverse repurchase agreements and cash collateral on securities lent.*
5. *Comprises (as per the balance sheet) liabilities arising on securitisation of own originated assets; liabilities arising on securitisation.*

Net fee and commission income

Net fee and commission income increased by 19.8% to £629.4 million (2012: £525.4 million). Investec plc benefited from higher average funds under management, solid net inflows and the acquisitions of Evolution Group plc and the NCB Group. The Specialist Banking business recorded an increase in net fees and commissions largely due to a good performance by the Corporate Advisory and Aviation Finance divisions. The Corporate and Institutional Banking and Prime Broking businesses recorded lower levels of activity.

£'000	31 March 2013	31 March 2012	Variance	% change
Asset Management	217 266	201 675	15 591	7.7%
Wealth & Investment	183 503	134 179	49 324	36.8%
Specialist Banking	228 586	189 545	39 041	20.6%
Net fee and commission income	629 355	525 399	103 956	19.8%

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

For the year ended 31 March 2013 £'000	UK and Other	Australia	Total group
Fund management fees/fees for assets under management	458 321	3 972	462 293
Private client transactional fees	83 926	9 579	93 505
Corporate and institutional transactional and advisory services	159 373	45 880	205 253
Fee and commission income	701 620	59 431	761 051
Fee and commission expense	(127 170)	(4 526)	(131 696)
Net fee and commission income	574 450	54 905	629 355
Annuity fees (net of fees payable)	392 722	26 138	418 860
Deal fees	181 728	28 767	210 495

For the year ended 31 March 2012 £'000	UK and Other	Australia	Total group
Fund management fees/fees for assets under management	404 327	5 674	410 001
Private client transactional fees	62 486	9 251	71 737
Corporate and institutional transactional and advisory services	138 312	23 531	161 843
Fee and commission income	605 125	38 456	643 581
Fee and commission expense	(114 807)	(3 375)	(118 182)
Net fee and commission income	490 318	35 081	525 399
Annuity fees (net of fees payable)	339 849	14 115	353 964
Deal fees	150 469	20 966	171 435

Investment income

Investment income decreased by 45.1% to £73.6 million (2012: £134.1 million) due to lower income earned on the fixed income portfolio in the UK. The principal investment portfolio performed well.

£'000	31 March 2013	31 March 2012	Variance	% change
Asset Management	–	–	–	–
Wealth & Investment	555	(392)	947	>100.0%
Specialist Banking	73 065	134 517	(61 452)	(45.7%)
investment income	73 620	134 125	(60 505)	(45.1%)

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

For the year ended 31 March 2013 £'000	UK and Other	Australia	Total group
Realised	33 534	1 752	35 286
Unrealised	35 104	(1 654)	33 450
Dividend income	2 999	240	3 239
Funding and other net related income	1 445	200	1 645
Investment income	73 082	538	73 620

For the year ended 31 March 2013 £'000	Investment portfolio (listed and unlisted equities)*	Debt securities (sovereign, bank and other)	Other asset categories	Total group
UK and Other	35 032	31 881	6 169	73 082
Realised	917	26 264	6 353	33 534
Unrealised	31 116	5 617	(1 629)	35 104
Dividend income	2 999	–	–	2 999
Funding and other net related income	–	–	1 445	1 445
Australia	(2 412)	1 617	1 333	538
Realised	64	1 617	71	1 752
Unrealised	(2 716)	–	1 062	(1 654)
Dividend income	240	–	–	240
Funding and other net related income	–	–	200	200
Total investment income	32 620	33 498	7 502	73 620

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

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

For the year ended 31 March 2012 £'000	Investment portfolio (listed and unlisted equities)*	Debt securities (sovereign, bank and other)	Other asset categories	Total group
UK and Other	43 049	86 511	13 039	142 599
Realised	26 230	89 737	13 090	129 057
Unrealised	14 929	(3 226)	(51)	11 652
Dividend income	1 890	–	–	1 890
Australia	1 544	(334)	(9 684)	(8 474)
Realised	1 539	(784)	(9 684)	(8 929)
Unrealised	(66)	–	–	(66)
Dividend income	71	450	–	521
Investment income: total	44 593	86 177	3 355	134 125

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

Trading income

Trading income from customer flow increased 7.0% to £58.1 million (2012: £54.3 million) and trading income from other trading activities increased 26.6%. to £19.4 million (2012: £15.3 million) as a result of effective balance sheet management.

For the year ended 31 March £'000	2013	2012	Variance	% change
Asset Management	–	–	–	–
Wealth & Investment	361	(386)	747	(>100.0%)
Specialist Banking	57 742	54 677	3 065	5.6%
Trading income arising from customer flow	58 103	54 291	3 812	7.0%

For the year ended 31 March £'000	2013	2012	Variance	% change
Asset Management	(199)	61	(260)	(>100.0%)
Wealth & Investment	4	(7)	11	(>100.0%)
Specialist Banking	19 570	15 251	4 319	28.3%
Trading income arising from balance sheet management and other trading activities	19 375	15 305	4 070	26.6%

Other operating income

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

Impairment losses on loans and advances

Impairments on loans and advances decreased from £255.8 million to £189.0 million. The UK reported a £16.7 million decrease whilst impairments in Australia were £50.1 million lower than the prior year.

Since 31 March 2012 the percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances improved from 4.10% to 3.75%. The credit loss charge as a percentage of average gross core loans and advances has improved from 1.65% at 31 March 2012 to 1.16%. The ratio of collateral to default loans (net of impairments) is at 1.15 times (2012: 1.09 times).

Further information is provided on pages 55 to 64.

Financial review (continued)

Operating costs and depreciation

The ratio of total operating costs to total operating income amounted to 73.1% (2012: 69.3%).

Total operating expenses grew by 8.1% to £864.6 million (2012: £800.1 million) largely as a result of the acquisitions of the Evolution Group plc, the NCB Group and Alliance Equipment Finance.

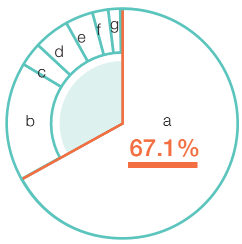
The various components of total expenses are analysed below.

£'000	31 March 2013	% of total expenses	31 March 2012	% of total expenses	% change
Staff costs (including directors' remuneration)	579 982	67.1%	526 797	65.8%	10.1%
Business expenses	144 311	16.7%	130 404	16.3%	10.7%
Equipment expenses (excluding depreciation)	30 466	3.5%	26 665	3.3%	14.3%
Premises expenses (excluding depreciation)	42 355	4.9%	37 786	4.7%	12.1%
Marketing expenses	33 608	3.9%	34 110	4.3%	(1.5%)
Depreciation	17 780	2.1%	15 776	2.0%	12.7%
Depreciation on operating leased assets	16 072	1.8%	28 544	3.6%	(43.7%)
Total operating costs	864 574	100.0%	800 082	100.0%	8.1%

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

£'000	31 March 2013	% of total expenses	31 March 2012	% of total expenses	% change
Asset Management	162 694	18.8%	143 156	17.9%	13.6%
Wealth & Investment	161 581	18.7%	119 226	14.9%	35.5%
Specialist Banking	540 299	62.5%	537 700	67.2%	0.5%
Total operating costs	864 574	100.0%	800 082	100.0%	8.1%

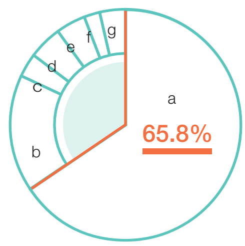
% of total expenses



31 March 2013

£864.6 million total expenses

a	Staff costs	67.1%
b	Business expenses	16.7%
c	Equipment	3.5%
d	Premises	4.9%
e	Marketing	3.9%
f	Depreciation	2.1%
g	Depreciation on operating leased assets	1.8%



31 March 2012

£800.1 million total expenses

a	Staff costs	65.8%
b	Business expenses	16.3%
c	Equipment	3.3%
d	Premises	4.7%
e	Marketing	4.3%
f	Depreciation	2.0%
g	Depreciation on operating leased assets	3.6%

Impairment of goodwill

The current year's goodwill impairment relates to Investec plc's Trust business.

Amortisation of acquired intangibles

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

Costs arising from integration of acquired subsidiaries

As anticipated for the 2012 financial year, a further cost of £13.1 million arose on the integration of the Evolution Group plc and £1.4 million arose on the acquisition of the NCB Group.

Balance sheet analysis

Since 31 March 2012:

- Total shareholders' equity (including non-controlling interests) increased by 1.1% to £2.3 billion largely as a result of improved retained earnings
- Total assets decreased by 0.5% to £24.1 billion.

Questions and answers

Hendrik du Toit

Chief executive officer

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.

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

Geographical business leader United Kingdom

Wealth & Investment…

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

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

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

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

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

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

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

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

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

Q What are your strategic objectives for the coming year?

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

Q What is your outlook for the coming year?

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

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

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

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

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

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

Questions and answers

David van der Walt

Geographical business leader | United Kingdom

Specialist Banking…

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

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

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

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

In summary it was a difficult period for us.

Q What are your strategic objectives for the coming year?

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

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

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

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

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

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

Q What is your outlook for the coming year?

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

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

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

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

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

Questions and answers

David Clarke and Ciaran Whelan

Outgoing Acting

Geographical business leaders Australia

Specialist Banking...

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

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

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

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

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

Q What are your strategic objectives for the coming year?

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

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

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

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

Questions and answers (continued)

David Clarke and Ciaran Whelan
Outgoing Acting

Geographical business leaders Australia

Specialist Banking...

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

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

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

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

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

Q What is your outlook for the coming year?

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

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

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

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

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

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

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

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

Risk management and corporate governance

Risk management

Group Risk Management objectives are to:

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

Overview of disclosure requirements

Risk disclosures provided in line with the requirements of International Financial Reporting Standard 7 Financial Instruments: Disclosures (IFRS 7) and disclosures on capital required by International Accounting Standard 1 Presentation of Financial Statements (IAS 1) are included within this section of the annual report

on pages 34 to 111 with further disclosures provided within the financial statements section on pages 131 to 209.

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 BIPRU 11 pertaining to banks in the UK are also included in this section of the annual report.

Information provided in this section of the annual report is prepared on an Investec plc consolidated basis (i.e. incorporating the results of Investec Bank plc), 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 15.

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

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

- Credit and counterparty exposures to a select target market; our risk appetite continues to favour lower risk, income-based lending, with credit risk taken over a short to medium term. Exposure is taken against defined target clients displaying sound financial strength and integrity, a core competency and an established track record. Impairments on loans and advances decreased from £255.8 million to £189.0 million. The UK reported a moderate decrease whilst impairments in Australia were £50 million lower than the prior year. Since 31 March 2012 the level of defaults has improved with the percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounting to 3.75% (2012: 4.10%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.15 times (2012: 1.30 times). The credit loss charge as a percentage of average gross core loans and advances has improved from 1.65% at 31 March 2012 to 1.16%
- Limited exposure to structured credit investments; representing approximately 2.1% of total assets
- Limited private client and corporate client exposures to peripheral Europe amounting to approximately 1.2% of total assets. In addition Investec plc has certain branch-related and subsidiary activities in Ireland, with total assets representing 3.5% of Investec plc's assets
- A low leverage (gearing) ratio of 10.7 times
- A low level of net assets and liabilities exposed to the volatility of IFRS fair value accounting; with level 3 assets amounting to 3.8% of total assets
- Low equity and investment risk exposure; within total investments comprising 2.5% of total assets
- Modest proprietary market risk within our trading portfolio. Value at risk and stress testing scenarios remain at prudent levels
- Potential losses that could arise in our trading book portfolio when stress tested under extreme market conditions (i.e. per extreme value theory) amount to less than 0.2% of total operating income
- A high level of readily available, high quality liquid assets; cash and near cash of £4.6 billion, representing 32.8% of our liability base. We continue to maintain a low reliance on interbank wholesale funding to fund core lending asset growth
- Continued increase in retail customer deposits and a growing retail franchise
- Healthy capital ratios; we have always held capital well in excess of regulatory requirements and we intend to perpetuate this philosophy. We continued to meet our capital targets
- Geographical and operational diversity with a high level of recurring income which continues to support sustainability of operating profit.

Geographic summary of the year in review from a risk perspective

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

Refer to page 46, page 81 and pages 92 and 93, with a high level geographic summary of the most salient aspects provided below.

UK and Other

Credit risk

Against a difficult economic background we continued to rebalance our lending portfolios in line with our risk appetite statement and in particular focusing on a reduction in property/real estate as a proportion of our total loan exposure. Non-property collateralised lending as a percentage of gross credit exposures has increased. Core loans and advances increased by 4.4% from £5.8 billion at 31 March 2012 to £6.0 billion at 31 March 2013. Default loans (net of impairments) have decreased from 4.92% as at March 2012 to 4.34% of core loans and advances. The credit loss ratio is at 1.26%.

Traded market risk

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

Balance sheet risk

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

Australia

Credit risk

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

Traded market risk

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

Balance sheet risk

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

Salient features

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

Year to 31 March	2013	2012
Net core loans and advances (£'million)	8 250	7 736
Gross defaults as a % of gross core loans and advances	5.95%	6.10%
Defaults (net of impairments) as a % of net core loans and advances	3.75%	4.10%
Net defaults (after collateral and impairments) as a % of net core loans and advances	–	–
Credit loss ratio*	1.16%	1.65%
Structured credit investments as a % of total assets	2.10%	2.56%
Banking book investment and equity risk exposures as a % of total assets	2.46%	1.89%
Traded market risk: one day value at risk (£'million)	0.8	0.6
Cash and near cash (£'million)	4 605	4 576
Customer accounts (deposits) (£'million)	11 262	11 008
Core loans to equity ratio	3.7x	3.5x
Total gearing/leverage ratio**	10.7x	10.8x
Core loans (excluding own originated assets which have been securitised) to customer deposits	68.9%	65.4%
Capital adequacy ratio	16.9%	17.5%
Tier 1 ratio	11.0%	11.6%

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

An overview of key risks

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

These risks have been highlighted on page 18.

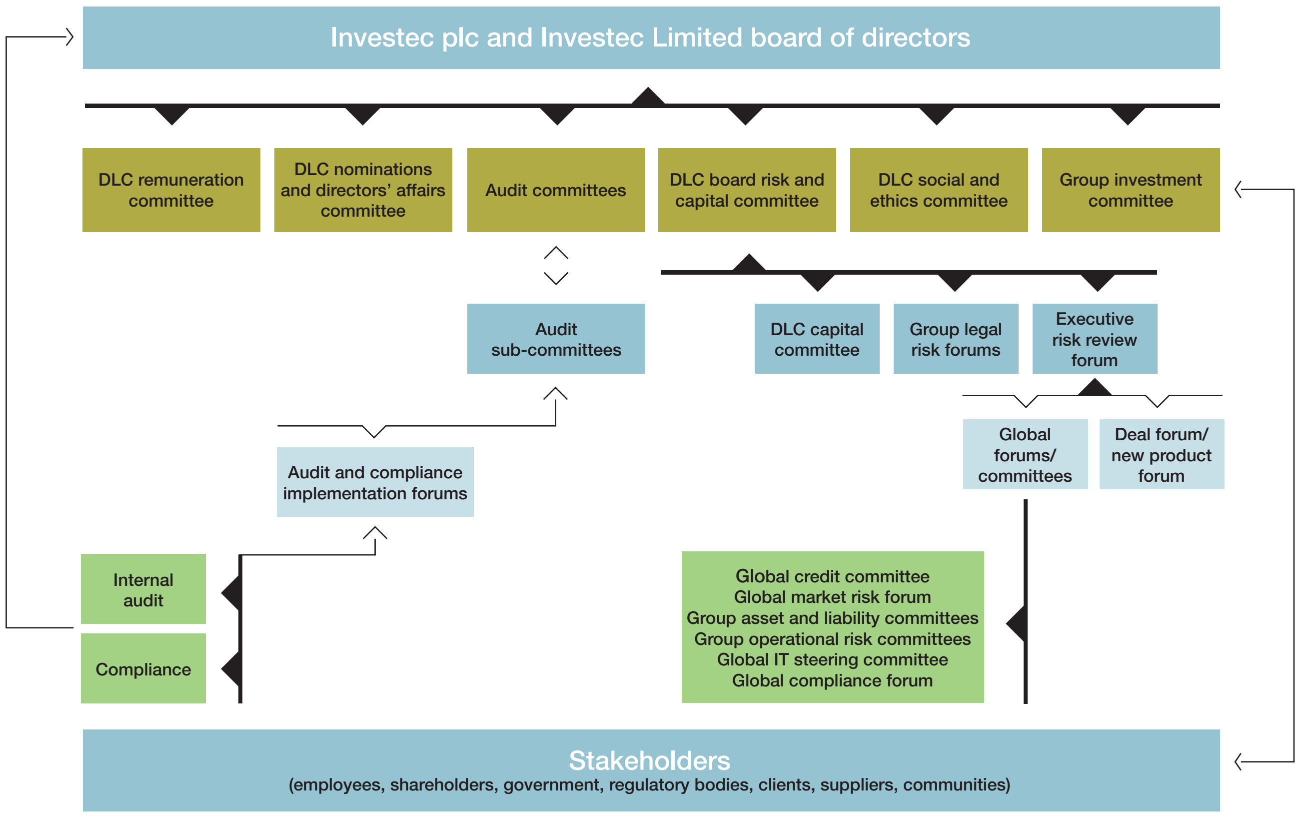
The sections that follow provide information on a number of these risk areas.

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

Risk management framework, committees and forums

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

Governance framework



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

BRCC	Board risk and capital committee
ERRF	Executive risk review forum
FSA	Financial Services Authority
APRA	Australian Prudential Regulatory Authority
ALCO	Asset and liability committee
PRA	Prudential Regulatory Authority
FCA	Financial Conduct Authority

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

Credit and counterparty risk management

Credit and counterparty risk description

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

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

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

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

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

Credit and counterparty risk governance structure

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

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

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

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

Credit and counterparty risk appetite

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

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

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

Furthermore we have very little appetite for unsecured debt and ensure that good quality collateral is provided in support of obligations (refer to page 65 for further information).

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

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

In certain instances we have elected to sell certain assets down and/or securitise them (refer to pages 68 to 76 for further information).

Concentration risk

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

Sustainability considerations

Overview

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

- Environmental considerations
- Social considerations
- Economic considerations.

Refer to our sustainability report available on our website.

Our assessment of our clients includes consideration of their character and integrity, core competencies, track record and financial strength.

Management and measurement of credit and counterparty risk

Fundamental principles employed in the management of credit and counterparty risk are:

- A clear definition of our target market
- A quantitative and qualitative assessment of the creditworthiness of our counterparties
- Analysis of risks, including concentration risk (concentration risk considerations include asset class, industry, counterparty and geographical concentration)
- Prudential limits
- Regular monitoring and review of existing and potential exposures once facilities have been approved
- A high level of executive involvement in decision making with non-executive review and oversight.

Regular reporting of credit and counterparty risk exposures within our operating units is made to management, the executives and the board at the BRCC. The board regularly reviews and approves the appetite for credit and counterparty risk, which is documented in risk appetite statements and policy documents and implemented by Group Credit.

Despite strict adherence to the above principles, increased default risk may arise from unforeseen circumstances particularly in times of extreme market volatility and weak economic conditions.

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

Investec completes scenario tests on its loan portfolio with regard to the capital held. These tests stress the existing portfolio to allow the bank to identify underlying risks and manage them accordingly. These stresses include (but are not limited to) residential and commercial property prices, foreign exchange rates, default rates, impairments and capital usage. The credit risk stress tests also play an integral part in the bank's capital planning process.

A large proportion of the portfolio is not rated by external rating agencies. We mainly place reliance upon internal consideration of counterparties and borrowers, and use ratings prepared externally where available as support. Within the credit approval process internal and external ratings are included in the assessment of the client quality.

The internal rating models used are specific to each portfolio. The internal ratings are used as an input into the credit decision and as a means of assessing the risk of rated portfolios. Ongoing development of internal rating models has progressed in the project finance, private bank property-related transactions, corporate, bank and financial institutions areas of operation.

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

- In relation to sovereigns and securitisations, Fitch, Moody's, Standard and Poor's and DBRS have been selected by Investec as eligible ECAIs
- In relation to banks, corporates and debt securities, Fitch, Moody's and Standard and Poor's are recognised as eligible ECAIs
- If two assessments are available, the more conservative will apply
- Where there are three or more credit ratings with different risk weightings, the credit ratings corresponding to the two lowest ratings should be referred to and the higher of those two ratings should be applied.

The group applies the Standardised approach for capital requirements in the assessment of its credit and counterparty exposures. The group's banking subsidiaries conduct their mapping of credit and counterparty exposures in accordance with the mapping procedures specified by the Central Bank Registrar, in the respective geographies in which the group operates.

Credit and counterparty risk – nature of lending activities

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

Lending collateralised by property

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

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

An analysis of the lending collateralised by property portfolio and asset quality information is provided on pages 62 and 63.

Private Client activities

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

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

Credit risk arises from the following activities:

- Personal Banking delivers products to enable target clients to create and manage their wealth, private client mortgages, transactional banking, high net worth lending, offshore banking and foreign exchange

- Residential Mortgages provides mortgage loan facilities for high income professionals and high net worth individuals tailored to their individual needs as well as vanilla mortgage products for professional target market clients
- Specialised Lending provides structured credit facilities to high net worth individuals and their controlled entities
- The Professional Finance team creates innovative products specifically designed to meet the personal and professional finance needs of predominantly medical, dental and accounting professionals. This enables these clients to maximise their personal wealth through cash management and investment opportunities.

An analysis of the private client loan portfolio and asset quality information is provided on pages 62 and 63.

Corporate Client activities

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

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

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

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

Assets we are involved in are diverse, and centre around our areas of expertise including mortgages, resources, aircraft equipment leases, 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, equity together with structured hedging solutions
- Corporate Loans: provides mostly senior loans to mid and large cap corporates. In the UK these are usually part of a larger facility participating with other banks either as transaction leader or support

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.

- Growth and Acquisition Finance: provides debt funding to proven management teams, running small to mid-market sized companies. Credit risk is assessed against debt service coverage from the robustness of the cash generation for the business both historic and against forecasts
- Asset Based Lending provides working capital and business loans secured on collateral or assets used in the conduct of the business, for example, accounts receivable, inventory, plant and machinery. We also provide advances against cash flow or other assets such as committed income or rights
- Fund Finance provides bespoke credit facilities to segregated funds to facilitate investment opportunities, prior to institutional cash calls which the fund has an irrevocable commitment. Fund Finance will also support management companies in their co-investment requirements
- Credit Investments: makes credit investments in the primary and secondary markets for both investment (accrual) and arbitrage purposes, generating annuity margin income and investment income. All investment transactions are approved in advance and subject to rigorous stress testing
- Securitisation: structuring and sale of financial assets, mostly in the form of sale to special purpose entities which issue securities to investors.

An analysis of the corporate client loan portfolio and asset quality information is provided on pages 62 and 63.

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 in Southern Africa, the UK, Europe and the US.

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 65.

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). In the event the group's credit rating is downgraded, the requirement to post additional collateral with counterparties would be immaterial. 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.

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.

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

Further information on credit derivatives is provided on page 81.

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

Credit and counterparty risk year in review

UK and Other

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

Core loans and advances increased by 4.4% from £5.8 billion at 31 March 2012 to £6.0 billion at 31 March 2013.

Default loans (net of impairments) have decreased from 4.92% to 4.34% of core loans and advances. The credit loss ratio is at 1.26%.

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

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

There was a decrease in the Kensington impairment charge following last year's one-off increase as a result of our adoption of new UK Regulator guidelines relating to forbearance provisioning methodology. The overall Kensington arrears position showed slow steady improvement and the legacy book continued to decrease in size. The Irish mortgage book continued to deteriorate in the first half-year due to the economic and political environment in the country; however, the second half saw signs of stabilisation in house prices have started to appear.

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

Australia

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

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

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

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

Credit and counterparty risk information

Pages 34 to 46 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 0.2% to £18.7 billion largely as a result of an increase in core loans and advances. Cash and near cash balances increased by 0.6% to £4.6 billion and are largely reflected in the following line items in the table below: cash and balances at central banks, loans and advances to banks, non-sovereign and non-bank cash placements, sovereign debt securities.

As at 31 March £'000	2013	2012	% change	Average*
Cash and balances at central banks	1 372 812	1 835 820	(25.2%)	1 604 316
Loans and advances to banks	1 318 232	1 060 122	24.3%	1 189 177
Reverse repurchase agreements and cash collateral on securities borrowed	1 528 593	1 159 138	31.9%	1 343 866
Sovereign debt securities	1 660 377	1 647 271	0.8%	1 653 824
Bank debt securities	455 201	824 552	(44.8%)	639 877
Other debt securities	193 499	169 223	14.3%	181 361
Derivative financial instruments	692 675	653 160	6.0%	672 918
Securities arising from trading activities	468 000	250 071	87.1%	359 036
Loans and advances to customers (gross)	7 951 550	7 364 466	8.0%	7 658 008
Own originated loans and advances to customers (gross)	491 753	536 297	(8.3%)	514 025
Other loans and advances (gross)	1 723 960	2 337 413	(26.2%)	2 030 687
Other securitised assets (gross)	49 988	67 349	(25.8%)	58 669
Other assets	78 141	2 390	>100%	40 266
Property and equipment	4 726	19 761	(76.1%)	12 244
Total on-balance sheet exposures	17 989 507	17 927 033	0.3%	17 958 270
Guarantees^	61 596	56 321	9.4%	58 959
Contingent liabilities, committed facilities and other	653 873	687 376	(4.9%)	670 625
Total off-balance sheet exposures	715 469	743 697	(3.8%)	729 583
Total gross credit and counterparty exposures pre collateral or other credit enhancements	18 704 976	18 670 730	0.2%	18 687 853

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

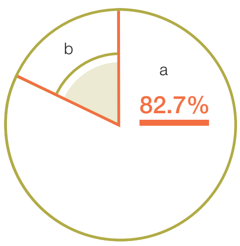
^ *Excludes guarantees provided to clients which are backed/secured by cash on deposit with the bank.*

An analysis of gross credit and counterparty exposures by geography

As at 31 March £'000	UK and Other 2013	UK and Other 2012	Australia 2013	Australia 2012	Total 2013	Total 2012
Cash and balances at central banks	1 228 289	1 655 796	144 523	180 024	1 372 812	1 835 820
Loans and advances to banks	1 233 056	991 655	85 176	68 467	1 318 232	1 060 122
Reverse repurchase agreements and cash collateral on securities borrowed	1 528 593	1 159 138	–	–	1 528 593	1 159 138
Sovereign debt securities	1 365 463	1 415 447	294 914	231 824	1 660 377	1 647 271
Bank debt securities	275 173	294 383	180 028	530 169	455 201	824 552
Other debt securities	170 993	87 363	22 506	81 860	193 499	169 223
Derivative financial instruments	618 462	519 391	74 213	133 769	692 675	653 160
Securities arising from trading activities	459 731	243 187	8 269	6 884	468 000	250 071
Loans and advances to customers (gross)	6 220 630	5 938 905	1 730 920	1 425 561	7 951 550	7 364 466
Own originated loans and advances to customers (gross)	–	1 296	491 753	535 001	491 753	536 297
Other loans and advances (gross)	1 723 960	2 337 413	–	–	1 723 960	2 337 413
Other securitised assets (gross)	49 988	67 349	–	–	49 988	67 349
Other assets	78 141	2 390	–	–	78 141	2 390
Property and equipment	4 726	19 791	–	–	4 726	19 791
Total on-balance sheet exposures	14 957 205	14 733 504	3 032 302	3 193 559	17 989 507	17 927 063
Guarantees^	22 521	24 324	39 075	31 997	61 596	56 321
Contingent liabilities, committed facilities and other	491 112	522 844	162 761	164 532	653 873	687 376
Total off-balance sheet exposures	513 633	547 168	201 836	196 529	715 469	743 697
Total gross credit and counterparty exposures pre collateral or other credit enhancements	15 470 838	15 280 672	3 234 138	3 390 088	18 704 976	18 670 760

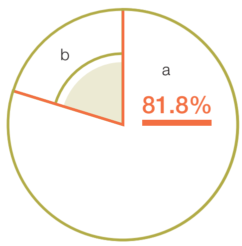
^ *Excludes guarantees provided to clients which are backed/secured by cash on deposit with the bank.*

An analysis of gross credit and counterparty exposures by geography



31 March 2013
£18 705 million

a	UK and Other	82.7%
b	Australia	17.3%



31 March 2012
£18 671 million

a	UK and Other	81.8%
b	Australia	18.2%

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

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

£'000	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note refer-ence	Total balance sheet
As at 31 March 2013				
Cash and balances at central banks	1 372 812	2 858		1 375 670
Loans and advances to banks	1 318 232	–		1 318 232
Reverse repurchase agreements and cash collateral on securities borrowed	1 528 593	–		1 528 593
Sovereign debt securities	1 660 377	–		1 660 377
Bank debt securities	455 201	–		455 201
Other debt securities	193 499	5 447		198 946
Derivative financial instruments	692 675	441 822		1 134 497
Securities arising from trading activities	468 000	205 763		673 763
Investment portfolio	–	388 625	1	388 625
Loans and advances to customers	7 951 550	(192 630)	2	7 758 920
Own originated loans and advances to customers	491 753	(559)	2	491 194
Other loans and advances	1 723 960	358 121	3	2 082 081
Other securitised assets	49 988	2 719 138	4	2 769 126
Interest in associated undertakings	–	24 707		24 707
Deferred taxation assets	–	126 822		126 822
Other assets	78 141	1 303 229	5	1 381 370
Property and equipment	4 726^	75 703		80 429
Investment properties	–	11 500		11 500
Goodwill	–	456 646		456 646
Intangible assets	–	172 131		172 131
Total on-balance sheet exposures	17 989 507	6 099 323		24 088 830

^ *Reflects future receivables in respect of assets subject to operating lease contracts.*
1. *Largely relates to exposures that are classified as equity risk in the banking book. Further information is provided on pages 66 to 68.*
2. *Largely relates to impairments and the impact of hedge accounting.*
3. *Whilst the group manages all risks (including credit risk) from a day-to-day operational perspective, these assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicles that the group has reflected in the 'total credit and counterparty exposure' with the maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'.*
4. *Largely relates to net investments in Kensington securitised vehicles to which Investec has no direct exposure as discussed on pages 72 to 76.*
5. *Other assets include settlement debtors where we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

£'000	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note refer-ence	Total balance sheet
As at 31 March 2012				
Cash and balances at central banks	1 835 820	29		1 835 849
Loans and advances to banks	1 060 122	–		1 060 122
Reverse repurchase agreements and cash collateral on securities borrowed	1 159 138	–		1 159 138
Sovereign debt securities	1 647 271	–		1 647 271
Bank debt securities	824 552	–		824 552
Other debt securities	169 223	37 893		207 116
Derivative financial instruments	653 160	398 205		1 051 365
Securities arising from trading activities	250 071	122 499		372 570
Investment portfolio	–	320 111	1	320 111
Loans and advances to customers	7 364 466	(163 049)	2	7 201 417
Own originated loans and advances to customers securitised	536 297	(1 289)	2	535 008
Other loans and advances	2 337 413	452 325	3	2 789 738
Other securitised assets	67 349	2 894 620	4	2 961 969
Interest in associated undertakings	–	24 430		24 430
Deferred taxation assets	–	119 690		119 690
Other assets	2 390	1 324 517	5	1 326 907
Property and equipment	19 761^	107 736		127 497
Investment properties	–	11 500		11 500
Goodwill	–	454 623		454 623
Intangible assets	–	184 197		184 197
Total on-balance sheet exposures	17 927 033	6 288 037		24 215 070

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

1. *Largely relates to exposures that are classified as equity risk in the banking book. Further information is provided on pages 66 to 68.*
2. *Largely relates to impairments and the impact of hedge accounting.*
3. *Whilst the group manages all risks (including credit risk) from a day-to-day operational perspective, these assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicles that the group has reflected in the 'total credit and counterparty exposure' with the maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'.*
4. *Largely relates to net investments in Kensington securitised vehicles to which Investec has no direct exposure as discussed on pages 72 to 76.*
5. *Other assets include settlement debtors where we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

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

£'000	Up to three months	Three to six months	Six months to one year	One to five years	Five to 10 years	>10 years	Total
Cash and balances at central banks	1 372 812	–	–	–	–	–	1 372 812
Loans and advances to banks	1 243 216	–	–	75 016	–	–	1 318 232
Reverse repurchase agreements and cash collateral on securities borrowed	1 528 593	–	–	–	–	–	1 528 593
Sovereign debt securities	349 996	284 638	133 998	212 548	103 573	575 624	1 660 377
Bank debt securities	65 148	13 590	17 028	213 073	146 362	–	455 201
Other debt securities	16 052	–	7 270	14 292	23 583	132 302	193 499
Derivative financial instruments	160 115	37 501	25 515	387 435	30 073	52 036	692 675
Securities arising from trading activities	117 967	–	–	264 195	242	85 596	468 000
Loans and advances to customers (gross)	1 689 219	951 541	830 853	3 758 336	518 176	203 425	7 951 550
Own originated loans and advances to customers (gross)	29 095	16 350	50 811	363 342	14 012	18 143	491 753
Other loans and advances (gross)	57	4 312	–	21 523	11 895	1 686 173	1 723 960
Other securitised assets (gross)	–	–	–	–	–	49 988	49 988
Other assets	78 141	–	–	–	–	–	78 141
Property and equipment	953	743	846	2 184	–	–	4 726
Total on-balance sheet exposures	6 651 364	1 308 675	1 066 321	5 311 944	847 916	2 803 287	17 989 507
Guarantees	33 997	98	18 873	8 401	227	–	61 596
Contingent liabilities, committed facilities and other	277 999	42 263	62 874	242 636	28 101	–	653 873
Total off-balance sheet exposures	311 996	42 361	81 747	251 037	28 328	–	715 469
Total gross credit and counterparty exposures pre collateral or other credit enhancements	6 963 360	1 351 036	1 148 068	5 562 981	876 244	2 803 287	18 704 976

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

£'000	HNW and professional individuals	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services	Finance and insurance
2013						
Cash and balances at central banks	–	–	–	1 372 812	–	–
Loans and advances to banks	–	–	–	–	–	1 318 232
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	–	1 528 593
Sovereign debt securities	–	–	–	1 660 377	–	–
Bank debt securities	–	–	–	–	–	455 201
Other debt securities	–	–	–	–	–	138 842
Derivative financial instruments	2 355	26	20 846	4 674	6 692	591 864
Securities arising from trading activities	–	–	3	458 545	593	8 743
Loans and advances to customers (gross)	4 084 176	9 620	355 389	189 498	416 398	452 149
Own originated loans and advances to customers (gross)	491 753	–	–	–	–	–
Other loans and advances (gross)	–	–	–	–	–	171 318
Other securitised assets (gross)	–	–	–	–	–	27 544
Other assets	–	–	24	–	–	56 605
Property and equipment	–	–	8	32	2 191	809
Total on-balance sheet exposures	4 578 284	9 646	376 270	3 685 938	425 874	4 749 900
Guarantees	22 057	–	118	–	883	3 532
Contingent liabilities, committed facilities and other	217 625	–	39 442	5 878	54 938	76 653
Total off-balance sheet exposures	239 682	–	39 560	5 878	55 821	80 185
Total gross credit and counterparty exposures pre collateral or other credit enhancements	4 817 966	9 646	415 830	3 691 816	481 695	4 830 085
2012						
Cash and balances at central banks	–	–	–	1 655 761	–	180 059
Loans and advances to banks	–	–	–	–	–	1 060 122
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	–	1 159 138
Sovereign debt securities	–	–	–	1 470 207	–	177 064
Bank debt securities	–	–	–	–	–	824 552
Other debt securities	–	–	–	–	–	86 643
Derivative financial instruments	907	119	15 702	–	3 884	561 465
Securities arising from trading activities	–	–	–	202 558	–	47 513
Loans and advances to customers (gross)	4 630 973	13 559	368 128	148 830	218 905	304 180
Own originated loans and advances to customers securitised (gross)	536 297	–	–	–	–	–
Other loans and advances (gross)	–	–	–	–	–	431 658
Other securitised assets (gross)	–	–	–	–	–	34 800
Other assets	–	–	–	–	–	2 390
Property and equipment	–	398	442	1 101	5 390	1 035
Total on-balance sheet exposures	5 168 177	14 076	384 272	3 478 457	228 179	4 870 619
Guarantees	5 857	–	4 395	–	–	6 762
Contingent liabilities, committed facilities and other	282 601	–	43 810	17 683	8 684	69 675
Off-balance sheet exposures	288 458	–	48 205	17 683	8 684	76 437
Total gross credit and counterparty exposures pre collateral or other credit enhancements	5 456 635	14 076	432 477	3 496 140	236 863	4 947 056

Retailers and wholesalers	Manufac-turing and commerce	Construc-tion	Commercial real estate	Residential mortgages	Mining and resources	Leisure, entertain-ment and tourism	Transport and com-munication	Total
–	–	–	–	–	–	–	–	1 372 812
–	–	–	–	–	–	–	–	1 318 232
–	–	–	–	–	–	–	–	1 528 593
–	–	–	–	–	–	–	–	1 660 377
–	–	–	–	–	–	–	–	455 201
–	–	7 270	47 387	–	–	–	–	193 499
7 676	14 628	24 268	10 712	–	1 993	3 497	3 444	692 675
–	–	–	–	–	–	–	116	468 000
337 057	455 662	37 039	651 619	–	107 813	128 593	726 537	7 951 550
–	–	–	–	–	–	–	–	491 753
–	–	–	–	1 552 586	–	–	56	1 723 960
–	–	–	22 444	–	–	–	–	49 988
–	187	–	20 558	–	593	–	174	78 141
528	426	65	248	–	11	1	407	4 726
345 261	470 903	68 642	752 968	1 552 586	110 410	132 091	730 734	17 989 507
901	4 174	–	994	–	28 587	350	–	61 596
37 379	48 968	4 291	19 529	–	21 997	6 949	120 224	653 873
38 280	53 142	4 291	20 523	–	50 584	7 299	120 224	715 469
383 541	524 045	72 933	773 491	1 552 586	160 994	139 390	850 958	18 704 976
–	–	–	–	–	–	–	–	1 835 820
–	–	–	–	–	–	–	–	1 060 122
–	–	–	–	–	–	–	–	1 159 138
–	–	–	–	–	–	–	–	1 647 271
–	–	–	–	–	–	–	–	824 552
–	–	6 831	59 530	–	–	12 313	3 906	169 223
7 846	17 707	17 010	17 472	–	5 020	4 528	1 500	653 160
–	–	–	–	–	–	–	–	250 071
268 965	415 882	47 992	384 277	–	89 032	117 694	356 049	7 364 466
								536 297
–	–	–	–	1 905 755	–	–	–	2 337 413
–	–	–	32 549	–	–	–	–	67 349
–	–	–	–	–	–	–	–	2 390
2 569	4 375	553	1 633	–	–	330	1 935	19 761
279 380	437 964	72 386	495 461	1 905 755	94 052	134 865	363 390	17 927 033
1 858	–	–	–	–	33 828	500	3 121	56 321
24 922	48 412	23 679	2 845	–	28 064	7 163	129 838	687 376
26 780	48 412	23 679	2 845	–	61 892	7 663	132 959	743 697
306 160	486 376	96 065	498 306	1 905 755	155 944	142 528	496 349	18 670 730

Private client loans account for 54.2% 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 pages 40 and 41, and a more detailed analysis of the private client loan portfolio is provided on pages 62 and 63.

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 41 and 42, and a more detailed analysis of the corporate client loan portfolio is provided on pages 62 and 63.

Breakdown of gross credit exposure by industry

As at 31 March £'000	Gross core loans and advances		Other credit and counterparty exposures		Total	
	2013	2012	2013	2012	2013	2012
HNW and professional individuals	4 575 929	5 167 270	242 037	289 365	4 817 966	5 456 635
Agriculture	9 620	13 559	26	517	9 646	14 076
Electricity, gas and water (utility services)	355 389	368 128	60 441	64 349	415 830	432 477
Public and non business services	189 498	148 830	3 502 318	3 347 310	3 691 816	3 496 140
Business services	416 398	218 905	65 297	17 958	481 695	236 863
Finance and insurance	452 149	304 180	4 377 936	4 642 876	4 830 085	4 947 056
Retailers and wholesalers	337 057	268 965	46 484	37 195	383 541	306 160
Manufacturing and commerce	455 662	415 882	68 383	70 494	524 045	486 376
Construction	37 039	47 992	35 894	48 073	72 933	96 065
Commercial real estate	651 619	384 277	121 872	114 029	773 491	498 306
Residential mortgages	–	–	1 552 586	1 905 755	1 552 586	1 905 755
Mining and resources	107 813	89 032	53 181	66 912	160 994	155 944
Leisure, entertainment and tourism	128 593	117 694	10 797	24 834	139 390	142 528
Transport and communication	726 537	356 049	124 421	140 300	850 958	496 349
Total	8 443 303	7 900 763	10 261 673	10 769 967	18 704 976	18 670 730

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

Calculation of core loans and advances to customers

As at 31 March £'000	2013	2012
Loans and advances to customers as per the balance sheet	7 758 920	7 201 417
Add: own originated loans and advances securitised as per the balance sheet	491 194	535 008
Net core loans and advances to customers	8 250 114	7 736 425

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 46.

£'000	31 March 2013	31 March 2012
Gross core loans and advances to customers	8 443 303	7 900 763
Total impairments	(193 189)	(164 338)
Portfolio impairments	(6 696)	(3 210)
Specific impairments	(186 493)	(161 128)
Net core loans and advances to customers	8 250 114	7 736 425
Average gross core loans and advances to customers	8 172 039	7 868 100
Current loans and advances to customers	7 781 265	7 177 965
Past due loans and advances to customers (1 – 60 days)	131 349	230 053
Special mention loans and advances to customers	27 967	10 834
Default loans and advances to customers	502 722	481 911
Gross core loans and advances to customers	8 443 303	7 900 763
Current loans and advances to customers	7 781 265	7 177 965
Default loans that are current and not impaired	8 005	–
Gross core loans and advances to customers that are past due but not impaired	177 934	256 624
Gross core loans and advances to customers that are impaired	476 099	466 174
Gross core loans and advances to customers	8 443 303	7 900 763
Total income statement charge for core loans and advances	(94 751)	(156 361)
Gross default loans and advances to customers	502 722	481 911
Specific impairments	(186 493)	(161 128)
Portfolio impairments	(6 696)	(3 210)
Defaults net of impairments	309 533	317 573
Collateral and other credit enhancements	356 321	347 112
Net default loans and advances to customers (limited to zero)	–	–
Ratios:		
Total impairments as a % of gross core loans and advances to customers	2.29%	2.08%
Total impairments as a % of gross default loans	38.43%	34.10%
Gross defaults as a % of gross core loans and advances to customers	5.95%	6.10%
Defaults (net of impairments) as a % of net core loans and advances to customers	3.75%	4.10%
Net defaults as a % of gross core loans and advances to customers	–	–
Credit loss ratio (i.e: income statement impairment charge as a % of average gross core loans and advances)	1.16%	1.65%

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

£'000	UK and Other 31 March 2013	UK and Other 31 March 2012	Australia 31 March 2013	Australia 31 March 2012	Total group 31 March 2013	Total group 31 March 2012
Gross core loans and advances to customers	6 220 630	5 940 202	2 222 673	1 960 561	8 443 303	7 900 763
Total impairments	(175 562)	(152 084)	(17 627)	(12 254)	(193 189)	(164 338)
Portfolio impairments	(5 000)	(1 667)	(1 696)	(1 543)	(6 696)	(3 210)
Specific impairments	(170 562)	(150 417)	(15 931)	(10 711)	(186 493)	(161 128)
Net core loans and advances to customers	6 045 068	5 788 118	2 205 046	1 948 307	8 250 114	7 736 425
% of total	73.3%	74.8%	26.7%	25.2%	100.0%	100.0%
% of change since 31 March 2012	4.4%		13.2%		6.6%	
Average gross core loans and advances to customers	6 080 421	5 835 985	2 091 618	2 032 115	8 172 039	7 868 100
Current loans and advances to customers	5 641 905	5 278 429	2 139 360	1 899 536	7 781 265	7 177 965
Past due loans and advances to customers (1 – 60 days)	113 724	215 758	17 625	14 295	131 349	230 053
Special mention loans and advances to customers	26 972	9 411	995	1 423	27 967	10 834
Default loans and advances to customers	438 029	436 604	64 693	45 307	502 722	481 911
Gross core loans and advances to customers	6 220 630	5 940 202	2 222 673	1 960 561	8 443 303	7 900 763
Current loans and advances to customers	5 641 905	5 278 429	2 139 360	1 899 536	7 781 265	7 177 965
Default loans that are current and not impaired	8 005	–	–	–	8 005	–
Gross core loans and advances to customers that are past due but not impaired	146 039	230 488	31 895	26 136	177 934	256 624
Gross core loans and advances to customers that are impaired	424 681	431 285	51 418	34 889	476 099	466 174
Gross core loans and advances to customers	6 220 630	5 940 202	2 222 673	1 960 561	8 443 303	7 900 763
Total income statement charge for core loans and advances	(76 902)	(88 489)	(17 849)	(67 872)	(94 751)	(156 361)
Gross default loans and advances to customers	438 029	436 604	64 693	45 307	502 722	481 911
Specific impairments	(170 562)	(150 417)	(15 931)	(10 711)	(186 493)	(161 128)
Portfolio impairments	(5 000)	(1 667)	(1 696)	(1 543)	(6 696)	(3 210)
Defaults net of impairments	262 467	284 520	47 066	33 053	309 533	317 573
Collateral and other credit enhancements	306 490	311 329	49 831	35 783	356 321	347 112
Net default loans and advances to customers (limited to zero)	–	–	–	–	–	–

£'000	UK and Other 31 March 2013	UK and Other 31 March 2012	Australia 31 March 2013	Australia 31 March 2012	Total group 31 March 2013	Total group 31 March 2012
Ratios:						
Total impairments as a % of gross core loans and advances to customers	2.82%	2.56%	0.79%	0.63%	2.29%	2.08%
Total impairments as a % of gross default loans	40.08%	34.83%	27.25%	27.05%	38.43%	34.10%
Gross defaults as a % of gross core loans and advances to customers	7.04%	7.35%	2.91%	2.31%	5.95%	6.10%
Defaults (net of impairments) as a % of net core loans and advances to customers	4.34%	4.92%	2.13%	1.70%	3.75%	4.10%
Net defaults as a % of gross core loans and advances to customers	–	–	–	–	–	–
Credit loss ratio (i.e: income statement impairment change as a % of average gross core loans and advances)	1.26%	1.22%	0.85%	3.13%	1.16%	1.65%

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

As at 31 March £'000	2013	2012
Default loans that are current	427 013	406 491
1 – 60 days	132 635	233 545
61 – 90 days	29 345	11 252
91 – 180 days	14 379	11 469
181 – 365 days	22 876	30 341
>365 days	35 790	29 700
Total past due and default core loans and advances to customers (actual capital exposure)	662 038	722 798
1 – 60 days	10 162	6 478
61 – 90 days	697	646
91 – 180 days	1 912	1 458
181 – 365 days	18 108	6 283
>365 days	23 938	27 327
Total past due and default core loans and advances to customers (actual amount in arrears)	54 817	42 192

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

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
As at 31 March 2013							
Watchlist loans neither past due nor impaired							
Total capital exposure	8 005	–	–	–	–	–	8 005
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	131 544	27 772	13 396	5 057	165	177 934
Amount in arrears	–	9 286	416	1 265	2 566	66	13 599
Gross core loans and advances to customers that are impaired							
Total capital exposure	419 008	1 091	1 573	983	17 819	35 625	476 099
Amount in arrears	–	876	281	647	15 542	23 872	41 218
As at 31 March 2012							
Watchlist loans neither past due nor impaired							
Total capital exposure	–	–	–	–	–	–	–
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	231 012	9 875	6 727	4 187	4 823	256 624
Amount in arrears	–	5 389	272	193	3 499	4 388	13 741
Gross core loans and advances to customers that are impaired							
Total capital exposure	406 491	2 533	1 377	4 742	26 154	24 877	466 174
Amount in arrears	–	1 089	374	1 265	2 784	22 939	28 451

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

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	131 349	–	–	–	–	131 349
Special mention	–	195	27 772	–	–	–	27 967
Special mention (1 – 90 days)	–	195	398	–	–	–	593
Special mention (61 – 90 days and item well secured)	–	–	27 374	–	–	–	27 374
Default	427 013	1 091	1 573	14 379	22 876	35 790	502 722
Sub-standard	142 770	–	–	13 396	5 057	13 540	174 763
Doubtful	119 190	882	1 573	890	17 793	20 391	160 719
Loss	165 053	209	–	93	26	1 859	167 240
Total	427 013	132 635	29 345	14 379	22 876	35 790	662 038

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

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	9 280	–	–	–	–	9 280
Special mention	–	–	415	–	–	–	415
Special mention (1 – 90 days)	–	–	7	–	–	–	7
Special mention (61 – 90 days and item well secured)	–	–	408	–	–	–	408
Default	–	882	282	1 912	18 108	23 938	45 122
Sub-standard	–	–	–	1 265	2 566	2 193	6 024
Doubtful	–	765	282	624	15 516	19 886	37 073
Loss	–	117	–	23	26	1 859	2 025
Total	–	10 162	697	1 912	18 108	23 938	54 817

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

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	230 053	–	–	–	–	230 053
Special mention	–	959	9 875	–	–	–	10 834
Special mention (1 – 90 days)	–	959	127	–	–	–	1 086
Special mention (61 – 90 days and item well secured)	–	–	9 748	–	–	–	9 748
Default	406 491	2 533	1 377	11 469	30 341	29 700	481 911
Sub-standard	184 398	–	–	8 627	22 073	6 365	221 463
Doubtful	78 313	2 533	1 377	2 842	8 268	23 335	116 668
Loss	143 780	–	–	–	–	–	143 780
Total	406 491	233 545	11 252	11 469	30 341	29 700	722 798

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

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	5 362	–	–	–	–	5 362
Special mention	–	27	272	–	–	–	299
Special mention (1 – 90 days)	–	27	16	–	–	–	43
Special mention (61 – 90 days and item well secured)	–	–	256	–	–	–	256
Default	–	1 089	374	1 458	6 283	27 327	36 531
Sub-standard	–	–	–	205	4 443	4 595	9 243
Doubtful	–	1 089	374	1 253	1 840	22 732	27 288
Loss	–	–	–	–	–	–	–
Total	–	6 478	646	1 458	6 283	27 327	42 192

An analysis of core loans and advances to customers

£'000	Gross core loans and advances that are neither past due nor impaired	Gross core loans and advances that are past due but not impaired	Gross core loans and advances that are impaired	Total gross core loans and advances (actual capital exposure)	Specific impairments	Portfolio impairments	Total net core loans and advances (actual capital exposure)	Actual amount in arrears
As at 31 March 2013								
Current core loans and advances	7 781 265	–	–	7 781 265	–	(6 696)	7 774 569	–
Past due (1 – 60 days)	–	131 349	–	131 349	–	–	131 349	9 280
Special mention	–	27 967	–	27 967	–	–	27 967	415
Special mention (1 – 90 days)	–	593	–	593	–	–	593	7
Special mention (61 – 90 days and item well secured)	–	27 374	–	27 374	–	–	27 374	408
Default	8 005	18 618	476 099	502 722	(186 493)	–	316 229	45 122
Sub-standard	6 005	18 618	150 140	174 763	(32 542)	–	142 221	6 024
Doubtful	2 000	–	158 719	160 719	(69 360)	–	91 359	37 073
Loss	–	–	167 240	167 240	(84 591)	–	82 649	2 025
Total	7 789 270	177 934	476 099	8 443 303	(186 493)	(6 696)	8 250 114	54 817
As at 31 March 2012								
Current core loans and advances	7 177 965	–	–	7 177 965	–	(1 542)	7 176 423	–
Past due (1 – 60 days)	–	230 053	–	230 053	–	–	230 053	5 362
Special mention	–	10 834	–	10 834	–	–	10 834	299
Special mention (1 – 90 days)	–	1 086	–	1 086	–	–	1 086	43
Special mention (61 – 90 days and item well secured)	–	9 748	–	9 748	–	–	9 748	256
Default	–	15 737	466 174	481 911	(161 128)	(1 668)	319 115	36 531
Sub-standard	–	15 737	205 726	221 463	(35 791)	–	185 672	9 243
Doubtful	–	–	116 668	116 668	(38 043)	–	78 625	27 288
Loss	–	–	143 780	143 780	(87 294)	(1 668)	54 818	–
Total	7 177 965	256 624	466 174	7 900 763	(161 128)	(3 210)	7 736 425	42 192

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

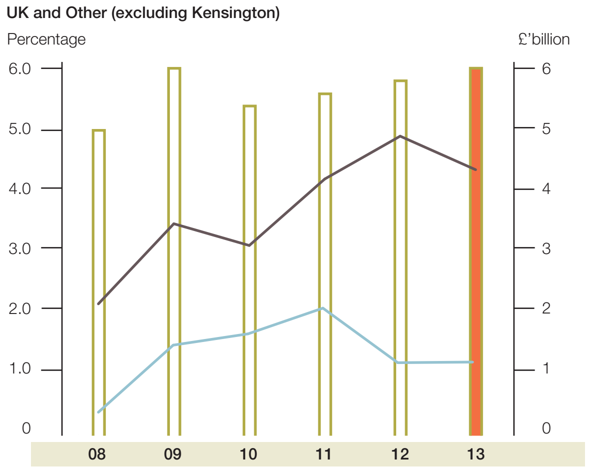
£'000	Private client, professional and HNW individuals	Corporate sector	Insurance, financial services (excluding sovereign)	Public and government sector (including central banks)	Trade finance and other	Total core loans and advances to customers
As at 31 March 2013						
Current core loans and advances	4 094 449	3 019 641	452 049	188 984	26 142	7 781 265
Past due (1 – 60 days)	87 297	44 050	–	–	2	131 349
Special mention	9 879	18 063	–	–	25	27 967
Special mention (1 – 90 days)	331	262	–	–	–	593
Special mention (61 – 90 days and item well secured)	9 548	17 801	–	–	25	27 374
Default	384 756	117 352	100	514	–	502 722
Sub-standard	145 993	28 770	–	–	–	174 763
Doubtful	73 514	86 591	100	514	–	160 719
Loss	165 249	1 991	–	–	–	167 240
Total gross core loans and advances to customers	4 576 381	3 199 106	452 149	189 498	26 169	8 443 303
Total impairments	(148 994)	(43 804)	(64)	(327)	–	(193 189)
Specific impairments	(147 298)	(38 804)	(64)	(327)	–	(186 493)
Portfolio Impairments	(1 696)	(5 000)	–	–	–	(6 696)
Net core loans and advances to customers	4 427 387	3 155 302	452 085	189 171	26 169	8 250 114
As at 31 March 2012						
Current core loans and advances	4 556 998	2 117 832	302 144	148 106	52 895	7 177 965
Past due (1 – 60 days)	202 916	25 334	1 788	–	15	230 053
Special mention	10 257	537	–	–	40	10 834
Special mention (1 – 90 days)	1 086	–	–	–	–	1 086
Special mention (61 – 90 days and item well secured)	9 171	537	–	–	40	9 748
Default	397 109	83 321	248	724	509	481 911
Sub-standard	203 311	18 152	–	–	–	221 463
Doubtful	50 018	65 169	248	724	509	116 668
Loss	143 780	–	–	–	–	143 780
Total gross core loans and advances to customers	5 167 270	2 227 024	304 180	148 830	53 459	7 900 763
Total impairments	(142 250)	(15 051)	(6 613)	(424)	–	(164 338)
Specific impairments	(140 707)	(15 051)	(4 946)	(424)	–	(161 128)
Portfolio Impairments	(1 543)	–	(1 667)	–	–	(3 210)
Net core loans and advances to customers	5 025 020	2 211 973	297 567	148 406	53 459	7 736 425

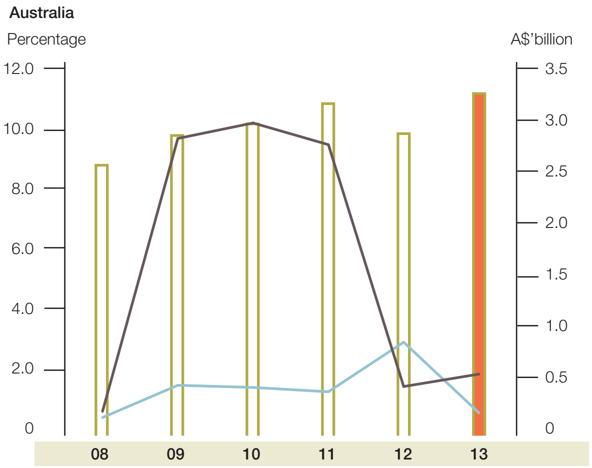
An analysis of default core loans and advances as at 31 March 2013

£'000	UK and Other Gross core loans	Gross defaults	Collateral	Balance sheet impairments
Lending collateralised by property	2 510 740	346 863	229 758	(144 949)
Commercial real estate	1 580 412	106 142	68 565	(51 624)
Commercial real estate – investment	1 360 655	41 903	36 911	(8 761)
Commercial real estate – development	86 692	14 805	8 276	(8 189)
Commercial vacant land and planning	133 065	49 434	23 378	(34 674)
Residential real estate	930 328	240 721	161 193	(93 325)
Residential real estate – investment	398 610	35 842	34 489	(8 529)
Residential real estate – development	399 586	134 205	82 452	(57 309)
Residential vacant land and planning	132 132	70 674	44 252	(27 487)
High net worth and other private client lending	1 032 619	31 748	44 993	(6 629)
Mortgages	598 644	1 587	945	(499)
High net worth and specialised lending	353 909	28 554	43 427	(5 144)
Professional finance	80 066	1 607	621	(986)
Corporate and other lending	2 677 271	59 418	31 739	(23 984)
Acquisition finance	757 001	21 098	9 166	(11 932)
Asset based lending	169 610	–	–	–
Fund finance	293 321	–	–	–
Other corporate loans	240 731	6 006	–	(1 042)
Asset finance	772 902	21 120	15 809	(5 311)
Small ticket asset finance	504 458	7 745	3 093	(4 652)
Large ticket asset finance	268 444	13 375	12 716	(659)
Project finance	407 920	11 194	6 764	(5 699)
Resource finance and commodities	35 786	–	–	–
Total	6 220 630	438 029	306 490	(175 562)

Australia				Total group			
Gross core loans	Gross defaults	Collateral	Balance sheet impairments	Gross core loans	Gross defaults	Collateral	Balance sheet impairments
223 125	39 692	27 765	(12 851)	2 733 865	386 555	257 523	(157 800)
137 053	17 831	10 264	(8 491)	1 717 465	123 973	78 829	(60 115)
133 049	17 831	10 264	(8 491)	1 493 704	59 734	47 175	(17 252)
212	–	–	–	86 904	14 805	8 276	(8 189)
3 792	–	–	–	136 857	49 434	23 378	(34 674)
86 072	21 861	17 501	(4 360)	1 016 400	262 582	178 694	(97 685)
1 888	1 350	1 350	–	400 498	37 192	35 839	(8 529)
49 645	–	–	–	449 231	134 205	82 452	(57 309)
34 539	20 511	16 151	(4 360)	166 671	91 185	60 403	(31 847)
1 405 697	7 835	6 259	(3 403)	2 438 316	39 583	51 252	(10 032)
9 262	–	–	–	607 906	1 587	945	(499)
77 101	3 542	3 022	(651)	431 010	32 096	46 449	(5 795)
1 319 334	4 293	3 237	(2 752)	1 399 400	5 900	3 858	(3 738)
593 851	17 166	15 807	(1 373)	3 271 122	76 584	47 546	(25 357)
203 945	17 083	15 710	(1 373)	960 946	38 181	24 876	(13 305)
–	–	–	–	169 610	–	–	–
49 578	–	–	–	342 899	–	–	–
150 323	–	–	–	391 054	6 006	–	(1 042)
56 221	58	58	–	829 123	21 178	15 867	(5 311)
34 609	58	58	–	539 067	7 803	3 151	(4 652)
21 612	–	–	–	290 056	13 375	12 716	(659)
85 369	–	–	–	493 289	11 194	6 764	(5 699)
48 415	25	39	–	84 201	25	39	–
2 222 673	64 693	49 831	(17 627)	8 443 303	502 722	356 321	(193 189)

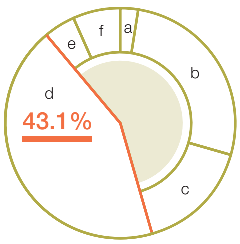
Asset quality ratios





Additional information

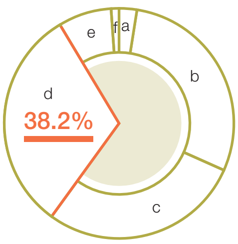
An analysis of gross core loans and advances to customers by country of exposures



31 March 2013

£8 443 million

a	Asia	2.7%
b	Australia	26.8%
c	Europe (excluding UK)	16.1%
d	United Kingdom	43.1%
e	North America	4.5%
f	Other	6.8%



31 March 2012

£7 901million

a	Asia	2.4%
b	Australia	26.0%
c	Europe (excluding UK)	25.8%
d	United Kingdom	38.2%
e	North America	6.8%
f	Other	0.8%

Collateral

A summary of total collateral

£'000	Collateral held against: Core loans and advances	Collateral held against: Other credit and counterparty exposures*	Total
As at 31 March 2013			
Eligible financial collateral	513 644	1 754 519	2 268 163
Listed shares	429 158	596 579	1 025 737
Cash	84 486	824 311	908 797
Debt securities issued by sovereigns	–	333 629	333 629
Mortgage bonds	5 155 339	1 254 825	6 410 164
Residential mortgages	1 850 593	1 254 825	3 105 418
Residential development	727 057	–	727 057
Commercial property developments	242 977	–	242 977
Commercial property investments	2 334 712	–	2 334 712
Other collateral	4 078 605	11 378	4 089 983
Unlisted shares	281 074	–	281 074
Bonds other than mortgage bonds	54 024	–	54 024
Debtors, stock and other corporate assets	2 437 885	–	2 437 885
Guarantees	587 428	–	587 428
Credit derivatives	–	4 050	4 050
Other	718 194	7 328	725 522
Total collateral	9 747 588	3 020 722	12 768 310
As at 31 March 2012			
Eligible financial collateral	455 745	11 477	467 222
Listed shares	354 050	–	354 050
Cash	101 695	11 477	113 172
Mortgage bonds	5 789 609	1 109 372	6 898 981
Residential mortgages	1 822 665	1 109 372	2 932 037
Residential development	868 833	–	868 833
Commercial property developments	317 894	–	317 894
Commercial property investments	2 780 217	–	2 780 217
Other collateral	4 020 429	1 444	4 021 873
Unlisted shares	183 496	–	183 496
Bonds other than mortgage bonds	60 451	–	60 451
Debtors, stock and other corporate assets	2 790 217	–	2 790 217
Guarantees	155 533	1 444	156 977
Other	830 732	–	830 732
Total collateral	10 265 783	1 122 293	11 388 076

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

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

Equity and investment risk in the banking book

Equity and investment risk description

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

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

Management of equity and investment risk

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

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

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

Valuation and accounting methodologies

For a description of our valuation principles and methodologies refer to pages 138 and 139 and pages 166 to 169 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 3.8% of total assets.

Refer to page 167 for further information.

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

£'000 Country/category	Income (pre-funding costs) Unrealised	Realised	Dividends	Total	Fair value through equity
For the year ended 31 March 2013					
Unlisted investments	7 430	1 130	2 177	10 737	(2 620)
UK and Other	7 934	1 113	2 177	11 224	(2 620)
Australia	(504)	17	–	(487)	–
Listed equities	(8 851)	(149)	1 062	(7 938)	(3 534)
UK and Other	(6 639)	(196)	822	(6 013)	(4 774)
Australia	(2 212)	47	240	(1 925)	1 240
Investment and trading properties	(1 089)	450	–	(639)	–
UK and Other	–	202	–	202	
Australia	(1 089)	248	–	(841)	–
Warrants, profit shares and other embedded derivatives	29 821	–	–	29 821	–
UK and Other	29 821	–	–	29 821	
Australia	–	–	–	–	–
Total	27 311	1 431	3 239	31 981	(6 154)
For the year ended 31 March 2012					
Unlisted investments	18 003	25 880	1 458	45 342	1 690
UK and Other	18 069	24 689	1 303	44 062	2 286
Australia	(66)	1 191	155	1 280	(596)
Listed equities	(3 140)	1 889	503	(748)	(1 859)
UK and Other	(3 140)	1 541	587	(1 012)	828
Australia	–	348	(84)	264	(2 687)
Investment and trading properties	(11)	(7 580)	779	(6 812)	–
UK and Other	(11)	2 737	779	3 505	–
Australia	–	(10 317)	–	(10 317)	–
Warrants, profit shares and other embedded derivatives	–	–	1 648	1 648	–
UK and Other	–	–	1 648	1 648	–
Australia	–	–	–	–	–
Total	14 852	20 189	4 388	39 430	(169)

Unrealised revaluation gains through profit and loss are included in tier 1 capital. Revaluations that are posted directly to equity are included in tier 2 capital within Investec plc. The amount included in tier 2 capital for Investec plc is £7 million.

Summary of investments held and stress testing analyses

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

£'000 Country/category	On-balance sheet value of investments 2013	Valuation change stress test 2013*	On-balance sheet value of investments 2012	Valuation change stress test 2012*
Unlisted investments	335 400	50 310	285 287	42 793
UK and Other	328 662	49 299	280 183	42 027
Australia	6 738	1 011	5 104	766
Listed equities	53 225	13 306	34 824	8 706
UK and Other	48 433	12 108	27 843	6 961
Australia	4 792	1 198	6 981	1 745
Investment and trading properties	131 039	25 058	102 029	20 406
UK and Other	59 438	10 738	58 336	11 667
Australia	71 601	14 320	43 693	8 739
Warrants, profit shares and other embedded derivatives	72 187	25 265	35 979	12 593
UK and Other	72 187	25 265	35 979	12 593
Australia	–	–	–	–
Total	591 851	113 939	458 119	84 498

* *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 £114 million reversal in revenue (which assumes a year in which there is a 'severe stress scenario'). The probability of all these asset classes in all geographies in which we operate being negatively impacted at the same time is very low, although the probability of listed equities being negatively impacted at the same time is very high.

Capital requirements

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

Refer to page 108 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 49 for balance sheet and credit risk classification.

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

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

UK and Other

The bank plays an originator role in the securitisation of assets it has originated.

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

The bank has a portfolio of residential mortgages amounting to approximately £452 million, which could be earmarked for securitisation and are included in the numbers as presented on page 70.

The bank has no securitisations backed by revolving exposures.

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

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

We have also invested in/purchased rated structured credit instruments (including resecuritisation exposures). These exposures are largely in the UK and amount to £422 million at 31 March 2013 (31 March 2012: £450 million). This is intended as an investment rather than a trading portfolio. Therefore, since our commercial intention is to hold the assets to maturity, the portfolio will be valued on an amortised cost basis. These investments are risk-weighted for regulatory capital purposes.

We retain residual net exposures amounting to £848 million to the assets originated, warehoused and securitised by Kensington.

Further information is provided on pages 72 to 76.

The portfolio is risk-weighted and/or treated as a deduction from capital for regulatory purposes.

Australia

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

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

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

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

Accounting policies

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

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

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

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

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

Risk management

All existing or proposed exposures to a securitisation or a 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 34.

Credit analysis

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

As at 31 March Nature of exposure/activity	Exposure 2013 £'million	Exposure 2012 £'million	Internal balance sheet and credit risk classification	Asset quality – relevant comments
Structured credit investments*	506	619	Other debt securities and other loans and advances.	
Rated	437	518		
Unrated	69	101		
Kensington – mortgage assets: net exposures	848	938	Other securitised assets and other loans and advances. We are required to fully consolidate assets acquired from Kensington. However, only those assets to which we are at risk are reflected in this analysis with the balance reflected under 'no credit exposures'.	Refer to pages 72 to 76
Loans and advances to customers and investment in third party intermediary originating platforms (mortgage and auto loans) (with the potential to be securitised)	452	803	Other loans and advances.	
Private Client division assets which have been securitised	491	535	Own originated loans and advances to customers securitised.	Analysed as part of the group's overall asset quality on core loans and advances as reflected on page 55.

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

As at 31 March £'million	2013			2012		
	Rated**	Unrated	Total	Rated**	Unrated	Total
US corporate loans	18	–	18	15	–	15
US ABS	–	–	–	1	–	1
UK and European ABS	3	7	10	8	5	13
UK and European RMBS	320	55	375	319	88	407
UK and European CMBS	15	4	19	56	5	61
UK and European corporate loans	66	3	69	67	3	70
Australian RMBS	15	–	15	52	–	52
Total	437	69	506	518	101	619

** *Analysed further on page 71.*

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

£'million	AAA	AA	A	BBB	BB	B	C and below	Total
US corporate loans	–	–	–	6	10	–	2	18
UK and European ABS	–	–	–	3	–	–	–	3
UK and European RMBS	127	50	42	35	22	22	22	320
UK and European CMBS	–	–	–	7	8	–	–	15
UK and European corporate loans	18	25	13	3	–	7	–	66
Australian RMBS	15	–	–	–	–	–	–	15
Total as at March 2013	160	75	55	54	40	29	24	437
Total as at March 2012	226	115	52	47	27	23	28	518

The information provided below is provided for Investec plc in terms of regulatory definitions and requirements.

Aggregate amount of securitisation positions retained or purchased

As at 31 March 2013 £'million	Banking book Retained*	Banking book Purchased^	Total
Exposure type			
Residential mortgages	56	113	169
Commercial mortgages	–	14	14
Loans to corporates	–	77	77
Resecuritisation	–	48	48
	56	252	308

Securitisation positions retained or purchased by risk weight bands

As at 31 March 2013 £'million	Exposure values Banking book Retained*	Exposure values Banking book Purchased^	Capital requirement Banking book Retained*	Capital requirement Banking book Purchased^
Risk weight band				
Greater than 0% and less than or equal to 40%	29	170	–	3
Greater than 40% but less than or equal to 100%	11	49	1	2
Greater than 100% but less than and equal to 225%	12	17	1	2
Greater than 225% but less than and equal to 350%	1	11	–	3
Greater than 350% but less than and equal to 650%	–	4	–	2
Greater than 650% but less than 1.250%	–	–	–	–
Greater than 1.250%/deduction	3	1	3	1
	56	252	5	13

* *Retained positions includes positions we have retained in securitisations we have originated.*
^ *Purchased positions include positions we hold as sponsor or investor.*

No further disclosure is provided for deductions due to the materiality of the numbers.

Kensington – salient features

As at 31 March 2013	Warehouse book	Securitised portfolio	Total	% of total
Assets and business activity statistics				
Mortgage assets under management (£'million)	1 306	2 028	3 334	
IFRS adjustments and cash in securitised vehicles	(88)	382	294	
Mortgage assets under management (£'million)	1 394	1 646	3 040	
First charge % of total mortgage assets under management	94.6%	93.8%	94.2%	
Second charge % of total mortgage assets under management	5.4%	6.2%	5.8%	
Number of accounts	12 303	19 491	31 794	
Average loan balance (first charge)	144 116	104 685	119 778	
Largest loan balance	1 150 440	1 250 370	1 250 370	
Weighted average loan mature margin (%)	4.3%	5.0%	4.7%	
Product mix (pre-IFRS adjustments) (£'million)	1 394	1 646	3 040	100.0%
Prime	4	–	4	0.1%
Near prime	434	342	776	25.5%
Prime buy to let	1	–	1	0.0%
Adverse	313	1 211	1 524	50.2%
Adverse buy to let and right to buy	53	93	146	4.8%
Start – Irish operations	589	–	589	19.4%
Geographic distribution (£'million)	1 394	1 646	3 040	100.0%
UK – North	242	535	777	25.5%
UK – South West	60	112	172	5.6%
UK – South East	177	339	516	17.0%
Outer London	131	209	340	11.2%
Inner London	63	113	176	5.8%
Midlands	132	338	470	15.5%
Start – Irish operations	589	–	589	19.4%
Spread of value of properties (%)	100.0%	100.0%	100.0%	
>£500 000	3.6%	1.0%	2.0%	
>£250 000 <=£500 000	24.0%	10.0%	15.4%	
>£200 000 <=£250 000	16.6%	11.6%	13.5%	
>£150 000 <=£200 000	20.3%	20.0%	20.1%	
>£100 000 <=£150 000	22.7%	30.8%	27.6%	
>£70 000 <=£100 000	10.8%	20.5%	16.8%	
>£50 000 <=£70 000	1.6%	5.1%	3.8%	
<£50 000	0.4%	1.0%	0.8%	
Asset quality statistics				
Weighted average current LTV of portfolio (adjusted for house price)*	108.9%	77.9%	92.1%	

* *Impairment provision is based on house price index assumptions of:*
UK: impairment assumes zero house price increase over the next five years and a -20% haircut for forced sale discount when repossessed properties are sold.
Ireland: peak to trough decline of 53%, including calendar year: house price decline assumption of -4.2% for 2012, and house price decline/growth assumption of -4.9%, 0%, 2%, 3% per annum respectively for the period 2013 – 2016, and an additional forced sale discount of -5%. In addition to the modelled impairment this year management have provided a further impairment amount, reflecting management judgement around uncertainties in the local market and positioning relative to peers.

Kensington – salient features (continued)

As at 31 March 2013	Warehouse book	Securitised portfolio	Total	% of total
LTV spread – % of book	100.0%	100.0%	100.0%	
<= 65%	11.9%	24.6%	19.6%	
>65% – <70%	3.2%	6.9%	5.4%	
>70% – <75%	3.7%	8.8%	6.8%	
>75% – <80%	4.4%	9.5%	7.5%	
>80% – <85%	5.9%	11.6%	9.4%	
>85% – <90%	6.6%	11.0%	9.3%	
>90% – <95%	8.5%	8.3%	8.4%	
>95% – <100%	8.1%	6.7%	7.1%	
> 100%	47.7%	12.6%	26.5%	
% of accounts > 90 days in arrears	35.8%	25.8%	29.7%	
Number of accounts > 90 days in arrears	4 406	5 024	9 430	
Total capital lent in arrears (£'million)	753	694	1 447	100.0%
Arrears 0 – 60 days	71	123	194	13.4%
Arrears 61 – 90 days	45	89	134	9.3%
Arrears >90 days	595	447	1 042	72.0%
Possession	42	35	77	5.3%
Debt to income ratio of clients (%)	19.7%	18.5%	19.1%	
Investec investment/exposure to assets reflected above (£'million)	1 008	22	1 030	
On-balance sheet provision (£'million)			(182)	
Investec net investment/exposure to assets reflected above (£'million)			848	

Kensington – salient features (continued)

As at 31 March 2012	Warehouse book	Securitised portfolio	Total	% of total
Assets and business activity statistics				
Mortgage assets under management (£'million)	1 432	2 322	3 754	
IFRS adjustments and cash in securitised vehicles	(77)	451	374	
Mortgage assets under management (£'million)	1 509	1 871	3 380	
First charge % of total mortgage assets under management	94.1%	93.6%	93.8%	
Second charge % of total mortgage assets under management	5.9%	6.4%	6.2%	
Fixed rate loans % of total mortgage assets under management	0.7%	0.1%	0.3%	
Number of accounts	13 633	21 738	35 371	
Average loan balance (first charge)	141 597	106 907	120 083	
Largest loan balance	1 091 675	1 174 323	1 174 323	
Weighted average loan mature margin %	4.1%	4.7%	4.5%	
Product mix (pre-IFRS adjustments) (£'million)	1 509	1 871	3 380	100.0%
Prime	6	–	6	0.2%
Near prime	504	380	884	26.2%
Prime buy to let	1	–	1	–
Adverse	349	1 383	1 732	51.2%
Adverse buy to let and right to buy	61	108	169	5.0%
Start – Irish operations	588	–	588	17.4%
Geographic distribution (£'million)	1 509	1 871	3 380	100.0%
UK – North	284	609	893	26.4%
UK – South West	69	132	201	5.9%
UK – South East	207	388	595	17.6%
Outer London	143	231	374	11.1%
Inner London	67	129	196	5.8%
Midlands	151	382	533	15.8%
Start – Irish operations	588	–	588	17.4%
Spread of value of properties (%)	100.0%	100.0%	100.0%	
>£500 000	3.5%	1.1%	1.9%	
>£250 000 <=£500 000	23.5%	9.9%	15.2%	
>£200 000 <=£250 000	16.5%	11.6%	13.5%	
>£150 000 <=£200 000	20.6%	20.0%	20.2%	
>£100 000 <=£150 000	23.2%	30.6%	27.7%	
>£70 000 <=£100 000	11.2%	20.7%	17.1%	
>£50 000 <=£70 000	1.4%	5.0%	3.7%	
<£50 000	0.1%	1.1%	0.7%	
Asset quality statistics				
Weighted average current LTV of portfolio (adjusted for house price)*	105.6%	79.8%	91.3%	

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

Kensington – salient features (continued)

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

The group has developed a number of forbearance strategies for both short-term and medium-term solutions to assist customers experiencing financial distress. By offering forbearance, the group seeks to assist customers and act in their best long-term interests by bringing customers back into a sustainable position and therefore keeping customers in their homes.

The group offers a range of measures and assistance to support retail customers who are encountering financial difficulties. Forbearance is offered and managed on a case-by-case basis, with the individual circumstances of each customer considered separately; and appropriate action taken to provide an affordable and sustainable outcome for the customer. Customers can find themselves under temporary financial strain for a wide variety of reasons, and where the loan is considered sustainable in the longer term it is in the best interest of the group and the customer to continue with the loan and allow the customer to remain in their home. An example of such circumstances might be where a customer experiences short-term unemployment, and a reduced monthly payment may be agreed for a short period. Upon obtaining new employment they may be able to meet their required monthly payments in full but are unable to pay down their backlog of arrears in a single payment, and hence an arrangement is made that the backlog is repaid over an agreed period of time. This type of arrangement allows a significant portion of qualifying customers with historic arrears balances to recover from this position. By entering into selective forbearance strategies where appropriate the group therefore maximises the return for the group and the optimal outcome for the customer.

Operationally, the provision and review of such assistance is controlled through the application of an appropriate policy framework; controls around the execution of policy; regular review of the different treatments to confirm that they remain appropriate; monitoring of customers' performance and the level of payments received. Within this framework the sustainability of the loan in the longer term is assessed by regularly reviewing the customers' circumstances, progress on improving their circumstances and likelihood of return to 'normality'. Through the framework described above management have visibility of the nature and extent of assistance provided, the associated risk and ongoing performance. This nature of customer risk informs the impairment provisioning process where customers with similar risk profiles are grouped together for the purposes of collective provisioning, which is used to calculate the impairment provision of customers who are not in repossession. As forbearance customers are experiencing, or have recently experienced, financial distress they are typically in a higher risk category than average for provisioning purposes at this point in time, and hence are likely to carry a higher than average impairment provision, appropriately reflecting these circumstances.

The nature and type of forbearance treatments include:

- **Contractual payments only (arrears customers):** an arrangement where the borrower is meeting the required contractual payments however is in arrears

- **Reduced contractual payments:** a temporary arrangement where the borrower pays an amount that is affordable to their individual circumstances but which is below their current contractual payment;
- **Interest only conversion (temporary):** the borrower pays only the interest on the principal balance, on a temporary basis, with the principal balance unchanged;
- **Arrears capitalisation (cumulative):** the arrears are added to the principal outstanding on the mortgage and the instalment is recalculated to clear the outstanding mortgage debt over the contracted term;
- **Other:** comprising temporary reduced interest terms and (Irish market only) term extensions.

Forbearance information with respect to our Kensington business is provided in the tables below:

	Total number of mortgages subject to forbearance Number	Total number of mortgages Number	Total mortgage balance subject to forbearance £'million	Mortgage balance £'million	Proportion of mortgage balance subject to forbearance measures %	Impairment coverage on mortgage balance subject to forbearance* %
As at 31 March 2013						
Kensington – UK operations	5 905	28 445	705	2 451	28.8%	21.7%
Start – Kensington Irish operations	1 102	3 349	190	589	32.2%	37.6%
Total	7 007	31 794	895	3 040	29.4%	25.1%
As at 31 March 2012						
Kensington – UK operations	6 540	31 937	783	2 792	28.0%	25.4%
Start – Kensington Irish operations	1 087	3 433	183	588	31.2%	36.4%
Total	7 627	35 370	966	3 380	28.6%	27.5%

	Total number of loans and advances which are forborne		Total value of loans and advances which are forborne	
As at 31 March	2013 Number	2012 Number	2013 £'million	2012 £'million
Kensington – UK operations				
Contractual payments only (arrears customers)	519	705	44	60
Reduced contractual payments	107	106	9	10
Interest only conversion (temporary)	342	436	34	44
Arrears capitalisation (cumulative)**	4 368	4 662	553	597
Multiple events	563	626	65	71
Other	6	5	–	–
	5 905	6 540	705	782
Start – Kensington Irish operations				
Contractual payments only (arrears customers)	31	40	5	7
Reduced contractual payments	135	137	28	26
Interest only conversion (temporary)	262	215	47	38
Arrears capitalisation (cumulative)**	432	408	73	67
Multiple events	199	254	33	42
Other	43	33	5	4
	1 102	1 087	191	184
Total	7 007	7 627	896	966

* *Represents the gross impairment balance provided against the account in forbearance.*

** *The number presented represents the cumulative historical number of cases with arrears capitalisation that are still customers at year end. In 2013 only 35 customers in Kensington and 40 customers in Start underwent an arrears capitalisation.*

Market risk in the trading book

Traded market risk description

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

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

Traded market risk governance structure

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

Management and measurement of traded market risk

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

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

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

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

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

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

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

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

VaR

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

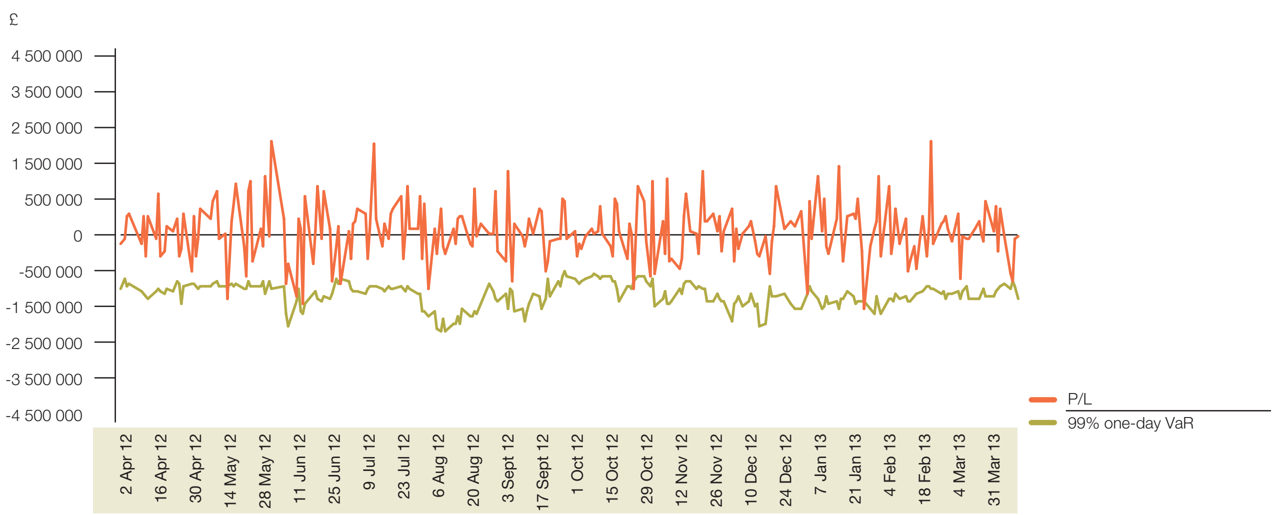
* *The consolidated VaR for each desk and each entity at year end is lower than the sum of the individual VaRs. This arises from the consolidation offset between various asset classes (diversification).*

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

UK and Other

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

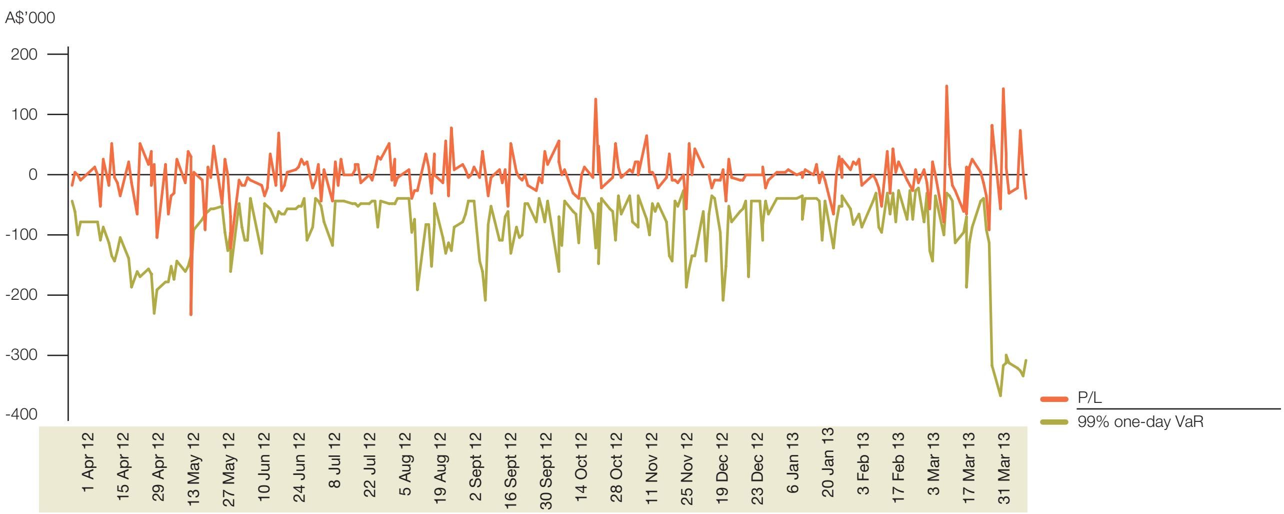
99% one-day VaR backtesting



Australia

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

99% one-day VaR backtesting



ETL

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

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

Stress testing

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

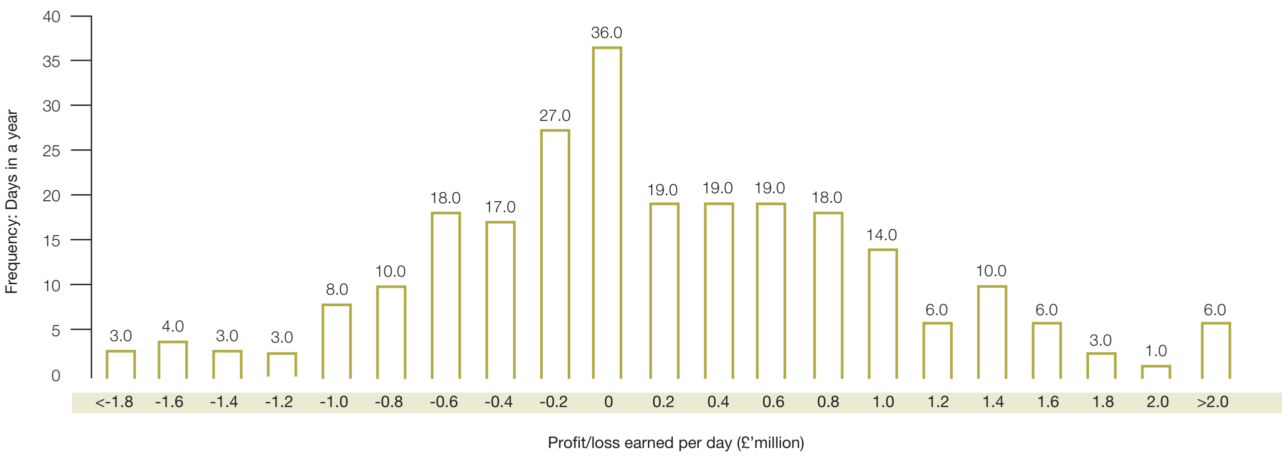
	31 March 2013				31 March 2012
	Year end	Average	High	Low	Year end
UK and Other 99% (using 99% EVT)					
Commodities (£'000)	–	–	–	–	–
Equity derivatives (£'000)	1 554	1 497	2 207	1 132	2 467
Foreign exchange (£'000)	45	64	116	30	119
Interest rates (£'000)	1 820	1 251	2 607	701	659
Consolidated (£'000)	1 813	1 699	2 280	1 158	2 230
Australia (using 99% EVT)					
Commodities (A$'000)	4	2	34	–	–
Equity derivatives (A$'000)	–	–	–	–	–
Foreign exchange (A$'000)	75	95	456	3	6
Interest rates (A$'000)	456	131	710	36	70
Consolidated (A$'000)	435	167	620	32	71

Profit and loss histograms

UK and Other

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

Profit and loss



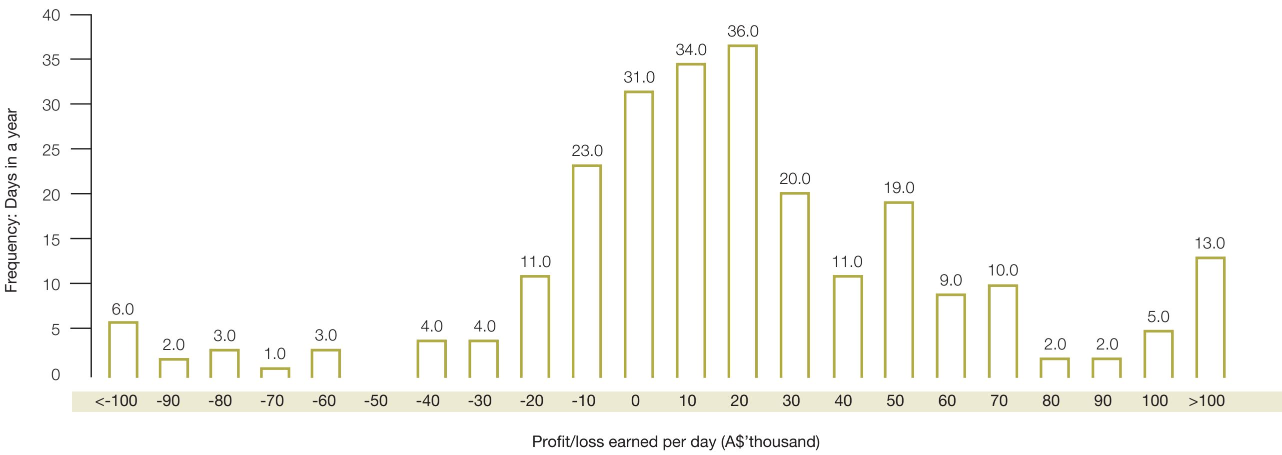
Risk management and corporate governance

3

Australia

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

Profit and loss



Traded market risk mitigation

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

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

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

Traded market risk year in review

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

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

Market risk – derivatives

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

Information showing our derivative trading portfolio over the reporting period on the basis of the notional principal and the fair value of all derivatives can be found on pages 173 and 174.

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

Balance sheet risk management

Balance sheet risk description

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

Balance sheet risk governance structure and risk mitigation

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

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

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

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

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

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

We maintain an internal funds transfer pricing system based on prevailing market rates. Our funds transfer pricing system charges the businesses the price of short-term and long-term liquidity. The costs and risks of liquidity are clearly and transparently attributed to business lines and are understood by business line management, thereby ensuring that price of liquidity is integrated into business level decision making and drives the appropriate mix of sources and uses of funds.

The Balance Sheet Risk Management team, based within Group Risk Management, independently identifies, quantifies and monitors risks, providing daily independent governance and oversight of the treasury activities and the execution of the bank's policy, continuously assessing the risks whilst taking changes in market conditions into account. In carrying out its duties the Balance Sheet Risk Management team monitors historical liquidity trends, tracks prospective on- and off-balance sheet liquidity obligations, identifies and measures internal and external liquidity warning signals which permit early detection of liquidity issues through daily liquidity reporting, and further performs scenario analysis which quantifies our exposure, thus providing a comprehensive and consistent governance framework. The Balance Sheet Risk Management team proactively identifies proposed best risk practice and measures adopted in the broader market, and implements the changes where relevant.

The scenario modelling and daily liquidity stress tests are designed to measure and manage the liquidity position such that payment obligations can be met under a wide range of normal, company-specific and market-driven stress scenarios. These assume the rate and timing of deposit withdrawals and drawdowns on lending facilities are varied, and the ability to access funding and to generate funds from asset portfolios is restricted. The parameters used in the scenarios are reviewed regularly, taking into account changes in the business environments and input from business units. The objective is to have sufficient liquidity, in an acute stress, to continue to operate for a minimum period as detailed in the board approved risk appetite.

The integrated balance sheet risk management framework is based on similar methodologies to those contemplated under the Basel Committee on Banking Supervision's (BCBS) 'liquidity risk measurement standards and monitoring'. It is compliant with the 'principles of sound liquidity risk management and supervision' as well as 'guidelines for the management of interest rate risk in the banking book'. The BCBS announced that they propose to both strengthen and harmonise global liquidity standards and plan to introduce two new liquidity standards. The Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are due to be implemented by 2015 and 2018 respectively. The BCBS published the final calibration of the LCR in January 2013 and expects to publish the final calibration of the NSFR in 2014.

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

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

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

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

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

Non-trading interest rate risk description

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

Sources of interest rate risk include:

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

The above sources of interest rate risk affect the interest rate margin realised between lending income and borrowing costs, when applied to our rate sensitive asset and liability portfolios, which has a direct effect on future net interest income and the economic value of equity.

Management and measurement of non-trading interest rate risk

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

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

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

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

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

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

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

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

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

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

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

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

Interest rate sensitivity gap

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

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

£'million	Not >3 months	>3 months but <6 months	>6 months but <1 year	>1 year but <5 years	>5 years	Non-rate	Total non-trading
Cash and short-term funds – banks	3 072	1	1	–	–	155	3 229
Investment/trading assets	1 330	318	75	258	772	634	3 387
Securitised assets	2 606	98	56	9	–	–	2 769
Advances	6 914	230	211	588	98	85	8 126
Non-rate assets	3	45	1	3	–	1 899	1 951
Assets	13 925	692	344	858	870	2 773	19 462
Deposits – banks	(2 008)	(10)	(28)	(105)	–	(19)	(2 170)
Deposits – non-banks	(8 081)	(548)	(749)	(181)	(1)	(1)	(9 561)
Negotiable paper	(1 124)	(40)	(19)	(101)	(6)	–	(1 290)
Investment/trading liabilities	(369)	(21)	(5)	(300)	(110)	(106)	(911)
Securitised liabilities	(2 195)	–	–	–	–	–	(2 195)
Subordinated liabilities	–	–	–	(90)	(577)	–	(667)
Other liabilities	(88)	–	–	–	–	(1 391)	(1 479)
Liabilities	(13 865)	(619)	(801)	(777)	(694)	(1 517)	(18 273)
Intercompany loans	(188)	2	137	329	116	(121)	275
Shareholders' funds	–	–	–	–	–	(1 844)	(1 844)
Balance sheet	(128)	75	(320)	410	292	(709)	(380)
Off-balance sheet	862	86	748	(622)	(887)	200	387
Repricing gap	734	161	428	(212)	(595)	(509)	7
Cumulative repricing gap	734	895	1 323	1 111	516	7	

Australia – interest rate sensitivity as at 31 March 2013

A$'million	Not >3 months	>3 months but <6 months	>6 months but <1 year	>1 year but <5 years	>5 years	Non-rate	Total non-trading
Cash and short–term funds – banks	343	–	–	–	–	–	343
Investment/trading assets	537	14	83	90	–	139	863
Securitised assets	243	51	108	311	1	–	714
Advances	1 761	99	131	452	29	24	2 496
Other assets	–	–	–	–	–	337	337
Assets	**2 884**	**164**	**322**	**853**	**30**	**500**	**4 753**
Deposits – non–banks	(1 575)	(415)	(176)	(203)	(11)	(85)	(2 465)
Negotiable paper	(217)	–	(199)	(251)	–	(18)	(685)
Securitised liabilities	(697)	–	–	–	–	–	(697)
Subordinated liabilities	(119)	–	–	–	–	(1)	(120)
Other liabilities	–	–	–	–	–	(170)	(170)
Liabilities	**(2 608)**	**(415)**	**(375)**	**(454)**	**(11)**	**(274)**	**(4 137)**
Intercompany loans	**–**	**–**	**–**	**–**	**–**	**(9)**	**(9)**
Shareholders' funds	**–**	**–**	**–**	**–**	**–**	**(607)**	**(607)**
Balance sheet	**276**	**(251)**	**(53)**	**399**	**19**	**(390)**	**–**
Off-balance sheet	232	(58)	276	(425)	(21)	(4)	–
Repricing gap	**508**	**(309)**	**223**	**(26)**	**(2)**	**(394)**	**–**
Cumulative repricing gap	508	199	422	396	394	–	

Economic value sensitivity as at 31 March 2013

For the reasons outlined above, our preference for monitoring and measuring non-trading interest rate risk is economic value sensitivity. The tables below reflect our economic value sensitivity to a 2% parallel shift in interest rates assuming no management intervention. The numbers represent the change to the value of the mark-to-market portfolios should such a hypothetical scenario arise. This sensitivity effect does not have a significant direct impact on our equity.

UK and Other

	Sensitivity to the following interest rates (expressed in original currencies)				
'million	GBP	USD	EUR	Other (GBP)	All (GBP)
200bps down	(92.1)	0.4	(0.6)	(1.4)	(93.7)
200bps up	92.1	(0.4)	0.6	1.4	93.7

Australia

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

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

Liquidity risk

Liquidity risk description

Liquidity risk is the risk that we have insufficient capacity to fund increases in assets, or are unable to meet our payment obligations as they fall due, without incurring unacceptable losses. This includes repaying depositors or maturing wholesale debt. This risk is inherent in all banking operations and can be impacted by a range of institution-specific and market-wide events.

Liquidity risk is further broken down into:

- Funding liquidity: which relates to the risk that the bank will be unable to meet current and/or future cash flow or collateral requirements in the normal course of business, without adversely affecting its financial position or its reputation
- Market liquidity: which relates to the risk that the bank may be unable to trade in specific markets or that it may only be able to do so with difficulty due to market disruptions or a lack of market liquidity.

Sources of liquidity risk include:

- Unforeseen withdrawals of deposits
- Restricted access to new funding with appropriate maturity and interest rate characteristics
- Inability to liquidate a marketable asset in a timely manner with minimal risk of capital loss
- Unpredicted customer non-payment of loan obligations
- A sudden increased demand for loans in the absence of corresponding funding inflows of appropriate maturity.

Management and measurement of liquidity risk

Cohesive liquidity management is vital for protecting our depositors, preserving market confidence, safeguarding our reputation and ensuring sustainable growth with established funding sources. Through active liquidity management, we seek to preserve stable, reliable and cost effective sources of funding. Inadequate liquidity can bring about the untimely demise of any financial institution. As such, the group considers ongoing access to appropriate liquidity for all its operations to be of paramount importance, and our core liquidity philosophy is reflected in day-to-day practices which encompass the following:

- Our liquidity management processes encompass principles set out by the regulatory authorities in each jurisdiction, namely the UK Regulators and APRA
- The group complies with the BCBS Principles for Sound Liquidity Risk Management and Supervision
- The group has committed itself to implementation of the updated BCBS guidelines for liquidity risk measurement, standards and monitoring to be phased in from 2015 to 2018
- The risk appetite is clearly defined by the board and each geographic entity must have its own board approved policies with respect to liquidity risk management
- Each geographic entity must be self sufficient from a funding and liquidity standpoint so that there is no reliance on intergroup lines either from or to other group entities
- Branches and subsidiaries have no responsibility for contributing to group liquidity
- We maintain a liquidity buffer in the form of unencumbered, cash, government or rated securities (typically eligible for repurchase with the central bank), and near cash well in excess of the statutory requirements as protection against unexpected disruptions in cash flows
- Funding is diversified with respect to currency, term, product, client type and counterparty to ensure a satisfactory overall funding mix
- We monitor and evaluate each banking entity's maturity ladder and funding gap (cashflow maturity mismatch) on a 'liquidation', 'going concern' and 'stress' basis
- Daily liquidity stress tests are carried out to measure and manage the liquidity position such that payment obligations can be met under a wide range of normal and unlikely but plausible stressed scenarios, in which the rate and timing of deposit withdrawals and drawdowns on lending facilities are varied, and the ability to access funding and to generate funds from asset portfolios is restricted. The objective is to have sufficient liquidity, in an acute stress, to continue to operate for a minimum period as detailed in the board approved risk appetite

- Our liquidity risk parameters reflect a collection of liquidity stress assumptions which are reviewed regularly and updated as needed. These stress factors go well beyond our experience during the height of the recent financial crisis
- The Balance Sheet Risk Management team independently monitors key daily funding metrics and liquidity ratios to assess potential risks to the liquidity position, which further act as early warning indicators
- The group centrally manages access to funds in both domestic and offshore markets through the Corporate and Institutional Banking division
- The maintenance of sustainable prudent liquidity resources takes precedence over profitability
- Each major banking entity maintains an internal funds transfer pricing system based on prevailing market rates. The treasury function charges out the price of long- and short-term funding to internal consumers of liquidity, which ensures that the costs, benefits, and risks of liquidity are clearly and transparently attributed to business lines and are understood by business line management. The funds transfer pricing methodology is designed to signal the right incentive to our lending business
- The group maintains adequate contingency funding plans designed to protect depositors, creditors and shareholders and maintain market confidence during adverse liquidity conditions.

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

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

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

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

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

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

We acknowledge the importance of our private client base as the principal source of stable and well diversified funding for Investec's risk assets. We continue to develop products to attract and service the investment needs of our Private Bank client base. Although the contractual repayments of many Private Bank customer accounts are on demand or at short notice, in practice such accounts remain a stable source of funds. We continued to successfully raise private client deposits despite competitive pressures with total deposits increasing by 2.3% to £11.3 billion at 31 March 2013. We also have a number of innovative retail deposit initiatives within our Corporate Banking division and these continued to experience strong inflows during the financial year. On average our fixed and notice customer deposits have amounted to approximately 84% of total deposits since April 2006 for Investec plc, thereby displaying a strong 'stickiness' and willingness to reinvest by our retail customers.

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

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

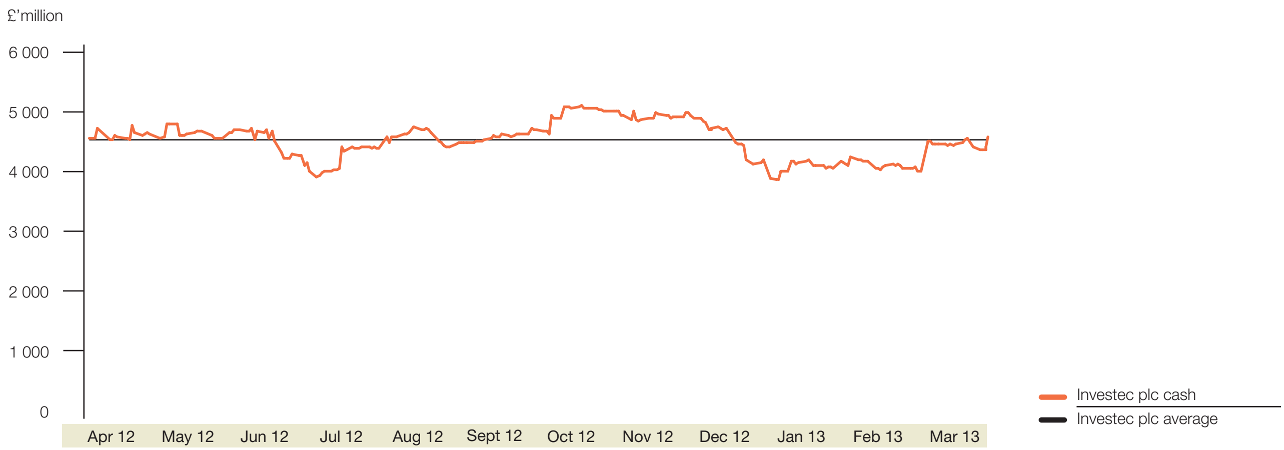
We engage in transactions that involve the use of both special purpose entities and asset securitisation structures. Securitisation represents a relatively modest proportion of our current funding profile, but provides additional flexibility and source of term liquidity. These entities form part of the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

As mentioned above, we hold a liquidity buffer in the form of unencumbered readily available, high quality liquid assets, typically in the form of government or rated securities eligible for repurchase with the central bank, and near cash well in excess of the statutory requirements as protection against unexpected disruptions in cash flows. Investec remains a net liquidity provider to the interbank market, placing significantly more funds with other banks than our short-term interbank borrowings. These portfolios are managed within limits and, apart from acting as a buffer under going concern conditions, also form an integral part of the broader liquidity generation strategy. We do not rely on interbank deposits to fund term lending. From 1 April 2012 to 31 March 2013 average cash and near cash balances over the period amounted to £4.5 billion (£3.8 billion in UK and Other; and A$1.2 billion in Australia).

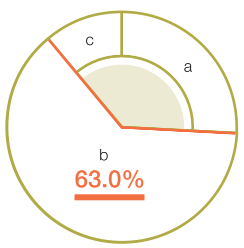
The group does not rely on committed funding lines for protection against unforeseen interruptions to cash flow. We are currently unaware of any circumstances that could significantly detract from our ability to raise funding appropriate to our needs.

The liquidity contingency plans outline extensive early warning indicators, clear lines of communication and decisive crisis response strategies. Early warning indicators span bank specific and systemic crises. Rapid response strategies address action plans, roles and responsibilities, composition of decision making bodies involved in liquidity crisis management, internal and external communications including public relations, sources of 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



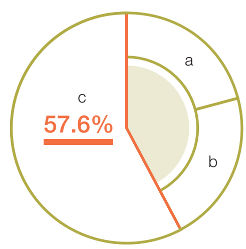
An analysis of cash and near cash



Investec plc
£4 605 million

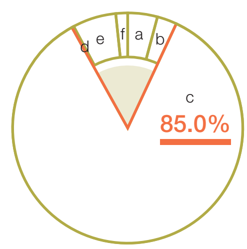
a	Cash	26.0%
b	Near cash (central bank guaranteed liquidity)	63.0%
c	Near cash (other 'monetisable' assets)	11.0%

Bank and non-bank depositor concentration by type



UK and Other
£12 081 million

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



Australia
A$2 465 million

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

Liquidity mismatch

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

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

The liquidity position of the group strengthened in 2013, and we continued to enjoy strong inflows of customer deposits whilst maintaining good access to wholesale markets despite the ongoing euro zone crisis and underlying market conditions. Our liquidity and funding profile reflects our strategy, risk appetite and business activities. The tables reflect that loans and advances to customers are largely financed by stable funding sources.

With respect to the contractual liquidity mismatch:

- No assumptions are made except as mentioned below, and we record all assets and liabilities with the underlying contractual maturity as determined by the cash flow profile for each deal
- As an integral part of the broader liquidity generation strategy, we maintain a liquidity buffer in the form of unencumbered cash, government, or bank paper (typically eligible for repurchase with the central bank), and near cash as a buffer against both expected and unexpected cash flows
- The actual contractual profile of this asset class is of little consequence, as practically Investec would meet any unexpected net cash outflows by repo'ing or selling these securities, we have:
  - set the time horizon to 'on demand' to monetise our statutory liquid assets for which liquidity is guaranteed by the central bank;
  - set the time horizon to one month to monetise our cash and near cash portfolio of 'available-for-sale' discretionary treasury assets, where there are deep secondary markets for this elective asset class; and
  - reported the 'contractual' profile by way of a note to the tables.

With respect to the behavioural liquidity mismatch:

- Behavioural liquidity mismatch tends to display fairly high probability, low severity liquidity position. Many retail deposits, which are included within customer accounts, are repayable on demand or at short notice on a contractual basis. In practice, these instruments form a stable base for the group's operations and liquidity needs because of the broad base of customers. To this end, behavioural profiling is applied to liabilities with an indeterminable maturity, as the contractual repayments of many customer accounts are on demand or at short notice but expected cash flows vary significantly from contractual maturity. An internal analysis model is used, based on statistical research of the historical series of products. This is used to identify significant additional sources of structural liquidity in the form of core deposits that exhibit stable behaviour. In addition, reinvestment behaviour, with profile and attrition based on history, is applied to term deposits in the normal course of business.

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

UK and Other

Contractual liquidity as at 31 March 2013

£'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	>Five years	Total
Cash and short-term funds – banks	2 308	755	406	1	1	75	–	3 546
Investment/trading assets	693	663	62	327	87	882	1 357	4 071
Securitised assets	116	3	8	4	8	161	2 469	2 769
Advances	25	660	512	752	806	2 778	2 593	8 126
Other assets	223	714	135	15	19	124	721	1 951
Assets	3 365	2 795	1 123	1 099	921	4 020	7 140	20 463
Deposits – banks	(887)	(644)	(46)	(9)	(154)	(780)	–	(2 520)
Deposits – non-banks	(1 161)^	(875)	(2 863)	(2 610)	(736)	(1 225)	(91)	(9 561)
Negotiable paper	–	(37)	(90)	(138)	(105)	(563)	(357)	(1 290)
Securitised liabilities	–	–	–	–	–	–	(2 195)	(2 195)
Investment/trading liabilities	(354)	(140)	(56)	(34)	(18)	(414)	(180)	(1 196)
Subordinated liabilities	–	–	–	–	(1)	(71)	(595)	(667)
Other liabilities	(150)	(862)	(95)	(16)	(182)	(111)	(111)	(1 527)
Liabilities	(2 552)	(2 558)	(3 150)	(2 807)	(1 196)	(3 164)	(3 529)	(18 956)
Intercompany loans	4	(7)	42	–	–	299	(2)	336
Shareholders' funds	–	–	–	–	–	–	(1 843)	(1 843)
Contractual liquidity gap	817	230	(1 985)	(1 708)	(275)	1 155	1 766	–
Cumulative liquidity gap	817	1 047	(938)	(2 646)	(2 921)	(1 766)	–	

Behavioural liquidity

As discussed on page 89.

£'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	>Five years	Total
Behavioural liquidity gap	2 643	(117)	(961)	(4)	(275)	(2 468)	1 182	–
Cumulative	2 643	2 526	1 565	1 561	1 286	(1 182)	–	–

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

Australia

Contractual liquidity as at 31 March 2013

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

Note: contractual liquidity adjustments

As discussed on page 89.

A$'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	>Five years	Total
*Cash and short-term funds – banks	11	13	51	51	120	556	61	863
**Investment/trading assets and statutory liquids	159	58	206	290	381	1 262	140	2 496

Behavioural liquidity

As discussed on page 89.

A$'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	>Five years	Total
Behavioural liquidity gap	955	(331)	(621)	(365)	(36)	599	(201)	–
Cumulative	955	624	3	(362)	(398)	201	–	–

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

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

Balance sheet risk year in review

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

UK and Other

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

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

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

Australia

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

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

Additional information

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

- Investec plc:
  - In August 2012 successfully entered into four bi-lateral deposits A$20 million, £28.5 million, €75 million and €30 million with a tenor of 18 months.
- Investec Bank plc (IBP):
  - Raised a multi currency three year syndicated deposit €95 million, $112 million and £30 million in August 2012.
- Investec Bank (Australia) Limited:
  - undertook a further term securitisation of A$233 million Professional Finance assets from the Impala securitisation vehicle;
  - undertook an inaugural CMBS transaction of A$110 million Professional Finance assets;
  - issued an additional A$50 million of 10-year subordinated debt;
  - bought back A$301.6 million of previously issued government guaranteed term debt; and
  - redeemed A$150 million of programme term debt at contractual maturity.

Regulatory considerations – balance sheet risk

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

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

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

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

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

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

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

UK and Other

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

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

Australia

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

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

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

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

Operational risk

Operational risk definition

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

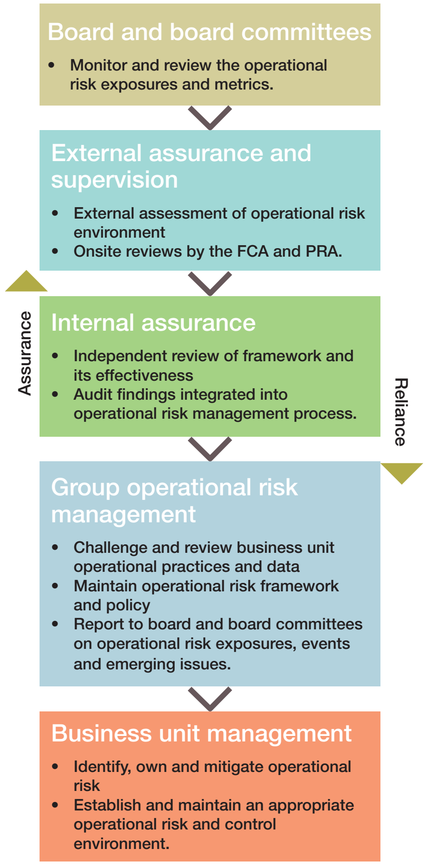
We recognise that there is a significant risk inherent in the operations of a bank. We endeavour to manage operational risk exposures and events by maintaining and embedding an operational risk management framework which supports sound operational risk management practices.

Operational risk management framework

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

Governance

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



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

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

Operational risk practices

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

Risk and control assessments

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

Risk indicators

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

Internal risk events

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

External risk events

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

Scenarios

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

Reporting

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

Technology

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

Operational risk year under review

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

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

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

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

Key operational risk considerations

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

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

Insurance

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

Business continuity management

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

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

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

Reputational risk

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

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

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

Pension risk

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

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

Primary sources at risk include:

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

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

Further information is provided on pages 187 to 189.

Legal risk management

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

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

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

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

The legal risk policy is implemented through:

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

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

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

Conduct risk

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

By conduct risk we mean the risk that detriment is caused to the bank, its customers, its counterparties or the market, 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 market conduct. All firms will be expected to take a holistic approach to assessing their key conduct risks and to ensure that these are being managed in accordance with FCA's strategic objectives of protecting clients, ensuring markets function effectively and promoting competition.

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

Capital management and allocation

Capital measurement

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

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

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

Regulatory capital – Investec plc

Current regulatory framework

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

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

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

Future developments

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

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

Capital targets

Over recent years, capital adequacy standards for banks have been raised as part of attempts to increase the stability and resilience of the global banking sector. Investec Limited 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% (adjusted from 11% as a consequence of Basel III) and a total capital adequacy ratio target of 14% to 17%. These targets are continuously assessed for appropriateness.

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

Capital management

Philosophy and approach

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

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

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

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

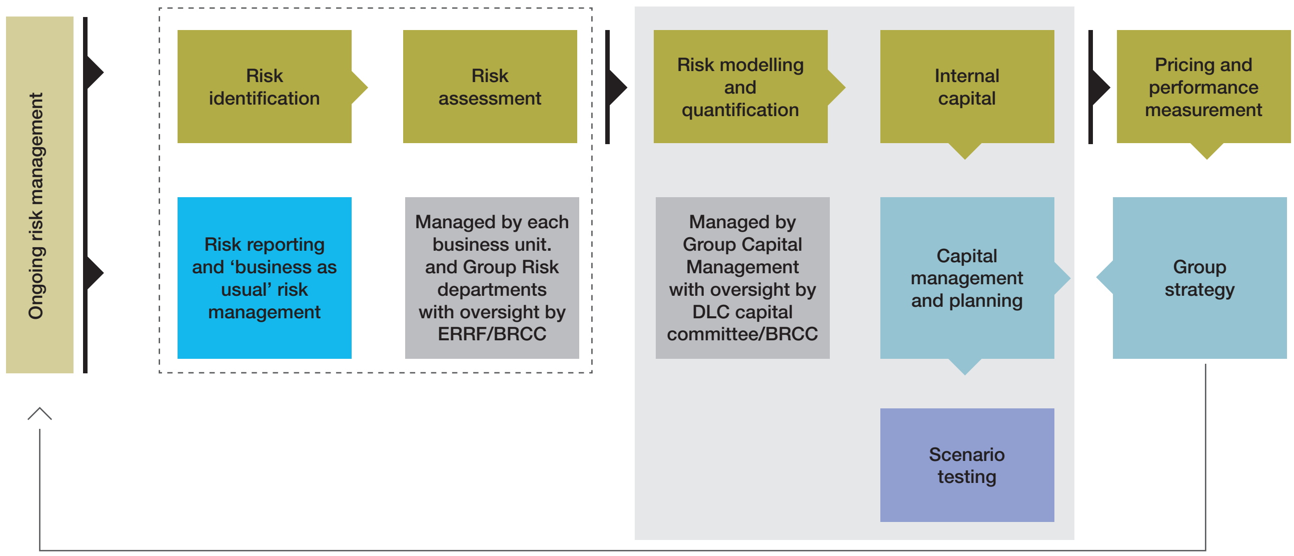
The DLC capital committee seeks to optimise the balance sheet such that capital held is in excess of internal capital. Internal capital performs a critical role in:

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

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

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

The (simplified) integration of risk and capital management



Risk assessment and reporting

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

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

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

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

Risk modelling and quantification (internal capital)

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

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

- Credit and counterparty risk, including:
  - Underlying counterparty risk
  - Concentration risk
  - Securitisation risk
- Market risk
- Equity and investment risk held in the banking book
- Balance sheet risk, including:
  - Liquidity
  - Banking book interest rate risk
- Strategic and reputational risks
- Pension risk
- Operational risk, which is considered as an umbrella term and covers a range of independent risks including, but not limited to fraud, litigation, business continuity, outsourcing and out of policy trading. The specific risks covered are assessed dynamically through constant assessment of the underlying business environment.

Capital planning and scenario testing

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

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

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

Our capital plans are designed to allow senior management and the board to review:

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

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

Pricing and performance measurement

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

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

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

Capital disclosures

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

Accounting and regulatory treatment of group subsidiaries

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

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

Identity of investment/ interest held	Regulator (capital adequacy)	% interest held	Regulatory treatment Fully consolidated	Country of operation	Restrictions and major impediments on the transfer of funds and regulatory capital within the Investec plc group
Bank controlling company Investec plc	Subject to consolidated supervision		Yes	UK	None
Investec 1 Limited	Subject to consolidated supervision	100%	Yes	UK	None
Regulated subsidiaries					
Banking and securities trading					
Investec Capital Asia Limited	Hong Kong Securities and Futures Commission	100%	Yes	Hong Kong	Subject to regulatory rules
Hero Nominees Limited	Guernsey Financial Services Commission	100%	Yes	Guernsey	Subject to regulatory rules
Investec Bank (Australia) Limited	Australian Prudential Regulation Authority/ ASIC/AUSTRAC	100%	Yes	Australia	Subject to regulatory rules
Investec Bank plc	FCA and PRA	100%	Yes	UK	Subject to regulatory rules
Investec Bank (Channel Islands) Limited	Guernsey Financial Services Commission/ Jersey Financial Services Commission	100%	Yes	Guernsey and Jersey	Subject to regulatory rules
Investec Bank (Switzerland) AG	Swiss Financial Market Supervisory Authority	100%	Yes	Switzerland	Subject to regulatory rules
Investec Capital & Investments (Ireland) Limited (formerly NCB Stockbrokers Limited)	Central Bank of Ireland	100%	Yes	Ireland	Subject to regulatory rules
Investec Trust (Guernsey) Limited	Guernsey Financial Services Commission	100%	Yes	Guernsey	Subject to regulatory rules

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

Identity of investment/ interest held	Regulator (capital adequacy)	% interest held	Regulatory treatment Fully consolidated	Country of operation	Restrictions and major impediments on the transfer of funds and regulatory capital within the Investec plc group
Asset Management (continued)					
Investec Fund Managers Limited	FCA	100%	Yes	UK	Subject to regulatory rules
Investec Asset Management Asia Limited	Hong Kong Securities and Futures Commission	100%	Yes	Hong Kong	Subject to regulatory rules
Investec Asset Management Guernsey Limited	Guernsey Financial Services Commission	100%	Yes	Guernsey	Subject to regulatory rules
Investec Asset Management Ireland Limited	Central Bank of Ireland	100%	Yes	Ireland	Subject to regulatory rules
Investec Asset Management Taiwan Limited	Taiwan Financial Supervisory Commission	100%	Yes	Taiwan	Subject to regulatory rules
Investec Asset Management Australia Pty Limited	Australian Securities and Investment Commission	100%	Yes	Australia	Subject to regulatory rules
Investec Africa Frontier Private Equity Fund GP Limited	Guernsey Financial Services Commission	100%	Yes	Guernsey	Subject to regulatory rules
Unregulated subsidiaries	Not regulated subject to consolidated supervision				
Investec Holding Company Limited		100%	Yes	UK	None
Investec Group (UK) plc		100%	Yes	UK	None
Investec Asset Finance plc		100%	Yes	UK	None
Investec Asset Finance & Leasing Pty Limited (formerly Alliance Equipment Finance)		100%	Yes	Australia	None
Investec Professional Finance Pty Limited (formerly Investec Experien Pty Limited)		100%	Yes	Australia	None
Leasedirect Finance Limited		100%	Yes	UK	None
Investec Finance plc		100%	Yes	UK	None
Investec Group Investments (UK) Limited		100%	Yes	UK	None
Investec Ireland Limited		100%	Yes	Ireland	None
Investec Trust Holdings AG		100%	Yes	Switzerland	None
Kensington Group plc		100%	Yes	UK	None
Neontar Limited		100%	Yes	Ireland	None
Reichmans Geneva SA		100%	Yes	Switzerland	None
Rensburg Sheppards plc		100%	Yes	UK	None
Start Funding No 1 Limited		100%	Yes	Ireland	None

Identity of investment/ interest held	Regulator (capital adequacy)	% interest held	Regulatory treatment Fully consolidated	Country of operation	Restrictions and major impediments on the transfer of funds and regulatory capital within the Investec plc group
Unregulated subsidiaries	Not regulated subject to consolidated supervision				
Start Funding No 2 Limited		100%	Yes	Ireland	None
St James's Park Mortgage Funding Limited		100%	Yes	UK	None
Investec Investments (UK) Limited (Formerly Guinness Mahon & Co Limited)		100%	Yes	UK	None

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 in the table above.

Investec Bank plc, a regulated subsidiary of Investec plc, applies the provisions laid down in BIPRU 2.1 (Solo-consolidation waiver) and reports to the UK Regulators on a solo-consolidation basis. Investec Bank plc has two solo-consolidation subsidiaries namely Investec Finance plc and Investec Investments (UK) Limited.

The FSA ceased to exist on 1 April 2013 and has been replaced by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA).

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 191 to 194.

	Investec plc*^ £'million	IBP*^ £'million	IBAL*^ A$'million
As at 31 March 2013			
Tier 1 capital			
Shareholders' equity	1 848	1 895	596
Shareholders' equity per balance sheet	2 096	1 919	596
Perpetual preference share capital and share premium	(150)	–	–
Deconsolidation of special purpose entities	(98)	(24)	–
Non-controlling interests	(5)	(5)	–
Non-controlling interests per balance sheet	165	(5)	–
Non-controlling interests transferred to tier 1	(169)	–	–
Non-controlling interests in deconsolidated subsidiaries	(1)	–	–
Regulatory adjustments to the accounting basis	(31)	(10)	2
Unrealised losses on available-for-sale debt securities	2	2	–
Defined benefit pension fund adjustment	(22)	–	–
Unrealised gains on available-for-sale equities	(7)	(8)	2
Prudent valuation	(16)	(16)	–
Cash flow hedging reserve	12	12	–
Deductions	(600)	(476)	(193)
Goodwill and intangible assets net of deferred tax	(598)	(472)	(105)
Unconsolidated investments	–	–	(23)
Securitisation positions	(2)	(2)	(55)
Excess of deductions from additional tier 1	–	(2)	(10)
Core tier 1/common equity tier 1 capital	1 212	1 404	405
Additional tier 1 capital before deductions	299	–	–
Additional tier 1 instruments	299	–	–
Deductions	(4)	–	–
Unconsolidated investments	(4)	–	–
Total tier 1 capital	1 507	1 404	405

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

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

Capital management and allocation (continued)

Capital structure and capital adequacy (continued)

	Investec plc*^ £'million	IBP*^ £'million	IBAL*^ A$'million
As at 31 March 2013			
Tier 2 capital			
Total qualifying tier 2 capital before deductions	840	685	135
Unrealised gains on available-for-sale equities	7	8	–
Collective impairment allowances	120	20	–
Tier 2 instruments	713	657	25
Phase out of non-qualifying tier 2 instruments	–	–	110
Deductions	(6)	(4)	–
Unconsolidated investments	(4)	(2)	–
Securitisation positions	(2)	(2)	–
Total tier 2 capital	834	681	135
Total capital deductions	(22)	(19)	–
Investments that are not material holdings or qualifying holdings	(20)	(17)	–
Connected lending of a capital nature	(2)	(2)	–
Total regulatory capital	2 319	2 066	540
Risk-weighted assets	13 755	12 657	3 422
Capital ratios			
Core tier 1 ratio/common equity tier 1 ratio	8.8%	11.1%	11.8%
Tier 1 ratio	11.0%	11.1%	11.8%
Total capital ratio	16.9%	16.3%	15.8%
As at 31 March 2012			
Tier 1 capital			
Shareholders' equity	1 847	1 723	589
Shareholders' equity per balance sheet	2 071	1 728	589
Perpetual preference share capital and share premium	(150)	–	–
Deconsolidation of special purpose entities	(74)	(5)	–
Non-controlling interests	(3)	(2)	–
Non-controlling interests per balance sheet	164	(2)	–
Non-controlling interests transferred to tier 1	(167)	–	–
Regulatory adjustments to the accounting basis	(19)	(1)	–
Unrealised losses on available-for-sale debt securities	6	7	–
Defined benefit pension fund adjustment	(19)	–	–
Unrealised gains on available-for-sale equities	(13)	(14)	–
Prudent valuation	(3)	(3)	–
Cash flow hedging reserve	10	9	–
Deductions	(628)	(401)	(155)
Goodwill and intangible assets net of deferred tax	(605)	(379)	(101)
Unconsolidated investments	–	–	(7)
Securitisation positions	(23)	(22)	(35)
Excess of deductions from additional tier 1	–	–	(12)
Core tier 1 capital	1 197	1 319	434
Additional tier 1 capital before deductions	296	–	–
Additional tier 1 instruments	296	–	–
Total tier 1 capital	1 493	1 319	434

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Capital management and allocation (continued)

Capital structure and capital adequacy (continued)

	Investec plc*^ £'million	IBP*^ £'million	IBAL*^ A$'million
As at 31 March 2012			
Tier 2 capital			
Total qualifying tier 2 capital before deductions	809	649	98
Unrealised gains on available-for-sale equities	13	14	–
Collective impairment allowances	101	7	–
Tier 2 instruments	695	628	98
Deductions	(23)	(22)	(7)
Unconsolidated investments	–	–	(7)
Securitisation positions	(23)	(22)	–
Total tier 2 capital	786	627	91
Total capital deductions	(31)	(26)	–
Investments that are not material holdings or qualifying holdings	(21)	(16)	–
Connected lending of a capital nature	(10)	(10)	–
Total regulatory capital	2 248	1 920	525
Risk-weighted assets	12 827	11 421	2 981
Capital ratios			
Core tier 1 ratio	9.3%	11.5%	14.6%
Tier 1 ratio	11.6%	11.5%	14.6%
Total capital ratio	17.5%	16.8%	17.6%

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Capital management and allocation (continued)

Capital requirements

	Investec plc*^ £'million	IBP*^ £'million	IBAL*^ A$'million
As at 31 March 2013			
Capital requirements	1 100	1 013	446
Credit risk – prescribed standardised exposure classes	843	797	380
Corporates	261	259	142
Secured on real estate property	232	224	16
Short-term claims on institutions and corporates	35	38	3
Retail	102	102	154
Institutions	15	15	9
Other exposure classes	184	145	55
Securitisation exposures	14	14	1
Equity risk – Standardised approach	32	32	–
Listed equities	4	4	–
Unlisted equities	28	28	–
Counterparty credit risk	26	26	9
Market risk	61	61	6
Interest rate	23	22	6
Foreign exchange	12	13	–
Equities	24	24	–
Options	2	2	–
Operational risk – Standardised approach	138	97	51
As at 31 March 2012			
Capital requirements	1 026	915	388
Credit risk – prescribed standardised exposure classes	793	732	318
Corporates	233	226	256
Secured on real estate property	247	239	4
Short-term claims on institutions and corporates	24	28	2
Retail	76	76	–
Institutions	14	14	14
Other exposure classes	177	127	39
Securitisation exposures	22	22	3
Equity risk – Standardised approach	26	26	9
Listed equities	2	2	2
Unlisted equities	24	24	7
Counterparty credit risk	21	21	9
Market risk	56	53	2
Interest rate	16	16	2
Foreign exchange	11	8	–
Equities	20	20	–
Options	9	9	–
Operational risk – Standardised approach	130	83	50

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Capital management and allocation (continued)

Risk-weighted assets

	Investec plc*^ £'million	IBP*^ £'million	IBAL*^ A$'million
As at 31 March 2013			
Risk-weighted assets (banking and trading)	13 755	12 657	3 422
Credit risk – prescribed standardised exposure classes	10 536	9 956	2 914
Corporates	3 253	3 223	1 095
Secured on real estate property	2 904	2 799	122
Short-term claims on institutions and corporates	433	470	20
Retail	1 276	1 276	1 180
Institutions	193	193	69
Other exposure classes	2 296	1 814	424
Securitisation exposures	181	181	4
Equity risk – Standardised approach	398	396	–
Listed equities	47	47	–
Unlisted equities	351	349	–
Counterparty credit risk	328	330	68
Market risk	762	767	47
Interest rate	286	275	43
Foreign exchange	150	166	4
Equities	296	296	–
Options	30	30	–
Operational risk – Standardised approach	1 731	1 208	393
As at 31 March 2012			
Risk-weighted assets (banking and trading)	12 827	11 421	2 981
Credit risk – prescribed standardised exposure classes	9 916	9 140	2 448
Corporates	2 909	2 819	1 971
Secured on real estate property	3 093	2 983	32
Short-term claims on institutions and corporates	301	355	13
Retail	950	950	–
Institutions	176	176	109
Other exposure classes	2 213	1 583	303
Securitisation exposures	274	274	20
Equity risk – Standardised approach	325	321	66
Listed equities	26	25	16
Unlisted equities	299	296	50
Counterparty credit risk	268	264	68
Market risk	695	659	16
Interest rate	195	195	14
Foreign exchange	134	98	–
Commodities	1	1	2
Equities	251	251	–
Options	114	114	–
Operational risk – Standardised approach	1 623	1 037	383

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Analysis of rated counterparties in each standardised credit exposure class

Investec plc

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

Credit quality step	Risk weight	31 March 2013 Exposure £'million	31 March 2013 Exposure after credit risk mitigation £'million	31 March 2012 Exposure £'million	31 March 2012 Exposure after credit risk mitigation £'million
Central banks and sovereigns					
1	0%	3 068	3 068	3 831	3 831
2	20%	–	–	–	–
3	50%	–	–	–	–
4	100%	–	–	–	–
5	100%	–	–	–	–
6	150%	–	–	–	–
Institutions – original effective maturity of more than three months					
1	20%	142	142	196	196
2	50%	229	229	262	262
3	50%	57	57	3	3
4	100%	–	–	–	–
5	100%	–	–	–	–
6	150%	–	–	–	–
Short-term claims on institutions					
1	20%	147	147	167	167
2	20%	697	487	572	411
3	20%	10	10	13	13
4	50%	32	32	6	6
5	50%	–	–	–	–
6	150%	–	–	–	–
Counterparty credit risk – effective original maturity of more than three months					
1	20%	106	19	302	214
2	50%	263	172	132	106
3	50%	276	11	579	15
4	100%	1	1	1	1
5	100%	–	–	–	–
6	150%	–	–	–	–
Counterparty credit risk – effective original maturity of less than three months					
1	20%	251	21	874	183
2	50%	822	96	384	167
3	50%	551	136	72	19
4	100%	–	–	–	–
5	100%	–	–	–	–
6	150%	–	–	–	–
Corporates					
1	20%	–	–	92	92
2	50%	12	12	17	17
3	100%	173	173	16	16
4	100%	–	–	15	15
5	150%	15	15	14	14
6	150%	–	–	–	–
Securitisation positions					
1	20%	163	163	163	163
2	50%	51	51	90	90
3	100%	25	25	36	36
4	350%	16	16	13	13
5	1250%	4	4	29	29
Re-securitisation positions					
1	40%	36	36	165	165
2	100%	9	9	16	16
3	225%	4	4	11	11
4	650%	–	–	1	1
5	1250%	–	–	16	16
Total rated counterparty exposure		7 160	5 136	8 088	6 288

Credit ratings

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

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

Internal audit

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

The head of internal audit reports at each audit committee meeting and has a direct reporting line to the chairman of the audit committee. He operates independently of executive management but has access to the chief executive officer. The head of internal audit is responsible for coordinating internal audit efforts to ensure coverage is adequate and departmental skills are leveraged to maximise efficiency. For administrative purposes the head of internal audit also reports to the global head of corporate governance and compliance. The function complies with the international standards for the professional practice of internal auditing.

Annually, Internal Audit conducts a formal risk assessment of the entire business from which a comprehensive risk-based audit plan is derived. The assessment and programme are validated by executive management and approved by the audit committee. High risk businesses and processes are audited at least every 18 months, with other areas covered at regular intervals based on their risk profile. There is an ongoing focus on identifying fraud risk as well as auditing technology risks given Investec's dependence on IT systems. Internal Audit also liaises with the external auditors and other assurance providers to enhance efficiencies in terms of combined assurance. The annual plan is reviewed regularly to ensure it remains relevant and responsive, given changes in the operating environment. The audit committee approves any changes to the plan.

Significant control weaknesses are reported, in terms of an escalation protocol, to the assurance forums, where remediation procedures and progress are considered and monitored in detail by management. The audit committee receives a report on significant issues and actions taken by management to enhance related controls. An update on the status of previously raised issues is provided by Internal Audit to each audit committee, if there are concerns in relation to overdue issues these will be escalated to the executive risk review forum to expedite resolution.

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

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

Compliance

We also seek to bring high standards of compliance practice to all our jurisdictions in order to build trust and promote the quality of service to our colleagues and clients.

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

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

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

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

UK and Europe – year in review

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

Structural banking reform

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

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

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

Reforms of the UK regulatory framework

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

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.

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

Retail Distribution Review/ Mortgage Market Review

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

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

Australia – year in review

Reform within the Australian regulatory framework

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

Consumer protection

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

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

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

Anti-money laundering and counter-terrorism financing

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

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

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 disclosure and transparency rules and listing rules of the United Kingdom Listing Authority (UKLA), regulatory requirements in the countries in which we operate and the UK Corporate Governance Code 2010 (the Code). 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 37.

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

UK Corporate Governance Code (2010)

The board is of the opinion that, based on the practices disclosed throughout this report, which were in operation during the year under review, the group has complied with the relevant provisions set out in the UK Corporate Governance Code (the Code), save that:

- Bradley Fried, who is not considered to be independent as he was employed as Investec Bank plc CEO during the five years prior to appointment as a director, was appointed as a member of the DLC remuneration committee on 3 April 2013. Given the increasing complexity of remuneration policy and its application to the group, Bradley's knowledge and experience of the group is deemed to be beneficial to the workings of this committee and is believed to be in the best interests of shareholders
- Fani Titi, on his appointment as joint chairman in November 2011, was not considered independent at the time in view of his previous connection with Tiso Group Limited. Tiso had a material relationship with Investec Limited arising from the empowerment transaction concluded in 2003 as in light of South Africa's Financial Sector Charter. Fani resigned as board member and chairman of Tiso during March 2008 and as the UK Corporate Governance Code requires a five year break in the relationship, going forward Fani will be regarded as independent.

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.

Financial reporting and going concern

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

Our financial statements are prepared on a going concern basis.

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

Further information on our liquidity and capital position is provided on pages 86 to 93 and pages 98 to 109.

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

Internal financial controls

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

Board of directors

Biographical details of the directors are set out on pages 118 and 119, 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 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 banks have to divide the return from their enterprises between the suppliers of capital and labour and the societies in which they do business, the latter through taxation and corporate social responsibility activities.

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

FSA Remuneration Code disclosures

In terms of the FSA's Chapter 11 Disclosure Requirements (BIPRU 11.5.18) the bank, as a tier two organisation, in the UK is required to make certain quantitative and qualitative remuneration disclosures on an annual basis with respect to FSA Code staff. Code staff are defined as those employees (including directors) whose professional activities could have a material impact on the bank's risk profile. These disclosures can be found in the Investec group's 2013 annual report.

External audit

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

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

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

Non-audit services are dealt with in terms of an agreed policy which states that:

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

For further details on non-audit services see note 6 on page 154.

Regulation and supervision

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

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.

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.

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:

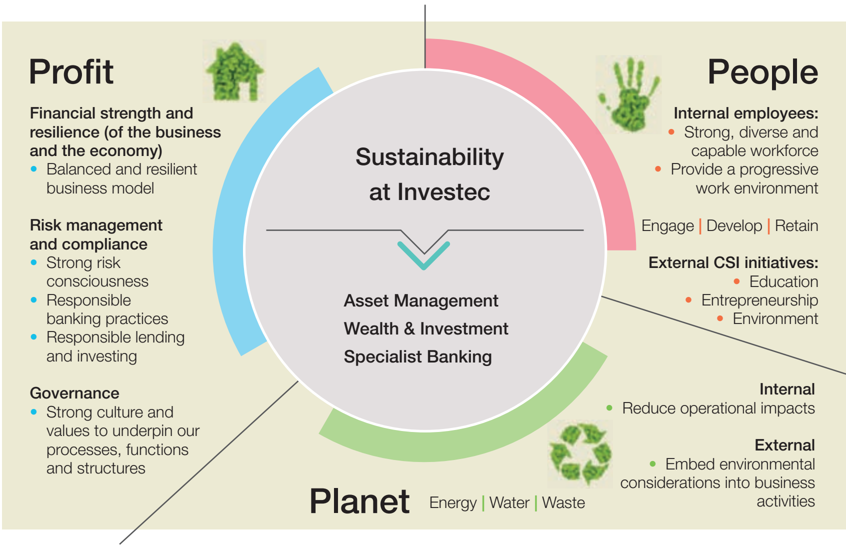
- Managing and positioning the group for the long term
- Building a sustainable business model that allows Investec to make a valuable contribution to society, to macro-economic stability and to our environment
- Developing a strong, diverse and capable workforce
- Growing and preserving clients' and 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 following statement, which should be read in conjunction with the auditor's report set out on page 130, is made with a view to distinguishing for stakeholders the respective responsibilities of the directors and of the auditors in relation to the special purpose consolidated financial statements.

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

To enable the directors to meet these responsibilities:

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

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

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

The special purpose consolidated financial statements have been prepared in accordance with accounting policies set out on pages 136 to 144.

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

It is the responsibility of the independent auditors to report on the special purpose consolidated financial statements. Their report to the members of the company is set out on page 130 of this report. As far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. All steps which ought to have been taken as directors have been completed in order to be aware of the relevant audit information and to establish that the company's auditors are aware of that information.

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

Approval of financial statements

The directors' report and the financial statements of the company, which appear on pages 124 to 126 and pages 207 to 209, were approved by the board of directors on 11 June 2013. The special purpose consolidated financial statements of the group on pages 131 to 206 were approved by the board of directors on 26 June 2013.

Signed on behalf of the board

Stephen Koseff	Bernard Kantor
Chief executive officer	Managing director

26 June 2013

Annual financial statements

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Directors' report

Extended business review

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

The operating financial review on pages 13 to 32 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 note 41 to the financial statements.

During the year, the following shares were issued:

- 6 857 159 ordinary shares on 14 June 2012 at 329.00 pence per share
- 3 618 943 special converting shares on 14 June 2012 at par.

Financial results

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

Ordinary dividends

An interim dividend was declared to shareholders as follows:

- 8.0 pence per ordinary share to non-South African resident shareholders (2012: 8.0 pence) registered on 14 December 2012
- To South African resident shareholders registered on 14 December 2012, a dividend paid by Investec Limited on the SA DAS share, equivalent to 7.0 pence (2012: 8.0 pence) per ordinary share and 1.0 pence (2012: 2.0 pence) per ordinary share paid by Investec plc.

The dividends were paid on 28 December 2012.

The directors have proposed a final dividend to shareholders registered on 2 August 2013, which is subject to the approval of the members of Investec plc at the annual general meeting which is scheduled to take place on 8 August 2013 and, if approved, will be paid on 12 August 2013 as follows:

- 10 pence per ordinary share to non-South African resident shareholders (2012: 9.0 pence) registered on 2 August 2013
- To South African resident shareholders registered on 2 August 2013, through a dividend paid by Investec Limited on the SA DAS share, of 8 pence per ordinary share and 2 pence per ordinary share paid by Investec plc. Shareholders in Investec plc will receive a distribution of 10 pence (2012: 9.0 pence) per ordinary share.

Preference dividends

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

Preference dividend number 13 for the period 1 April 2012 to 30 September 2012, amounting to 7.521 pence per share, was declared to members holding preference shares registered on 7 December 2012 and was paid on 18 December 2012.

Preference dividend number 14 for the period 1 October 2012 to 31 March 2013, amounting to 7.47945 pence per share, was declared to members holding preference shares registered on 14 June 2013 and will be paid on 25 June 2013.

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

Preference dividend number 3 for the period 1 April 2012 to 30 September 2012, amounting to 419.17123 cents per share, was declared to members holding Rand denominated non-redeemable, non-cumulative, non-participating preference shares registered on 7 December 2012 and was paid on 18 December 2012.

Preference dividend number 4 for the period 1 October 2012 to 31 March 2013, amounting to 402.64384 cents per share, was declared to members holding preference shares registered on 14 June 2013 and will be paid on 25 June 2013.

Preferred securities

The sixth annual distribution, fixed at 7.075 per cent, on the €200 million fixed/floating rate, guaranteed, non-voting, non-cumulative perpetual preferred callable securities issued by Investec Tier 1 (UK) LP on 24 June 2005, is due and will be paid on 24 June 2013.

Directors and secretary

Details of directors of Investec plc are reflected on pages 118 and 119.

In accordance with the UK Corporate Governance Code, 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 115 to 117.

Share incentive trusts

Details regarding options granted during the year are set out on pages 155 and 156.

Audit committee

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

Further details on the role and responsibility of the audit committee are set out in the Investec group's 2013 annual report.

Auditors

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

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

Contracts

Refer to the Investec group's 2013 annual report for details of contracts with directors.

Subsidiary and associated companies

Details of principal subsidiary and associated companies are reflected on pages 204 and 205.

Major shareholders

The largest shareholders of Investec plc are reflected on page 211.

Special resolutions

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

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

Accounting policies and disclosure

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

These policies are set out on pages 136 to 144.

Financial instruments

Detailed information on the group's risk management process and policy can be found in the risk management report on pages 34 to 110.

Information on the group's hedge accounting policy and the use of derivatives and hedges can be found on pages 140 and 141 and in notes 23 and 50.

Creditor payment policy

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

Employees

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

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

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

Donations

During the year, Investec plc made donations for charitable purposes, totalling £3.1 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 116 for 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.

Additional information for shareholders

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

Sir David J Prosser
Joint chairman

Fani Titi
Joint chairman

Stephen Koseff
Chief executive officer

26 June 2013

Schedule A to the directors' report

Additional information for shareholders

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

Share capital

The issued share capital of Investec plc at 31 March 2013 consists of 605 196 771 ordinary shares of £0.0002 each, 15 081 149 non-redeemable, non-cumulative, non-participating preference shares of £0.01 each, 2 275 940 ZAR non-redeemable, non-cumulative, non-participating preference shares of R0.001 each, 279 639 164 special converting shares of £0.0002 each, the special voting share of £0.001, the UK DAN share of £0.001 and the UK DAS share of £0.001 (each class as defined in the Articles).

Purchase of own shares

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

Dividends and distributions

Subject to the provisions of the Companies Act 2006, Investec plc may by ordinary resolution from time to time declare dividends not exceeding the amount recommended by the board. The board may pay interim dividends whenever the financial position of Investec plc, in the opinion of the board, justifies such payment.

The board may withhold payment of all or any part of any dividends or other monies payable in respect of Investec plc's shares from a person with a 0.25% or more interest in nominal value of the issued shares if such a person has been served with a notice after failure to provide Investec plc with information concerning interests in those shares required to be provided under the Companies Act 2006.

Voting rights

Subject to any special rights or restrictions attaching to any class of shares, at a general meeting, every member present in person has, upon a show of hands, one vote and on a poll every member who is present in person or by proxy has one vote for each share. In the case of joint holders of a share the vote of the senior who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the share. Under the Companies Act 2006 members are entitled to appoint a proxy, who need not be a member of Investec plc, to exercise all or any of their rights to attend and vote on their behalf at a general meeting or class meeting. A member may appoint more than one proxy in relation to a general meeting or class meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A member that is a corporation may appoint an individual to act on its behalf at a general meeting or class meeting as a corporate representative. The person so authorised shall be entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual member of Investec plc.

Restrictions on voting

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

Deadlines for exercising voting rights

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

Variation of rights

Subject to the Companies Act 2006, the Articles specify that rights attached to any class of shares may be varied with the written consent of the holders of not less than three-fourths in nominal value of the issued shares of that class, or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of those shares. At every such separate general meeting the quorum shall be two persons or, if there is only one holder, that holder at least holding or representing by proxy at least one-third in nominal value of the issued shares of the class (calculated excluding any shares held as treasury shares). The rights conferred upon the holders of any shares shall not, unless otherwise expressly provided in the rights attaching to those shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with them.

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

Transfer of shares

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

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

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

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

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

plc preference shares

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

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

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

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

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

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

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

Shares required for the DLC structure

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

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

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

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

Appointment and replacement of directors

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

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

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

Powers of directors

Subject to the Articles, the Companies Act 2006, the CREST regulations and every other statute for the time being in force concerning companies and affecting Investec plc, and any directions given by ordinary or special resolution, the business of Investec plc will be managed by the board who may exercise all the powers of Investec plc.

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

Significant agreements: change of control

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

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

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

Independent auditor's report to the board of Investec plc

We have audited the accompanying special purpose financial statements of Investec plc for the year ended 31 March 2013 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity, and notes 1 to 55. The financial statements have been prepared by the directors in accordance with the accounting policies set out on pages 136 to 144.

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

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

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements of Investec plc for the year ended 31 March 2013 are prepared, in all material respects, in accordance with the accounting policies.

Basis of accounting and restriction on use

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

Other matter

Investec plc has prepared a separate set of financial statements for the year ended 31 March 2013 in accordance with both International Financial Reporting Standards as adopted by the European Union and International Financial Reporting Standards as issued by the International Accounting Standards Board on which we issued a separate auditor's report to the shareholders of Investec plc dated 11 June 2013.

Ernst & Young LLP

Ernst & Young LLP
London

27 June 2013

Notes:

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

Investec plc excluding Investec Limited

Consolidated income statement

For the year to 31 March £'000	Notes	2013	2012
Interest income	2	924 384	945 837
Interest expense	2	(564 650)	(593 818)
Net interest income		359 734	352 019
Fee and commission income	3	761 051	643 581
Fee and commission expense	3	(131 696)	(118 182)
Investment income	4	73 620	134 125
Trading income arising from			
– customer flow		58 103	54 291
– balance sheet management and other trading activities		19 375	15 305
Other operating income	5	36 590	60 949
Total operating income before impairment on loans and advances		1 176 777	1 142 088
Impairment losses on loans and advances	26	(189 036)	(255 791)
Operating income		987 741	886 297
Operating costs	6	(848 502)	(771 538)
Depreciation on operating leased assets	6/31	(16 072)	(28 544)
Operating profit before goodwill and acquired intangibles		123 167	86 215
Impairment of goodwill	33	(13 409)	(21 510)
Amortisation of acquired intangibles		(13 313)	(9 530)
Cost arising from integration of acquired subsidiaries		(13 119)	(17 117)
Operating profit		83 326	38 058
Non-operational costs arising from acquisition of subsidiary		(1 369)	(5 472)
Profit before taxation		81 957	32 586
Taxation on operating profit before goodwill	8	(23 597)	(20 882)
Taxation on acquired intangibles and acquisition/disposal/integration of subsidiaries	8	5 977	8 164
Profit after taxation		64 337	19 868
Operating (income)/losses attributable to non-controlling interests		(397)	8 018
Earnings attributable to shareholders		63 940	27 886

Investec plc excluding Investec Limited

Consolidated statement of comprehensive income

For the year to 31 March £'000	Notes	2013	2012
Profit after taxation		64 337	19 868
Other comprehensive income/(loss):			
Fair value movements on cash flow hedges taken directly to other comprehensive income	8	(1 657)	(4 412)
Losses/(gains) on available-for-sale assets recycled through the income statement	8	407	(40 721)
Fair value movements on available-for-sale assets	8	(1 704)	25 936
Foreign currency adjustments on translating foreign operations		7 936	4 803
Pension fund actuarial (losses)/gains	39	(6 195)	282
Total comprehensive income		63 124	5 756
Total comprehensive income/(loss) attributable to non-controlling interests		161	(8 130)
Total comprehensive income/(loss) attributable to preference shareholders		47 914	(1 323)
Total comprehensive income attributable to preferred securities and perpetual preference shareholders		15 049	15 209
Total comprehensive income		63 124	5 756

Consolidated balance sheet

At 31 March £'000	Notes	2013	2012*
Assets			
Cash and balances at central banks	17	1 375 670	1 835 849
Loans and advances to banks	18	1 318 232	1 060 122
Reverse repurchase agreements and cash collateral on securities borrowed	19	1 528 593	1 159 138
Sovereign debt securities	20	1 660 377	1 647 271
Bank debt securities	21	455 201	824 552
Other debt securities	22	198 946	207 116
Derivative financial instruments	23	1 134 497	1 051 365
Securities arising from trading activities	24	673 763	372 570
Investment portfolio	25	388 625	320 111
Loans and advances to customers	26	7 758 920	7 201 417
Own originated loans and advances to customers securitised	27	491 194	535 008
Other loans and advances	26	2 082 081	2 789 738
Other securitised assets	27	2 769 126	2 961 969
Interests in associated undertakings	28	24 707	24 430
Deferred taxation assets	29	126 822	119 690
Other assets	30	1 381 370	1 326 907
Property and equipment	31	80 429	127 497
Investment properties	32	11 500	11 500
Goodwill	33	456 646	454 623
Intangible assets	34	172 131	184 197
		24 088 830	24 215 070
Liabilities			
Deposits by banks		1 710 630	1 848 534
Derivative financial instruments	23	817 526	732 601
Other trading liabilities	36	372 762	271 627
Repurchase agreements and cash collateral on securities lent	19	942 396	1 020 670
Customer accounts (deposits)		11 261 754	11 007 758
Debt securities in issue	37	1 762 338	2 179 452
Liabilities arising on securitisation of own originated loans and advances	27	477 870	526 945
Liabilities arising on securitisation of other assets	27	2 195 455	2 361 986
Current taxation liabilities		87 291	77 188
Deferred taxation liabilities	29	77 851	82 998
Other liabilities	38	1 375 459	1 161 483
		21 081 332	21 271 242
Subordinated liabilities	40	747 245	708 276
		21 828 577	21 979 518
Equity			
Ordinary share capital	41	177	175
Perpetual preference share capital	42	151	151
Share premium	43	1 130 210	1 107 651
Treasury shares	44	(52 098)	(41 941)
Other reserves		409 206	424 271
Retained income		608 053	580 833
Shareholders' equity excluding non-controlling interests		2 095 699	2 071 140
Non-controlling interests	45	164 554	164 412
– Perpetual preferred securities issued by subsidiaries		169 106	166 762
– Non-controlling interests in partially held subsidiaries		(4 552)	(2 350)
Total equity		2 260 253	2 235 552
Total liabilities and equity		24 088 830	24 215 070

* *Restated for reclassification detailed in note 54.*

Annual financial statements

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Consolidated cash flow statement

For the year to 31 March £'000	Notes	2013	2012
Profit before taxation adjusted for non-cash items	47	362 814	394 904
Taxation paid		(4 699)	(26 044)
Increase in operating assets	47	(533 281)	(435 350)
(Decrease)/increase in operating liabilities	47	(296 627)	806 679
Net cash (outflow)/inflow from operating activities		(471 793)	740 189
Cash (outflow)/inflow on acquisition of group subsidiaries	35	(20 834)	55 685
Net acquisition of non-controlling interest		(3 594)	–
Cash flow on net disposal/ (acquisition) of associates		3 323	(4 025)
Cash flow on acquisition of property, equipment and intangible assets		(22 595)	(66 759)
Cash flow on disposal of property, equipment and intangible assets		40 908	70 014
Net cash (outflow)/inflow from investing activities		(2 792)	54 915
Dividends paid to ordinary shareholders		(45 001)	(38 491)
Dividends paid to other equity holders		(15 049)	(15 209)
Proceeds on issue of shares, net of related costs		22 561	28 629
Proceeds on issue of perpetual preference shares		–	20 031
Net proceeds/outflow on treasury share purchases and disposals		(31 504)	(50 332)
Proceeds from subordinated debt raised		35 408	75 000
Repayment of subordinated debt		–	(14 797)
Net cash (outflow)/inflow from financing activities		(33 585)	4 831
Effects of exchange rates on cash and cash equivalents		47 693	53 932
Net (decrease)/increase in cash and cash equivalents		(460 477)	853 867
Cash and cash equivalents at the beginning of the year		2 798 816	1 944 949
Cash and cash equivalents at the end of the year		2 338 339	2 798 816
Cash and cash equivalents is defined as including:			
Cash and balances at central banks		1 375 670	1 835 849
On demand loans and advances to banks		962 669	962 967
Cash and cash equivalents at the end of the year		2 338 339	2 798 816

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).

Consolidated statement of changes in equity

£'000	Ordinary share capital	Perpetual preference share capital	Share premium	Treasury shares
At 31 March 2011	162	151	1 058 993	(10 536)
Movement in reserves 1 April 2011 – 31 March 2012				
Profit after taxation	–	–	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–	–	–
Gains on realisation of available-for-sale assets recycled through the income statement	–	–	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	–	–
Pension fund actuarial gains	–	–	–	–
Total comprehensive income for the year	–	–	–	–
Share-based payment adjustments	–	–	–	–
Dividends paid to ordinary shareholders	–	–	–	–
Dividends declared to perpetual preference shareholders	–	–	–	–
Dividends paid to perpetual preference shareholders included in non-controlling interests	–	–	–	–
Dividends paid to non-controlling interests	–	–	–	–
Issue of ordinary shares	13	–	28 627	–
Issue of perpetual preference shares	–	–	20 638	–
Share issue expenses	–	–	(607)	–
Issue of equity by subsidiaries	–	–	–	–
Acquisition of non-controlling interests	–	–	–	–
Non-controlling interest relating to disposal of subsidiaries	–	–	–	–
Movement of treasury shares	–	–	–	(31 405)
Transfer from capital reserve account	–	–	–	–
Transfer from regulatory general risk reserve	–	–	–	–
At 31 March 2012	175	151	1 107 651	(41 941)
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	–	–	–	–
Gains on realisation of available-for-sale assets recycled through the income statement	–	–	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	–	–
Pension fund actuarial gains	–	–	–	–
Total comprehensive income for the year	–	–	–	–
Share-based payments adjustments	–	–	–	–
Dividends paid to ordinary shareholders	–	–	–	–
Dividends declared to perpetual preference shareholders	–	–	–	–
Dividends paid to perpetual preference shareholders included in non-controlling interests	–	–	–	–
Dividends paid to non-controlling interests	–	–	–	–
Issue of ordinary shares	2	–	22 559	–
Acquisition of non-controlling interests	–	–	–	–
Non-controlling interest relating to disposal of subsidiary	–	–	–	–
Movement of treasury shares	–	–	–	(10 157)
Transfer from capital reserve account	–	–	–	–
Transfer to regulatory general risk reserve	–	–	–	–
At 31 March 2013	177	151	1 130 210	(52 098)

Other reserves: Capital reserve account	Other reserves: Available-for-sale reserve	Other reserves: Regulatory general risk reserve	Other reserves: Cash flow hedge reserve	Other reserves: Foreign currency reserves	Retained income	Shareholders' equity excluding non-controlling interests	Non-controlling interests	Total equity
184 012	21 647	19 763	(5 427)	72 919	568 353	1 910 037	153 123	2 063 160
–	–	–	–	–	27 886	27 886	(8 018)	19 868
–	–	–	(4 412)	–	–	(4 412)	–	(4 412)
–	(40 721)	–	–	–	–	(40 721)	–	(40 721)
–	25 936	–	–	–	–	25 936	–	25 936
(27)	18	111	(27)	4 835	5	4 915	(112)	4 803
–	–	–	–	–	282	282	–	282
(27)	(14 767)	111	(4 439)	4 835	28 173	13 886	(8 130)	5 756
–	–	–	–	–	32 550	32 550	–	32 550
–	–	–	–	–	(38 491)	(38 491)	–	(38 491)
–	–	–	–	–	(2 652)	(2 652)	–	(2 652)
–	–	–	–	–	(12 557)	(12 557)	12 557	–
–	–	–	–	–	–	–	(12 557)	(12 557)
175 809	–	–	–	–	–	204 449	–	204 449
	–	–	–	–	–	20 638	–	20 638
–	–	–	–	–	–	(607)	–	(607)
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	(483)	(483)
–	–	–	–	–	–	–	19 902	19 902
(24 708)	–	–	–	–	–	(56 113)	–	(56 113)
2	–	–	–	–	(2)	–	–	–
–	–	(5 459)	–	–	5 459	–	–	–
335 088	6 880	14 415	(9 866)	77 754	580 833	2 071 140	164 412	2 235 552
–	–	–	–	–	63 940	63 940	397	64 337
–	–	–	(1 657)	–	–	(1 657)	–	(1 657)
–	407	–	–	–	–	407	–	407
–	(1 704)	–	–	–	–	(1 704)	–	(1 704)
–	(91)	849	(550)	7 310	654	8 172	(236)	7 936
–	–	–	–	–	(6 195)	(6 195)	–	(6 195)
–	(1 388)	849	(2 207)	7 310	58 399	62 963	161	63 124
–	–	–	–	–	34 164	34 164	–	34 164
–	–	–	–	–	(45 001)	(45 001)	–	(45 001)
–	–	–	–	–	(3 696)	(3 696)	–	(3 696)
–	–	–	–	–	(11 353)	(11 353)	11 353	–
–	–	–	–	–	–	–	(11 353)	(11 353)
–	–	–	–	–	–	22 561	–	22 561
–	–	–	–	–	(3 795)	(3 795)	(19)	(3 814)
–	–	–	–	–	220	220	–	220
(21 347)	–	–	–	–		(31 504)	–	(31 504)
(159)	–	–	–	–	159	–	–	–
–	–	1 877	–	–	(1 877)	–	–	–
313 582	5 492	17 141	(12 073)	85 064	608 053	2 095 699	164 554	2 260 253

Accounting policies

Basis of presentation

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

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

Presentation of information

Disclosure under IFRS 7 Financial Instruments: Disclosures and IAS 1 Presentation of Financial Statements: Capital Disclosures relating to the nature and extent of risks have been included in sections marked as audited in the risk management report on pages 98 to 109.

Restatements and presentation of information

The group reclassified warehoused assets and liabilities into other loans and advances and deposits by banks respectively.

This change arises from simplifying the face of the balance sheet with the relevant information more appropriately disclosed. The impact on the prior year's balance sheet is detailed in note 55.

Basis of consolidation

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

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

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

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

Entities, other than subsidiary undertakings, in which the group exercises significant influence over operating and financial policies, are treated as interests in associated undertakings. In the group accounts, interests in associated undertakings are accounted for using the equity method from the date that significant influence commences until the date that significant influence ceases. In circumstances where interests in associated undertakings or joint venture holdings arise in which the group has no strategic intention, these investments are classified as 'venture capital' holdings and are designated as held at fair value through profit or loss.

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

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

Segmental reporting

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

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

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

For further detail on the group's segmental reporting basis refer to pages 13 to 32 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 remeasured until it is finally settled within equity.

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. The group tests goodwill acquired in a business combination for impairment annually, irrespective of whether an indication of impairment exists and in accordance with IAS 36.

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

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

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

Share-based payments to employees

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

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

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

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

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

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

Foreign currency transactions and foreign operations

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

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

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

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

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

Accounting policies (continued)

- 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 balance sheet management.

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

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

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

Financial instruments

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

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

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

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

Financial instruments classified as held-for-trading or designated as held at fair value through profit or loss are recorded at fair value on the balance sheet with changes in fair value recognised in the income statement. Financial instruments are classified as trading when they are held with the intention of short-term disposal, held with intention of generating short-term profits, or are derivatives which are not designated as part of effective hedges. Financial instruments designated as held at fair value through profit or loss are designated as such on initial recognition of the instrument and remain in this classification until derecognition.

Financial assets and liabilities are designated as held at fair value through profit or loss only if:

- It eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy and information about the group is provided internally on that basis to the group's key management personnel; and
- 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

Accounting policies (continued)

in the income statement. The losses arising from impairment of such investments are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and exclude the following:

- Those that the group intends to trade in, which are classified as held-for-trading, and those that the group designates as at fair value through profit or loss
- Those that the group designates as available-for-sale
- Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which is accounted for as available-for-sale instruments.

Subsequent to initial recognition, loans and receivables are measured at amortised cost, using the effective interest rate method, less impairment losses. The effective interest rate represents the rate that exactly discounts future projected cash flows through the expected life of the financial instrument, to the net carrying amount of the financial instrument. Included in the calculation of the effective interest rate is any discount or premium on acquisition and fees that are an integral part of the effective interest rate.

Losses arising from impairment of such investments are recognised in the income statement line 'impairment losses on loans and advances'.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Securitisation/credit investment and trading activities exposures

The group makes use of securitisation vehicles as a source of finance, as a means of risk transfer and to leverage returns through the retention of equity tranches in low default rate portfolios. The group 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 SPEs, 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 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 on the balance sheet, with unrealised gains and losses recognised directly in other comprehensive income in the available-for-sale reserve. When the asset is disposed of, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement. Interest earned whilst holding available-for-sale financial assets is reported as interest income using the effective interest rate. Dividends earned whilst holding available-for-sale financial assets are recognised in the income statement when the right of payment has been established.

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

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

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

Financial liabilities

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

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

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

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

Valuation of financial instruments

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

'Day 1' profit or loss

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

Impairments of financial assets held at amortised cost

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

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

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

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

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

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

Derecognition of financial assets and liabilities

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

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

Reclassification of financial instruments

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

Derivative instruments

All derivative instruments of the group are recorded on the balance sheet at fair value. Positive and negative fair values are reported as assets and liabilities respectively and are offset when there is both an intention to settle net and a currently enforceable legal right to offset exists.

Derivative positions are entered into either for trading purposes or as part of the group's asset and liability management activities to manage exposures to interest rate and foreign currency risks. Both realised and unrealised profits and losses arising on derivatives are recognised in the income statement as part of trading income (other than circumstances in which cash flow hedging is applied as detailed below).

Derivative instruments transacted as economic hedges which do not qualify for hedge accounting and derivatives that are entered into for trading purposes are treated in the same way as instruments that are held-for-trading.

Credit derivatives

Credit derivatives are entered into for largely trading purposes. Credit derivatives of the group are initially recognised at their fair values, being the transaction price of the derivative. Subsequently the derivatives are carried at fair value based on the current market 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 hedge item matures or is sold or repaid; when a forecasted transaction is no longer deemed highly probable or when the designation as a hedge is revoked.

Embedded derivatives

To the extent that a derivative may be embedded in a hybrid contract and the hybrid contract is not carried at fair value with changes in fair value recorded in the income statement, the embedded derivative is separated from the host contract and accounted for as a standalone derivative if and only if:

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

Offsetting of financial assets and liabilities

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

Issued debt and equity financial instruments

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

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

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

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

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

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

Sale and repurchase agreements (including securities borrowing and lending)

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

Accounting policies (continued)

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 are as follows:

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

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

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

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

Investment property

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

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

Dealing properties

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

Intangible assets

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

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

Impairment of non-financial assets

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

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

Accounting policies (continued)

Trust and fiduciary activities

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

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

Taxation and deferred taxation

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

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

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

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

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

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

Employee benefits

The group operates various defined contribution schemes and two closed defined benefit schemes.

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

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

Actuarial gains and losses related to the defined benefit asset or liability are recognised immediately directly in other comprehensive income.

The group has no liabilities for other post-retirement benefits.

Borrowing costs

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

Provisions, contingent liabilities and contingent assets

Provisions are liabilities of uncertain timing or amount and are recognised as soon as the group has created a legal or constructive obligation which will lead to an outflow of economic resources to settle the obligation as a result of a past event. Expenses related to provisions are recognised in the income statement. Contingent assets and contingent liabilities are not recognised on balance sheet.

Standards and interpretations issued but not yet effective

The following standards and interpretations, which have been issued but are not yet effective, are applicable to the group. These standards and interpretations have not been applied in these financial statements. The group intends to comply with these standards from the effective dates.

New standards

IFRS 10 – Consolidated Financial Statements

The standard replaces consolidation principles contained in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Special Purpose Entities. The standard defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The standard is retrospectively effective for the group for the year commencing 1 April 2013. The impact of the adoption of IFRS 10 on the group is currently under evaluation.

IFRS 11 – Joint Arrangements

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

IFRS 12 – Disclosure of Interests in Other Entities

The standard requires disclosure of the significant judgements and assumptions made in determining the nature of interests in subsidiaries, joint ventures and interest in associated undertakings and the interest that non-controlling interests have in the group's activities and cash flows. The standard further provides disclosure requirements relating to consolidated and unconsolidated structured entities that the group is associated with. The standard is retrospectively effective for the group for the year commencing 1 April 2013. The impact of the standard is further disclosure, with no changes to measurement or recognition requirements.

IFRS 13 – Fair Value Measurement

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

IFRS 9 – Financial Instruments

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

- Classification and measurement of financial assets and financial liabilities – the standard requires that all financial assets be classified as either held at fair value or amortised cost. The amortised cost classification is only permitted where it is held within a business model where the underlying cash flows are held in order to collect contractual cash flows and that the cash flows solely arise from payment of principal and interest. The standard further provides that gains and losses on assets held at fair value are measured through the income statement unless the entity has elected to present gains and losses on non-trading equity investments (individually elected) directly through comprehensive income. With reference to financial liabilities held at fair value, the standard proposes that changes to fair value attributable to credit risk are taken directly to other comprehensive income without recycling. These are current deliberations which may result in limited modifications to IFRS 9 relating to classification and measurement
- Impairment methodology – The key change is related to a shift from an incurred loss to an expected loss impairment methodology. Revisions to the methodology are subject to deliberation, with expected amendments to IFRS 9 in 2013.

The standard is effective for the group for the year commencing 1 April 2015, and does not require the restatement of comparative-period financial statements upon initial application. The EU have highlighted that they will not endorse IFRS 9 until a complete standard is issued.

IFRS 7 – Disclosures – Offsetting Financial Assets and Financial Liabilities (amendments to IFRS 7)

These amendments require additional disclosures which the group will be in a position to provide. The amendments are effective for the year commencing 1 April 2013.

There are other proposed amendments which do not have a material impact to the financial statements and thus have not been highlighted or discussed above.

IAS 19 – Employee Benefits

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

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

There are other proposed amendments which do not have a material impact to the financial statements and these 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 25 with further analysis contained in the risk management section on pages 66 to 68.

- 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 55 to 65 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 £'000	Asset Management	Wealth & Investment	Specialist Banking	Total group
1. Consolidated segmental analysis				
Segmental business analysis – income statement				
2013				
Net interest income	492	10 293	348 949	359 734
Fee and commission income	309 933	195 275	255 843	761 051
Fee and commission expense	(92 667)	(11 772)	(27 257)	(131 696)
Investment income	–	555	73 065	73 620
Trading income arising from				–
– customer flow	–	361	57 742	58 103
– balance sheet management and other trading activities	(199)	4	19 570	19 375
Other operating income	4 476	774	31 340	36 590
Total operating income before impairment losses on loans and advances	222 035	195 490	759 252	1 176 777
Impairment losses on loans and advances	–	–	(189 036)	(189 036)
Operating income	222 035	195 490	570 216	987 741
Operating costs	(162 694)	(161 581)	(524 227)	(848 502)
Depreciation on operating leased assets	–	–	(16 072)	(16 072)
Operating profit before goodwill and acquired intangibles	59 341	33 909	29 917	123 167
Operating income attributable to non-controlling interests	–	–	(397)	(397)
Operating profit before goodwill, acquired intangibles and after non-controlling interests	59 341	33 909	29 520	122 770
Selected returns and key statistics				
Cost to income ratio	73.3%	82.7%	70.5%	73.1%
Total assets (£'million)	363	439	23 287	24 089
2012				
Net interest income	651	8 647	342 721	352 019
Fee and commission income	288 578	142 361	212 642	643 581
Fee and commission expense	(86 903)	(8 182)	(23 097)	(118 182)
Investment income	–	(392)	134 517	134 125
Trading income arising from				
– customer flow	–	(386)	54 677	54 291
– balance sheet management and other trading activities	61	(7)	15 251	15 305
Other operating income	(309)	406	60 852	60 949
Total operating income before impairment losses on loans and advances	202 078	142 447	797 563	1 142 088
Impairment losses on loans and advances	–	–	(255 791)	(255 791)
Operating income	202 078	142 447	541 772	886 297
Operating costs	(143 156)	(119 226)	(509 156)	(771 538)
Depreciation on operating leased assets	–	–	(28 544)	(28 544)
Operating profit before goodwill and acquired intangibles	58 922	23 221	4 072	86 215
Operating loss attributable to non-controlling interests	–	47	7 971	8 018
Operating profit before goodwill, acquired intangibles and after non-controlling interests	58 922	23 268	12 043	94 233
Selected returns and key statistics				
Cost to income ratio	70.8%	83.7%	66.2%	69.3%
Total assets (excluding assurance assets) (£'million)	393	502	23 320	24 215

1. Consolidated segmental analysis (continued)

For the year to 31 March £'000	UK and Other	Australia	Total group
Segmental geographic analysis – income statement			
2013			
Net interest income	290 646	69 088	359 734
Fee and commission income	701 620	59 431	761 051
Fee and commission expense	(127 170)	(4 526)	(131 696)
Investment income	73 082	538	73 620
Trading income arising from			
– customer flow	51 157	6 946	58 103
– balance sheet management and other trading activities	19 939	(564)	19 375
Other operating income	34 781	1 809	36 590
Total operating income before impairment losses on loans and advances	1 044 055	132 722	1 176 777
Impairment losses on loans and advances	(171 187)	(17 849)	(189 036)
Operating income	872 868	114 873	987 741
Operating costs	(737 030)	(111 472)	(848 502)
Depreciation on operating leased assets	(16 072)	–	(16 072)
Operating profit before goodwill and acquired intangibles	119 766	3 401	123 167
Operating income attributable to non-controlling interests	(397)	–	(397)
Operating profit before goodwill, acquired intangibles and after non-controlling interests	119 369	3 401	122 770
Selected returns and key statistics			
Cost to income ratio	71.7%	84.0%	73.1%
Total assets (£'million)	20 843	3 246	24 089
2012			
Net interest income	285 677	66 342	352 019
Fee and commission income	605 125	38 456	643 581
Fee and commission expense	(114 807)	(3 375)	(118 182)
Investment income	142 599	(8 474)	134 125
Trading income arising from	–	–	
– customer flow	43 179	11 112	54 291
– balance sheet management and other trading activities	16 431	(1 126)	15 305
Other operating income	62 128	(1 179)	60 949
Total operating income before impairment losses on loans and advances	1 040 332	101 756	1 142 088
Impairment losses on loans and advances	(187 919)	(67 872)	(255 791)
Operating income	852 413	33 884	886 297
Operating costs	(671 773)	(99 765)	(771 538)
Depreciation on operating leased assets	(28 544)	–	(28 544)
Operating profit before goodwill and acquired intangibles	152 096	(65 881)	86 215
Operating loss attributable to non-controlling interests	8 018	–	8 018
Operating profit before goodwill, acquired intangibles and after non–controlling interests	160 114	(65 881)	94 233
Selected returns and key statistics			
Cost to income ratio	66.4%	98.0%	69.3%
Total assets (£'million)	20 831	3 384	24 215

Notes to the annual financial statements (continued)

For the year to 31 March £'000	UK and Other	Australia	Total group
1. Consolidated segmental analysis (continued)			
Segmental geographic and business analysis of operating profit before goodwill, acquired intangibles, non-operating items, taxation and after non-controlling interests			
2013			
Asset Management	59 341	–	59 341
Wealth & Investment	33 909	–	33 909
Specialist Banking	26 119	3 401	29 520
Total group	119 369	3 401	122 770
Non-controlling interest – equity			397
Operating profit before goodwill and acquired intangibles			123 167
2012			
Asset Management	58 922	–	58 922
Wealth & Investment	23 268	–	23 268
Specialist Banking	77 924	(65 881)	12 043
Total group	160 114	(65 881)	94 233
Non-controlling interest – equity			(8 018)
Operating profit before goodwill and acquired intangibles			86 215

Notes to the annual financial statements (continued)

1. Consolidated segmental analysis (continued)

Segmental business and geographical analysis – income statement

For the year to 31 March £'000	Asset Management total UK and Other	Wealth & Investment total UK and Other	Specialist Banking UK and Other	Specialist Banking Australia	Specialist Banking Total	Total group
2013						
Net interest income	492	10 293	279 861	69 088	348 949	359 734
Fee and commission income	309 933	195 275	196 412	59 431	255 843	761 051
Fee and commission expense	(92 667)	(11 772)	(22 731)	(4 526)	(27 257)	(131 696)
Investment income	–	555	72 527	538	73 065	73 620
Trading income arising from					–	–
– customer flow	–	361	50 796	6 946	57 742	58 103
– balance sheet management and other trading activities	(199)	4	20 134	(564)	19 570	19 375
Other operating income	4 476	774	29 531	1 809	31 340	36 590
Total operating income before impairment losses on loans and advances	222 035	195 490	626 530	132 722	759 252	1 176 777
Impairment losses on loans and advances	–	–	(171 187)	(17 849)	(189 036)	(189 036)
Operating income	222 035	195 490	455 343	114 873	570 216	987 741
Operating costs	(162 694)	(161 581)	(412 755)	(111 472)	(524 227)	(848 502)
Depreciation on operating leased assets	–	–	(16 072)	–	(16 072)	(16 072)
Operating profit before goodwill and acquired intangibles	59 341	33 909	26 516	3 401	29 917	123 167
Operating income attributable to non-controlling interests	–	–	(397)	–	(397)	(397)
Operating profit before goodwill, acquired intangibles and after non-controlling interests	59 341	33 909	26 119	3 401	29 520	122 770
Selected returns and key statistics						
Cost to income ratio	73.3%	82.7%	67.6%	84.0%	70.5%	73.1%
Total assets (£'million)	363	439	20 041	3 246	23 287	24 089

Notes to the annual financial statements (continued)

1. Consolidated segmental analysis (continued)

Segmental business and geographical analysis – income statement

For the year to 31 March £'000	Asset Management total UK and Other	Wealth & Investment total UK and Other	Specialist Banking UK and Other	Specialist Banking Australia	Specialist Banking Total	Total group
2012						
Net interest income	651	8 647	276 379	66 342	342 721	352 019
Fee and commission income	288 578	142 361	174 186	38 456	212 642	643 581
Fee and commission expense	(86 903)	(8 182)	(19 722)	(3 375)	(23 097)	(118 182)
Investment income	–	(392)	142 991	(8 474)	134 517	134 125
Trading income arising from						
– customer flow	–	(386)	43 565	11 112	54 677	54 291
– balance sheet management and other trading activities	61	(7)	16 377	(1 126)	15 251	15 305
Other operating income	(309)	406	62 031	(1 179)	60 852	60 949
Total operating income before impairment losses on loans and advances	202 078	142 447	695 807	101 756	797 563	1 142 088
Impairment losses on loans and advances	–	–	(187 919)	(67 872)	(255 791)	(255 791)
Operating income	202 078	142 447	507 888	33 884	541 772	886 297
Operating costs	(143 156)	(119 226)	(409 391)	(99 765)	(509 156)	(771 538)
Depreciation on operating leased assets	–	–	(28 544)	–	(28 544)	(28 544)
Operating profit before goodwill and acquired intangibles	58 922	23 221	69 953	(65 881)	4 072	86 215
Operating loss attributable to non-controlling interests	–	47	7 971	–	7 971	8 018
Operating profit before goodwill, acquired intangibles and after non-controlling interests	58 922	23 268	77 924	(65 881)	12 043	94 233
Selected returns and key statistics						
Cost to income ratio	70.8%	83.7%	61.4%	98.0%	66.2%	69.3%
Total assets (£'million)	393	502	19 936	3 384	23 320	24 215

Notes to the annual financial statements (continued)

For the year to 31 March 2013 £'000	Notes	UK and Other Balance sheet value	UK and Other Interest received	Australia Balance sheet value	Australia Interest received	Total group Balance sheet value	Total group Interest received
2. Net interest income							
Cash, near cash and bank debt and sovereign debt securities	1	5 630 675	47 639	707 398	16 076	6 338 073	63 715
Core loans and advances	2	6 045 068	357 343	2 205 046	180 301	8 250 114	537 644
Private client		3 024 629	162 618	1 402 293	112 566	4 426 922	275 184
Corporate, institutional and other clients		3 020 439	194 725	802 753	67 735	3 823 192	262 460
Other debt securities and other loans and advances		2 258 521	144 138	22 506	18 205	2 281 027	162 343
Other interest earning assets	3	2 769 126	160 682	–	–	2 769 126	160 682
Total interest earning assets		16 703 390	709 802	2 934 950	214 582	19 638 340	924 384

For the year to 31 March 2013 £'000	Notes	UK and Other Balance sheet value	UK and Other Interest paid	Australia Balance sheet value	Australia Interest paid	Total group Balance sheet value	Total group Interest paid
Deposits by banks and other debt-related securities	4	3 944 675	70 620	470 689	32 436	4 415 364	103 056
Customer accounts		9 568 934	222 703	1 692 820	79 411	11 261 754	302 114
Other interest bearing liabilities	5	2 195 422	63 119	477 903	30 486	2 673 325	93 605
Subordinated liabilities		664 625	62 714	82 620	3 161	747 245	65 875
Total interest bearing liabilities		16 373 656	419 156	2 724 032	145 494	19 097 688	564 650
Net interest income			290 646		69 088		359 734

Notes:

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.*
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.*

Notes to the annual financial statements (continued)

2. Net interest income (continued)

For the year to 31 March 2012 £'000	Notes	UK and Other Balance sheet value	UK and Other Interest received	Australia Balance sheet value	Australia Interest received	Total group Balance sheet value	Total group Interest received
Cash, near cash and bank debt and sovereign debt securities	1	5 516 447	50 414	1 010 485	59 939	6 526 932	110 353
Core loans and advances	2	5 788 118	359 715	1 948 307	186 654	7 736 425	546 369
Private client		3 431 420	200 531	1 593 600	158 697	5 025 020	359 228
Corporate, institutional and other clients		2 356 698	159 184	354 707	27 957	2 711 405	187 141
Other debt securities and other loans and advances		1 483 282	78 608	81 860	4 310	1 565 142	82 918
Other interest earning assets	3	4 393 681	206 197	–	–	4 393 681	206 197
Total interest earning assets		17 181 528	694 934	3 040 652	250 903	20 222 180	945 837

For the year to 31 March 2012 £'000	Notes	UK and Other Balance sheet value	UK and Other Interest paid	Australia Balance sheet value	Australia Interest paid	Total group Balance sheet value	Total group Interest paid
Deposits by banks and other debt-related securities	4	4 271 470	90 387	777 186	62 939	5 048 656	153 326
Customer accounts		9 471 155	204 366	1 536 603	83 708	11 007 758	288 074
Other interest bearing liabilities	5	2 361 985	53 614	526 946	33 569	2 888 931	87 183
Subordinated liabilities		661 921	60 890	46 355	4 345	708 276	65 235
Total interest bearing liabilities		16 766 531	409 257	2 887 090	184 561	19 653 621	593 818
Net interest income			285 677		66 342		352 019

Notes:

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

Notes to the annual financial statements (continued)

For the year to 31 March £'000	UK and Other	Australia	Total group
3. Net fee and commission income			
2013			
Fund management fees/fees for assets under management	458 321	3 972	462 293
Private client transactional fees	83 926	9 579	93 505
Corporate and institutional transactional and advisory services	159 373	45 880	205 253
Fee and commission income	701 620	59 431	761 051
Fee and commission expense	(127 170)	(4 526)	(131 696)
Net fee and commission income	574 450	54 905	629 355
Annuity fees (net of fees payable)	392 722	26 138	418 860
Deal fees	181 728	28 767	210 495
2012			
Fund management fees/fees for assets under management	404 327	5 674	410 001
Private client transactional fees	62 486	9 251	71 737
Corporate and institutional transactional and advisory services	138 312	23 531	161 843
Fee and commission income	605 125	38 456	643 581
Fee and commission expense	(114 807)	(3 375)	(118 182)
Net fee and commission income	490 318	35 081	525 399
Annuity fees (net of fees payable)	339 849	14 115	353 964
Deal fees	150 469	20 966	171 435

Trust and fiduciary fees amounted to £11.3 million (2012: £12.2 million).

For the year to 31 March £'000	UK and Other	Australia	Total group
4. Investment income			
2013			
Realised	33 534	1 752	35 286
Unrealised	35 104	(1 654)	33 450
Dividend income	2 999	240	3 239
Funding and other net related income	1 445	200	1 645
Investment income	73 082	538	73 620
2012			
Realised	129 057	(8 929)	120 128
Unrealised	11 652	(66)	11 586
Dividend income	1 890	521	2 411
Investment income/(loss)	142 599	(8 474)	134 125

Notes to the annual financial statements (continued)

4. Investment income (continued)

For the year to 31 March £'000	Investment portfolio (listed and unlisted equities)	Debt securities (sovereign, bank and other)	Other asset categories	Total
2013				
UK and Other				
Realised	917	26 264	6 353	33 534
Unrealised	31 116	5 617	(1 629)	35 104
Dividend income	2 999	–	–	2 999
Funding and other net related income	–	–	1 445	1 445
	35 032	31 881	6 169	73 082
Australia				
Realised	64	1 617	71	1 752
Unrealised	(2 716)	–	1 062	(1 654)
Dividend income	240	–	–	240
Funding and other net related income	–	–	200	200
	(2 412)	1 617	1 333	538
Total investment income	32 620	33 498	7 502	73 620
2012				
UK and Other				
Realised	26 230	89 737	13 090	129 057
Unrealised	14 929	(3 226)	(51)	11 652
Dividend income	1 890	–	–	1 890
	43 049	86 511	13 039	142 599
Australia				
Realised	1 539	(784)	(9 684)	(8 929)
Unrealised	(66)	–	–	(66)
Dividend income	71	450	–	521
	1 544	(334)	(9 684)	(8 474)
Total investment income	44 593	86 177	3 355	134 125

5. Other operating income

For the year to 31 March £'000	2013	2012
Rental income from properties	1 111	259
Unrealised gains on other investments	5 342	120
Income from operating leases	26 661	58 892
Operating income from associates (note 28)	3 476	1 678
	36 590	60 949

Notes to the annual financial statements (continued)

For the year to 31 March £'000	2013	2012
6. Operating costs		
Staff costs	579 982	526 797
– Salaries and wages (including directors' remuneration)	465 581	412 863
– Training and other costs	10 866	17 507
– Share-based payment expense (note 7)	34 164	32 550
– Social security costs	48 984	45 048
– Pensions and provident fund contributions	20 387	18 829
Premises expenses (excluding depreciation)	42 355	37 786
Equipment expenses (excluding depreciation)	30 466	26 665
Business expenses*	144 311	130 404
Marketing expenses	33 608	34 110
Depreciation, amortisation and impairment on property, equipment and intangibles	17 780	15 776
	848 502	771 538
Depreciation on operating leased assets	16 072	28 544
	864 574	800 082
The following amounts were paid by the group to the auditors in respect of the audit of the financial statements and for other services provided to the group:		
Ernst & Young fees		
Fees payable to the company's auditors for the audit of the company's accounts	543	523
Fees payable to the company's auditors and its associates for other services:		
Audit of the company's subsidiaries pursuant to legislation	5 906	4 363
Audit related assurance services	1 007	1 688
Tax compliance services	241	254
Tax advisory services	349	414
Services related to corporate finance transactions	–	157
Other assurance services	107	546
	8 153	7 945
KMPG fees		
Fees payable to the company's auditors for the audit of the company's accounts	–	–
Fees payable to the company's auditors and its associates for other services:		
Audit of the company's subsidiaries pursuant to legislation	546	435
Audit related assurance services	–	91
Tax compliance services	766	289
Tax advisory services	742	350
Services relating to corporate finance transactions	114	–
Other assurance services	336	620
	2 504	1 785
Total	10 657	9 730

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

Notes to the annual financial statements (continued)

7. Share-based payments

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

Further information on the group share options and long-term incentive plans are provided in the remuneration report included in the Investec group's 2013 annual report and on our website.

For the year to 31 March £'000	Asset Management	Wealth & Investment	Specialist Banking	Total group
Share-based payment expense charged to the income statement (included in operating costs):				
2013				
Equity-settled	3 274	5 237	25 653	34 164
Total income statement charge	3 274	5 237	25 653	34 164
2012				
Equity-settled	4 353	3 308	24 889	32 550
Total income statement charge	4 353	3 308	24 889	32 550

Included in the above income statement charge is an accelerated share-based payment charge as a result of modifications to certain options granted. This expense for the year was £288 850 (2012: £786 755).

For the year to 31 March £'000	2013	2012
Weighted average fair value of options granted in the year		
UK schemes	26 921	26 569

	UK schemes			
	2013		2012	
Details of options outstanding during the year	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of the year	46 076 830	0.06	45 033 517	0.09
Granted during the year	12 112 551	0.03	8 776 990	0.16
Exercised during the year*	(5 333 003)	0.01	(5 733 448)	0.19
Expired during the year	(2 342 024)	0.42	(2 000 229)	0.58
Outstanding at the end of the year	50 514 354	0.05	46 076 830	0.06
Exercisable at the end of the year	544 221	–	704 523	0.04

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

Notes to the annual financial statements (continued)

7. Share-based payments (continued)

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

	UK schemes	
For the year to 31 March	2013	2012
Options with strike prices		
Exercise price range	£2.05 – £5.00	£1.50 – £6.52
Weighted average remaining contractual life	3.06 years	3.47 years
Long-term incentive options with no strike price		
Exercise price range	£nil	£nil
Weighted average remaining contractual life	2.73 years	3 years
Weighted average fair value of options and long-term incentive grants at measurement date	£2.22	£3.03
The fair values of options granted were calculated using a Black-Scholes option pricing model. For options granted during the year, the inputs into the model were as follows:		
– Share price at date of grant	£3.29 – £4.08	£3.34 – £5.00
– Exercise price	£nil, £3.29 – £4.08	£nil, £3.34 – £5.00
– Expected volatility	30%	30%
– Option life	4.5 – 5.25 years	5 – 5.25 years
– Expected dividend yields	5.94% – 7.67%	5.19% – 7.84%
– Risk-free rate	0.84% – 1.34%	1.48% – 2.15%

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

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

Please refer to the remuneration report in the Investec group's 2013 annual report for details on terms and conditions of share options.

Notes to the annual financial statements (continued)

For the year to 31 March £'000	2013	2012
8. Taxation		
Income statement tax charge		
Current taxation		
UK		
Current tax on income for the year	31 315	41 505
Adjustments in respect of prior years	(7 427)	3 436
Corporation tax before double tax relief	23 888	44 941
– Double taxation relief	(530)	(614)
	23 358	44 327
Europe	370	4 503
Australia	–	432
Other	151	287
	521	5 222
Total current taxation	23 879	49 549
Deferred taxation		
UK	(4 868)	(16 842)
Europe	9	7
Australia	(1 431)	(19 996)
Other	31	–
Total deferred taxation	(6 259)	(36 831)
Total taxation charge for the year	17 620	12 718
Total taxation charge for the year comprises:		
Taxation on operating profit before goodwill	23 597	20 882
Taxation on acquired intangibles and acquisition/disposal/integration of subsidiaries	(5 977)	(8 164)
	17 620	12 718
Deferred taxation comprises:		
Origination and reversal of temporary differences	(10 532)	(38 932)
Changes in tax rates	1 659	2 838
Adjustment in respect of prior years	2 614	(737)
	(6 259)	(36 831)

For the year to 31 March £'000	2013	2012
8. Taxation (continued)		
Items which affect the tax rate going forward are:		
Estimated tax losses arising from trading activities available for relief against future taxable income		
UK	Nil	Nil
Europe	Nil	Nil
Australia	Nil	Nil
	%	%
The rates of corporation tax for the relevant years are:		
UK	24%	26%
Europe (average)	10%	10%
Australia	30%	30%
USA	35%	35%
Profit before taxation	81 957	32 586
Taxation on profit before taxation	17 620	12 718
Effective tax rate	21.50%	39.00%
The taxation charge on activities for the year is different from the standard rate as detailed below:		
Taxation on profit on ordinary activities before taxation at UK rate of 24% (2012: 26%)	19 670	8 472
Taxation adjustments relating to foreign earnings	(16 690)	(21 951)
Taxation relating to prior years	(4 813)	2 699
Share options accounting expense	5 337	20 530
Share options exercised during the year	(6 059)	(5 033)
Unexpired share options future tax deduction	(390)	(12 027)
Non-taxable income	(10 794)	(12 907)
Net other permanent differences	29 818	36 627
Unrealised capital losses	1 195	(6 530)
Utilisation of brought forward capital losses	(111)	–
Utilisation of brought forward trading losses	(1 202)	–
Change in tax rate	1 659	2 838
Total taxation charge as per income statement	17 620	12 718
Other comprehensive income taxation effects		
Cash flow hedge movements taken directly to other comprehensive income	(1 657)	(4 412)
Pre-taxation	(2 367)	(5 852)
Taxation effect	710	1 440
Gains on realisation or impairment of available-for-sale assets recycled through the income statement	407	(40 721)
Pre-taxation	535	(53 747)
Taxation effect	(128)	13 026
Fair value movements on available-for-sale assets taken directly to other comprehensive income	(1 704)	25 936
Pre-taxation	(1 883)	33 763
Taxation effect	179	(7 827)
Pension fund actuarial (losses)/gains	(6 195)	282
Pre-taxation	(8 157)	297
Taxation effect	1 962	(15)

For the year to 31 March	2013 Pence per share	2013 Total £'million	2012 Pence per share	2012 Total £'million
9. Dividends				
Ordinary dividend				
Final dividend for prior year	9.0	24 131	9.0	21 641
Interim dividend for current year	8.0	20 870	8.0	16 850
Total dividend attributable to ordinary shareholders recognised in current financial year	17.0	45 001	17.0	38 491

The directors have proposed a final dividend in respect of the financial year ended 31 March 2013 of 10.0 pence per ordinary share (31 March 2012: 9.0 pence).

This will be paid as follows:

- For Investec plc non-South African shareholders, through a dividend paid by Investec plc of 10.0 pence per ordinary share
- For Investec plc South African shareholders, through a dividend payment by Investec plc of 2.0 pence per ordinary share and through a dividend payment on the SA DAS share of 8.0 pence per ordinary share.

The final dividend will be payable on 12 August 2013 to shareholders on the register at the close of business on 2 August 2013.

For the year to 31 March	2013 Pence per share	2013 Cents per share	2013 Total £'million	2012 Pence per share	2012 Cents per share	2012 Total £'million
Perpetual preference dividend						
Final dividend for prior year	7.52	428.67	1 872	7.52	–	1 128
Interim dividend for current year	7.52	419.17	1 824	7.52	220.19	1 524
Total dividend attributable to perpetual preference shareholders recognised in current financial year	15.04	847.84	3 696	15.04	220.19	2 652

The directors have declared a final dividend in respect of the financial year ended 31 March 2013 of 7.47945 pence (Investec plc shares traded on the JSE Limited) and 7.47945 pence (Investec plc shares traded on the Channel Island Stock Exchange) and 402.64384 cents per perpetual preference share. The final dividend will be payable to shareholders on the register at the close of business on Friday, 14 June 2013.

For the year to 31 March	2013	2012
Dividend attributable to perpetual preferred securities	11 353	12 557

The €200 000 000 (2012: €200 000 000) fixed/floating rate guaranteed, non-voting, non-cumulative perpetual preferred securities paid dividends of 7.075% in both years as set out in note 45.

For the year to 31 March £'000	2013	2012
10. Operating lease income and expenses		
Operating lease expenses recognised in operating costs expenses:		
Minimum lease payments	17 052	14 645
Contingent rents	–	399
	17 052	15 044
Operating lease income recognised in income:		
Minimum lease payments	28 606	59 122
	28 606	59 122

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

Rental income from leases included in 'Other operating income', mainly comprises leases of motor vehicles. Rental income from leases included in 'Fee and commission income', mainly comprises leases of properties.

Notes to the annual financial statements (continued)

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

For the year to 31 March £'000	At fair value through profit or loss Trading	Designated at inception
2013		
Net interest income	(19 384)	18 454
Fee and commission income	50 003	785
Fee and commission expense	(84)	–
Investment income	–	52 119
Trading income arising from		
– customer flow	58 146	(53)
– balance sheet management and other trading activities	2 943	3 861
Other operating income	–	4 476
Total operating income before impairment losses on loans and advances	91 624	79 642
Impairment losses on loans and advances	–	–
Operating income	91 624	79 642
2012		
Net interest income	3 918	10 254
Fee and commission income	49 559	9 495
Fee and commission expense	(1 559)	(452)
Investment income	–	(539)
Trading income arising from		
– customer flow	56 575	(8 113)
– balance sheet management and other trading activities	8 306	330
Other operating income	–	–
Total operating income before impairment losses on loans and advances	116 799	10 975
Impairment losses on loans and advances	–	–
Operating income	116 799	10 975

Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non-financial instruments	Other fee income	Total
10 612	766 873	44 768	(471 324)	–	9 735	359 734
–	76 943	1 254	(50)	86	632 030	761 051
–	(6 400)	(433)	(7 793)	(269)	(116 717)	(131 696)
576	14 012	(1 355)	–	8 268	–	73 620
–	–	–	10	–	–	58 103
–	17 741	(926)	(3 500)	–	(744)	19 375
–	–	–	–	32 114	–	36 590
11 188	869 169	43 308	(482 657)	40 199	524 304	1 176 777
(5 347)	(183 689)	–	–	–	–	(189 036)
5 841	685 480	43 308	(482 657)	40 199	524 304	987 741
14 142	831 395	76 751	(593 808)	–	9 367	352 019
–	44 405	331	2 643	9 267	527 881	643 581
–	(5 725)	(431)	(3 077)	–	(106 938)	(118 182)
(1 013)	21 758	46 090	(1 408)	60 779	8 458	134 125
–	–	–	5 124	–	705	54 291
–	(4 899)	98	(612)	57	12 025	15 305
–	–	–	–	60 949	–	60 949
13 129	886 934	122 839	(591 138)	131 052	451 498	1 142 088
(10 495)	(244 959)	(337)	–	–	–	(255 791)
2 634	641 975	122 502	(591 138)	131 052	451 498	886 297

Notes to the annual financial statements (continued)

12. Analysis of financial assets and liabilities by category of financial instruments

At 31 March £'000	At fair value through profit or loss – Trading	At fair value through profit or loss – Designated at inception	Available-for-sale	Total instruments at fair value
2013				
Assets				
Cash and balances at central banks	–	–	–	–
Loans and advances to banks	–	108 954	–	108 954
Reverse repurchase agreements and cash collateral on securities borrowed	321 413	–	–	321 413
Sovereign debt securities	–	–	1 660 377	1 660 377
Bank debt securities	–	–	252 123	252 123
Other debt securities	1 973	87 458	101 999	191 430
Derivative financial instruments*	1 134 497	–	–	1 134 497
Securities arising from trading activities	673 763	–	–	673 763
Investment portfolio	–	312 061	76 564	388 625
Loans and advances to customers	–	82 501	–	82 501
Own originated loans and advances to customers securitised	–	–	–	–
Other loans and advances	–	4 612	–	4 612
Other securitised assets	–	500 492	–	500 492
Interests in associated undertakings	–	–	–	–
Deferred taxation assets	–	–	–	–
Other assets	430 249	47 698	–	477 947
Property and equipment	–	–	–	–
Investment properties	–	–	–	–
Goodwill	–	–	–	–
Intangible assets	–	–	–	–
	2 561 895	1 143 776	2 091 063	5 796 734
Liabilities				
Deposits by banks	–	–	–	–
Derivative financial instruments*	817 526	–	–	817 526
Other trading liabilities	372 762	–	–	372 762
Repurchase agreements and cash collateral on securities lent	350 308	–	–	350 308
Customer accounts (deposits)	1 411	–	–	1 411
Debt securities in issue	–	–	–	–
Liabilities arising on securitisation of own originated loans and advances	–	–	–	–
Liabilities arising on securitisation of other assets	–	385 154	–	385 154
Current taxation liabilities	–	–	–	–
Deferred taxation liabilities	–	–	–	–
Other liabilities	428 165	48 259	–	476 424
	1 970 172	433 413	–	2 403 585
Subordinated liabilities	–	–	–	–
	1 970 172	433 413	–	2 403 585

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

For more information on hedges, please refer to note 50 on pages 198 and 199.

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Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
–	1 375 670	–	1 375 670	–	1 375 670
–	1 209 278	–	1 209 278	–	1 318 232
–	1 207 180	–	1 207 180	–	1 528 593
–	–	–	–	–	1 660 377
–	203 078	–	203 078	–	455 201
7 516	–	–	7 516	–	198 946
–	–	–	–	–	1 134 497
–	–	–	–	–	673 763
–	–	–	–	–	388 625
90 054	7 586 365	–	7 676 419	–	7 758 920
–	491 194	–	491 194	–	491 194
217	2 077 252	–	2 077 469	–	2 082 081
–	2 268 634	–	2 268 634	–	2 769 126
–	–	–	–	24 707	24 707
–	–	–	–	126 822	126 822
–	601 649	–	601 649	301 774	1 381 370
–	–	–	–	80 429	80 429
–	–	–	–	11 500	11 500
–	–	–	–	456 646	456 646
–	–	–	–	172 131	172 131
97 787	17 020 300	–	17 118 087	1 174 009	24 088 830
–	–	1 710 630	1 710 630	–	1 710 630
–	–	–	–	–	817 526
–	–	–	–	–	372 762
–	–	592 088	592 088	–	942 396
–	–	11 260 343	11 260 343	–	11 261 754
–	–	1 762 338	1 762 338	–	1 762 338
–	–	477 870	477 870	–	477 870
–	–	1 810 301	1 810 301	–	2 195 455
–	–	–	–	87 291	87 291
–	–	–	–	77 851	77 851
–	–	542 143	542 143	356 892	1 375 459
–	–	18 155 713	18 155 713	522 034	21 081 332
–	–	747 245	747 245	–	747 245
–	–	18 902 958	18 902 958	522 034	21 828 577

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

At 31 March £'000	At fair value through profit or loss: Trading	At fair value through profit or loss: Designated at inception	Available-for-sale	Total instruments at fair value
2012				
Assets				
Cash and balances at central banks	–	–	–	–
Loans and advances to banks	7	114 484	–	114 491
Reverse repurchase agreements and cash collateral on securities borrowed	304 022	–	–	304 022
Sovereign debt securities	–	–	1 392 273	1 392 273
Bank debt securities	–	–	673 064	673 064
Other debt securities	20 578	53 619	125 966	200 163
Derivative financial instruments*	1 051 365	–	–	1 051 365
Securities arising from trading activities	372 570	–	–	372 570
Investment portfolio	–	245 340	74 771	320 111
Loans and advances to customers	–	17 760	–	17 760
Own originated loans and advances to customers securitised	–	–	–	–
Other loans and advances	–	175 523	–	175 523
Other securitised assets	–	65 569	–	65 569
Interests in associated undertakings	–	–	–	–
Deferred taxation assets	–	–	–	–
Other assets	473 938	16 495	16 259	506 692
Property and equipment	–	–	–	–
Investment properties	–	–	–	–
Goodwill	–	–	–	–
Intangible assets	–	–	–	–
	2 222 480	688 790	2 282 333	5 193 603
Liabilities				
Deposits by banks	–	–	–	–
Derivative financial instruments*	732 601	–	–	732 601
Other trading liabilities	271 627	–	–	271 627
Repurchase agreements and cash collateral on securities lent	271 721	–	–	271 721
Customer accounts (deposits)	–	–	–	–
Debt securities in issue	–	–	–	–
Liabilities arising on securitisation of own originated loans and advances	–	–	–	–
Liabilities arising on securitisation of other assets	–	–	–	–
Current taxation liabilities	–	–	–	–
Deferred taxation liabilities	–	–	–	–
Other liabilities	535 421	16 495		551 916
	1 811 370	16 495	–	1 827 865
Subordinated liabilities	–	–	–	–
	1 811 370	16 495	–	1 827 865

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

For more information on hedges, please refer to note 50 on pages 198 and 199.

Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
–	1 835 849	–	1 835 849	–	1 835 849
–	945 631	–	945 631	–	1 060 122
–	855 116	–	855 116	–	1 159 138
254 998	–	–	254 998	–	1 647 271
–	151 488	–	151 488	–	824 552
6 953	–	–	6 953	–	207 116
–	–	–	–	–	1 051 365
–	–	–	–	–	372 570
–	–	–	–	–	320 111
219 528	6 964 129	–	7 183 657	–	7 201 417
–	535 008	–	535 008	–	535 008
–	2 614 215	–	2 614 215	–	2 789 738
–	2 896 400	–	2 896 400	–	2 961 969
–	–	–	–	24 430	24 430
–	–	–	–	119 690	119 690
–	576 164	–	576 164	244 051	1 326 907
–	–	–	–	127 497	127 497
–	–	–	–	11 500	11 500
–	–	–	–	454 623	454 623
–	–	–	–	184 197	184 197
481 479	17 374 000	–	17 855 479	1 165 988	24 215 070
–	–	1 848 534	1 848 534	–	1 848 534
–	–	–	–	–	732 601
–	–	–	–	–	271 627
–	–	748 949	748 949	–	1 020 670
–	–	11 007 758	11 007 758	–	11 007 758
–	–	2 179 452	2 179 452	–	2 179 452
–	–	526 945	526 945	–	526 945
–	–	2 361 986	2 361 986	–	2 361 986
–	–	–	–	77 188	77 188
–	–	–	–	82 998	82 998
–	–	226 678	226 678	382 889	1 161 483
–	–	18 900 302	18 900 302	543 075	21 271 242
–	–	708 276	708 276	–	708 276
–	–	19 608 578	19 608 578	543 075	21 979 518

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13. Reclassifications of financial instruments

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

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

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

At 31 March £'000	2013 Carrying value	2013 Fair value	2012 Carrying value	2012 Fair value
Trading assets reclassified to loans and receivables	46 025	26 784	50 313	39 713

If the reclassifications had not been made, the group's income before tax in 2013 would have reduced by £8.6 million (2012: an increase of £11.7 million).

In the current year the reclassified assets have contributed a £372 000 loss through the margin line and a loss of £4.9 million through impairments before taxation. In the prior year, after reclassification, the assets contributed a £198 000 loss through the margin line and a loss of £1.4 million through impairments before taxation.

14. Fair value hierarchy

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

The fair value hierarchy has the following levels:

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

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

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

Notes to the annual financial statements (continued)

14. Fair value hierarchy (continued)

At 31 March £'000	Total instruments at fair value	Valuation technique applied Level 1	Level 2	Level 3
2013				
Assets				
Loans and advances to banks	108 954	108 954	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	321 413	–	321 413	–
Sovereign debt securities	1 660 377	1 365 463	294 914	–
Bank debt securities	252 123	72 095	180 028	–
Other debt securities	191 430	88 766	68 021	34 643
Derivative financial instruments	1 134 497	253 468	807 204	73 825
Securities arising from trading activities	673 763	651 768	21 995	–
Investment portfolio	388 625	59 153	100 580	228 892
Loans and advances to customers	82 501	–	18 221	64 280
Other loans and advances	4 612	–	–	4 612
Other securitised assets	500 492	–	–	500 492
Other assets	477 947	476 027	1 133	787
	5 796 734	3 075 694	1 813 509	907 531
Liabilities				
Derivative financial instruments	817 526	205 556	608 685	3 285
Other trading liabilities	372 762	372 762	–	–
Repurchase agreements and cash collateral on securities lent	350 308	–	350 308	–
Customer accounts (deposits)	1 411	–	1 411	–
Liabilities arising on securitisation of other assets	385 154	–	–	385 154
Other liabilities	476 424	474 058	–	2 366
	2 403 585	1 052 376	960 404	390 805
2012				
Assets				
Loans and advances to banks	114 491	114 241	250	–
Reverse repurchase agreements and cash collateral on securities borrowed	304 022	–	304 022	–
Sovereign debt securities	1 392 273	1 160 449	231 824	–
Bank debt securities	673 064	142 895	530 169	–
Other debt securities	200 163	22 772	121 178	56 213
Derivative financial instruments	1 051 365	203 825	809 298	38 242
Securities arising from trading activities	372 570	365 686	6 884	–
Investment portfolio	320 111	78 324	111 956	129 831
Loans and advances to customers	17 760	–	17 172	588
Other loans and advances	175 523	–	–	175 523
Other securitised assets	65 569	7 630	–	57 939
Other assets	506 692	498 314	8 378	–
	5 193 603	2 594 136	2 141 131	458 336
Liabilities				
Derivative financial instruments	732 601	257 858	474 743	–
Other trading liabilities	271 627	271 627	–	–
Repurchase agreements and cash collateral on securities lent	271 721	–	271 721	–
Other liabilities	551 916	468 162	83 754	–
	1 827 865	997 647	830 218	–

Transfers between level 1 and level 2

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

Notes to the annual financial statements (continued)

14. Fair value hierarchy (continued)

The following table shows a reconciliation from the opening balances to the closing balances for fair value measurements in level 3 of the fair value hierarchy:

At 31 March £'000	Total level 3 financial instruments	Fair value movements through income statement	Fair value movements through compre-hensive income
Balance as at 1 April 2011	420 578	352 559	68 019
Total losses	(34 995)	(33 748)	(1 247)
In the income statement	(34 930)	(33 748)	(1 182)
In the statement of comprehensive income	(65)	–	(65)
Purchases	158 465	156 541	1 924
Sales	(43 674)	(34 398)	(9 276)
Settlements	(16 933)	(16 933)	–
Transfers into level 3	21 426	21 426	–
Transfers out of level 3	(46 503)	–	(46 503)
Foreign exchange adjustments	(28)	230	(258)
Balance as at 31 March 2012	458 336	445 677	12 659
Total gains/(losses)	56 310	58 818	(2 508)
In the income statement	57 907	58 818	(911)
In the statement of comprehensive income	(1 597)	–	(1 597)
Purchases	113 486	62 967	50 519
Sales	(59 261)	(24 794)	(34 467)
Settlements	(2 780)	(2 780)	–
Transfers into level 3	130 749	130 173	576
Transfers out of level 3	(185 331)	(184 791)	(540)
Foreign exchange adjustments	5 217	2 532	2 685
Balance as at 31 March 2013	516 726	487 802	28 924

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

For the year to 31 March £'000	2013	2012
Total gains or losses included in the income statement for the year		
Net interest (expense)/income	(1 342)	4 803
Fee and commission income	5 196	1 628
Investment income/(loss)	54 763	(49 101)
Trading loss arising from customer flow	(561)	–
Trading (loss)/income arising from balance sheet management and other trading activities	(952)	7 740
Other operating income	803	–
	57 907	(34 930)

For the year ended 31 March 2013, instruments to the value of £185.3 million were transferred from level 3 into level 2. The valuation methodologies were reviewed and observable inputs are used to determine the fair value.

There were transfers from level 2 to the level 3 category to the value of £130.7 million because the underlying circumstances of the instrument changed and as a result, the significant valuation inputs became unobservable in the market.

For the year ended 31 March 2012, instruments were transferred out of level 3 to level 2 due to improved levels of observable inputs for valuation of these instruments. Instruments were transferred into level 3 when significant inputs to model valuations were no longer observable.

Notes to the annual financial statements (continued)

14. Fair value hierarchy (continued)

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

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

	Reflected in income statement		Reflected in other comprehensive income	
At 31 March £'000	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
2013				
Assets				
Other debt securities	1 318	1 048	–	–
Derivative financial instruments	37 683	3 543	–	–
Investment portfolio	36 341	15 523	7 011	2 887
Loans and advances to customers	948	9 351	–	–
Other securitised assets	17 552	10 883	–	–
Other assets	60	84	–	–
	93 902	40 432	7 011	2 887
Liabilities				
Derivative financial instruments	2 236	1 089	–	–
Liabilities arising on securitisation of other assets	(4 145)	(2 643)	–	–
Other liabilities	1 525	1 904	–	–
	(384)	350	–	–
2012				
Assets				
Other debt securities	2 041	2 138	2 306	2 467
Derivative financial instruments	58 849	23 558	1 569	1 659
Investment portfolio	62 109	1 396	–	–
Loans and advances to customers	1 211	294	–	–
Other loans and advances	3 953	1 024	–	–
Other securitised assets	23 703	13 811	–	–
	151 866	42 221	3 875	4 126

The above variations have been determined with reference to the key unobservable inputs which mainly relate to future cash flows and discount rates applied.

Notes to the annual financial statements (continued)

At 31 March £'000	2013 Carrying amount	2013 Fair value	2012 Carrying amount	2012 Fair value
15. Fair value of financial instruments at amortised cost				
Assets				
Cash and balances at central banks	1 375 670	1 375 670	1 835 849	1 835 849
Loans and advances to banks	1 209 278	1 209 278	945 631	945 631
Reverse repurchase agreements and cash collateral on securities borrowed	1 207 180	1 207 180	855 116	855 116
Sovereign debt securities	–	–	254 998	254 998
Bank debt securities	203 078	213 252	151 488	146 861
Other debt securities	7 516	7 516	6 953	6 953
Loans and advances to customers	7 676 419	7 669 726	7 183 657	7 144 669
Own originated loans and advances to customers securitised	491 194	501 596	535 008	535 108
Other loans and advances	2 077 469	2 000 537	2 614 215	2 602 699
Other securitised assets	2 268 634	2 228 494	2 896 400	2 896 400
Other assets	601 649	596 199	576 164	592 472
	17 118 087	17 009 448	17 855 479	17 816 756
Liabilities				
Deposits by banks	1 710 630	1 708 078	1 848 534	1 832 265
Repurchase agreements and cash collateral on securities lent	592 088	592 088	748 949	748 949
Customer accounts (deposits)	11 260 343	11 252 310	11 007 758	10 995 495
Debt securities in issue	1 762 338	1 754 393	2 179 452	2 183 299
Liabilities arising on securitisation of own originated loans and advances	477 870	477 870	526 945	526 945
Liabilities arising on securitisation of other assets	1 810 301	1 491 601	2 361 986	2 361 986
Other liabilities	542 143	542 721	226 678	225 675
Subordinated liabilities	747 245	800 286	708 276	674 494
	18 902 958	18 619 347	19 608 578	19 549 108

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

Financial instruments for which fair value approximates carrying value

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

Fixed rate financial instruments

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

Notes to the annual financial statements (continued)

At 31 March £'000	Carrying value	Fair value adjustment Year to date	Fair value adjustment Cumulative	Change in fair value attributable to credit risk Year to date	Change in fair value attributable to credit risk Cumulative	Maximum exposure to credit risk
16. Designated at fair value: loans and receivables and financial liabilities						
Loans and receivables						
2013						
Loans and advances to banks	108 954	–	–	–	–	108 954
Other debt securities	16 052	–	16 052	–	–	16 052
Loans and advances to customers	82 501	3 111	20 455	–	–	82 501
Other loans and advances	4 612	–	–	–	–	4 612
Other securitised assets	500 492	(72 064)	(47 114)	(45 270)	(64 120)	500 492
Other assets	1 805	787	787	–	–	1 805
	714 416	(68 166)	(9 820)	(45 270)	(64 120)	714 416
2012						
Loans and advances to banks	114 484	–	–	–	–	114 484
Loans and advances to customers	17 760	12 765	17 173	–	–	17 760
Other loans and advances	175 523	(885)	10 147	(257)	(2 402)	175 523
Other securitised assets	22 369	3 186	22 369	(10 250)	(19 511)	22 369
	330 136	15 066	49 689	(10 507)	(21 913)	330 136

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

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

Year to date and cumulative changes in fair value of financial liabilities attributable to credit risk were (£2.3) million (2012: £nil).

As at 31 March £'000	2013	2012
17. Cash and balances at central banks		
The country risk of cash and balances at central banks lies in the following geographies:		
United Kingdom	1 219 563	1 640 388
Europe (excluding UK)	8 827	15 436
Australia and Other	147 280	180 025
Total	1 375 670	1 835 849

Notes to the annual financial statements (continued)

At 31 March £'000	2013	2012
18. Loans and advances to banks		
The country risk of loans and advances to banks lies in the following geographies:		
South Africa	3 645	6 798
United Kingdom	785 977	715 577
Europe (excluding UK)	376 668	203 674
Australia	81 805	72 197
United States of America	44 357	33 312
Other	25 780	28 564
	1 318 232	1 060 122

At 31 March £'000	2013	2012
19. Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent		
Assets		
Reverse repurchase agreements	1 390 488	1 133 046
Cash collateral on securities borrowed	138 105	26 092
	1 528 593	1 159 138
As part of the reverse repurchase and securities borrowing agreements the group has received securities that it is allowed to sell or re-pledge. £392 million (2012: £407 million) has been re-sold or re-pledged to third parties in connection with financing activities or to comply with commitments under short sale transactions.		
Liabilities		
Repurchase agreements	841 798	969 287
Cash collateral on securities lent	100 598	51 383
	942 396	1 020 670

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

At 31 March £'000	Group 2013	 2012
20. Sovereign debt securities		
Bonds	595 872	703 089
Commercial paper	20 462	218 292
Treasury bills	871 525	725 890
Floating rate notes	172 518	–
	1 660 377	1 647 271
The country risk of the above assets lies in the following geographies:		–
United Kingdom	1 131 343	611 405
Europe (excluding UK)*	234 120	522 698
Australia	294 914	231 824
United States of America	–	281 344
	1 660 377	1 647 271

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

Notes to the annual financial statements (continued)

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

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

At 31 March £'000	2013	2012
22. Other debt securities		
Bonds	31 535	58 083
Floating rate notes	31 240	131 511
Asset backed securites	86 811	–
Residual notes	46 136	4 027
Other investments	3 224	13 495
	198 946	207 116
The country risk of other debt securities lies in the following geographies:		
United Kingdom	101 762	60 614
Europe (excluding UK)	58 428	50 319
Australia	22 704	81 860
United States of America	16 052	13 607
Other	–	716
	198 946	207 116

23. Derivative financial instruments

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

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

Notes to the annual financial statements (continued)

At 31 March £'000	2013 Notional principal amounts	2013 Positive fair value	2013 Negative fair value	2012 Notional principal amounts^	2012 Positive fair value	2012 Negative fair value
23. Derivative financial instruments (continued)						
Foreign exchange derivatives						
Forward foreign exchange contracts	4 169 616	28 345	29 777	3 153 836	16 264	10 500
Currency swaps	7 766 032	291 634	134 708	7 215 143	334 649	60 843
OTC options bought and sold	2 206 190	19 804	18 764	2 483 795	23 493	19 831
Other foreign exchange contracts	135 457	33	2 534	189 776	484	2 333
OTC derivatives	14 277 295	339 816	185 783	13 042 550	374 890	93 507
Interest rate derivatives						
Caps and floors	764 691	5 566	3 307	1 036 389	3 284	4 460
Swaps	17 999 114	279 616	188 061	14 836 301	263 515	178 693
Forward rate agreements	360 323	30	66	206 367	–	40
OTC options bought and sold	–	–	–	250 000	419	–
Other interest rate contracts	692 291	6	–	786 433	–	208
OTC derivatives	19 816 419	285 218	191 434	17 115 490	267 218	183 401
Exchange traded futures	48 681	–	233	398 138		494
	19 865 100	285 218	191 667	17 513 628	267 218	183 895
Equity and stock index derivatives						
OTC options bought and sold	2 343 310	37 332	78 433	1 794 943	9 892	43 368
Equity swaps and forwards	193 194	7 128	17 103	61 902	694	725
OTC derivatives	2 536 504	44 460	95 536	1 856 845	10 586	44 093
Exchange traded futures	1 638 550	71 047	4 683	1 357 069	20 869	26 210
Exchange traded options	5 446 811	147 079	171 468	4 056 932	154 447	211 481
Warrants	6 578	34	–	3 759	2 245	–
	9 628 443	262 620	271 687	7 274 605	188 147	281 784
Commodity derivatives						
OTC options bought and sold	41 347	3 056	1 975	23 413	1 485	101
Commodity swaps and forwards	586 580	163 239	162 687	529 620	170 389	169 325
OTC derivatives	627 927	166 295	164 662	553 033	171 874	169 426
Credit derivatives	200 075	8 361	3 727	289 119	13 257	3 989
Embedded derivatives*		72 187	–		35 979	–
Derivatives per balance sheet		1 134 497	817 526		1 051 365	732 601

^ *For certain derivative products the method of calculation of the notional principal amount has been changed during the year. Prior year values have been adjusted to aid comparison.*

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

Notes to the annual financial statements (continued)

At 31 March

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

At 31 March

£'000	2013	2012
25. Investment portfolio		
Listed equities	53 225	34 824
Unlisted equities*	335 400	285 287
	388 625	320 111

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

At 31 March

£'000	2013	2012
26. Loans and advances to customers and other loans and advances		
Gross loans and advances to customers	7 951 550	7 364 466
Impairments of loans and advances to customers	(192 630)	(163 049)
Net loans and advances to customers	7 758 920	7 201 417
Gross other loans and advances to customers	2 265 391	2 951 514
Impairments of other loans and advances to customers	(183 310)	(161 776)
Net other loans and advances to customers	2 082 081	2 789 738

For further analysis on loans and advances refer to pages 55 to 65 in the risk management section.

Notes to the annual financial statements (continued)

At 31 March £'000	2013	2012
26. Loans and advances to customers and other loans and advances (continued)		
Specific and portfolio impairments		
Reconciliation of movements in specific and portfolio impairments		
Loans and advances to customers		
Specific impairment		
Balance at beginning of year	160 236	182 225
Charge to the income statement	111 210	148 027
Reversals and recoveries recognised in the income statement	(23 722)	–
Utilised	(60 858)	(80 812)
Disposals	–	(83 596)
Exchange adjustment	(513)	(5 608)
Balance at end of year	186 353	160 236
Portfolio impairment		
Balance at beginning of year	2 813	1 518
Charge to the income statement	3 352	(380)
Exchange adjustment	112	1 675
Balance at end of year	6 277	2 813
Other loans and advances		
Specific impairment		
Balance at beginning of year	66 362	46 225
Charge to the income statement	38 528	41 760
Utilised	(23 689)	(18 919)
Exchange adjustment	(4 755)	(2 704)
Balance at end of year	76 446	66 362
Portfolio impairment		
Balance at beginning of year	95 414	68 578
Charge to the income statement	11 456	32 305
Transfer to securitised assets	(918)	–
Exchange adjustment	912	(5 469)
Balance at end of year	106 864	95 414
Total specific impairments	262 799	226 598
Total portfolio impairments	113 141	98 227
Total impairments	375 940	324 825
Interest income recognised on loans that have been impaired	37 465	38 263

Notes to the annual financial statements (continued)

At 31 March £'000	2013	2012
26. Loans and advances to customers and other loans and advances (continued)		
Reconciliation of income statement charge:		
Loans and advances to customers	90 840	147 647
Specific impairment charged to income statement	87 488	148 027
Portfolio impairment charged to income statement	3 352	(380)
Securitised assets (refer to note 27)	48 212	34 079
Specific impairment charged to income statement	31 276	23 538
Portfolio impairment charged to income statement	16 936	10 541
Other loans and advances	49 984	74 065
Specific impairment charged to income statement	38 528	41 760
Portfolio impairment charged to income statement	11 456	32 305
Total income statement charge	189 036	255 791

At 31 March £'000	2013	2012
27. Securitised assets and liabilities arising on securitisation		
Gross own originated loans and advances to customers securitised	491 753	536 297
Impairments of own originated loans and advances to customers securitised	(559)	(1 289)
Net own originated loans and advances to customers securitised	491 194	535 008
Other securitised assets are made up of the following categories of assets:		
Other securitised assets		
Cash and cash equivalents	39 269	30 068
Loans and advances to customers	685 586	610 188
Kensington securitised assets	2 001 712	2 321 713
Other debt securities	42 559	–
Total other securitised assets	2 769 126	2 961 969
The associated liabilities are recorded on balance sheet in the following line items:		
Liabilities arising on securitisation of own originated loans and advances	(477 870)	(526 945)
Liabilities arising on securitisation of other assets	(2 195 455)	(2 361 986)

Notes to the annual financial statements (continued)

At 31 March £'000	2013	2012
27. Securitised assets and liabilities arising on securitisation (continued)		
Specific and portfolio impairments		
Reconciliation of movements in group specific and portfolio impairments of assets that have been securitised:		
Specific impairment		
Balance at beginning of year	(2 427)	15 625
Charge to the income statement	31 276	23 538
Utilised	(31 562)	(28 809)
Disposals	–	(13 031)
Exchange adjustment	292	250
Balance at end of year	(2 421)	(2 427)
Own originated loans and advances to customers securitised	140	892
Kensington loans and advances securitised	(2 561)	(3 319)
Portfolio impairment		
Balance at beginning of year	27 279	33 224
Charge to the income statement	16 936	10 541
Transfer from other loans and advance	918	–
Disposals	(116)	(16 843)
Exchange adjustment	21	357
Balance at end of year	45 038	27 279
Own originated loans and advances to customers securitised	419	397
Kensington loans and advances securitised	44 619	26 882
Total portfolio and specific impairments on balance sheet	42 617	24 852

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Notes to the annual financial statements (continued)

At 31 March £'000	2013	2012
28. Interests in associated undertakings		
Interests in associated undertakings consist of:		
Net asset value	17 666	17 375
Goodwill	7 041	7 055
Investment in associated undertakings	24 707	24 430
Analysis of the movement in our share of net assets:		
At beginning of year	17 375	12 284
Exchange adjustments	697	22
Disposals	(3 323)	(267)
Acquisitions	–	3 953
Operating income from associates (included in other operating income)	3 476	1 678
Dividends received	(559)	(295)
At end of year	17 666	17 375
Analysis of the movement in goodwill:		
At beginning of year	7 055	6 717
Exchange adjustments	(14)	(1)
Acquisitions	–	339
At end of year	7 041	7 055
Associated undertakings:		
Unlisted	24 707	24 430
	24 707	24 430

At 31 March £'000	2013	2012
29. Deferred taxation		
Deferred taxation assets	126 822	119 690
Deferred taxation liabilities	(77 851)	(82 998)
Net deferred taxation assets/(liabilities)	48 971	36 692
The net deferred taxation assets/(liabilities) arise from:		
Deferred capital allowances	23 803	20 240
Income and expenditure accruals	2 649	(9 494)
Asset in respect of unexpired options	31 873	40 033
Unrealised fair value adjustments on financial instruments	1 920	3 673
Losses carried forward	45 741	43 875
Liability in respect of pension surplus	(5 440)	(6 150)
Deferred tax on acquired intangibles	(35 251)	(40 656)
Debt buy-back	(19 210)	–
Other temporary differences	2 886	(14 829)
Net deferred taxation assets/(liabilities)	48 971	36 692
Reconciliation of net deferred taxation assets/(liabilities):		
At beginning of year	36 692	3 821
Charge to income statement – current year taxation	6 259	36 831
Credit directly in other comprehensive income	772	2 179
Acquisitions	–	(3 173)
Other	1 880	(2 966)
Exchange adjustments	3 368	–
At year end	48 971	36 692

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

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

At 31 March £'000	2013	2012
30. Other assets		
Settlement debtors	930 534	955 497
Dealing properties	119 539	90 529
Accruals and prepayments	82 762	78 486
Pension assets (refer to note 39)	28 083	25 625
Trading initial margin	60 650	57 952
Other debtors	159 802	118 818
	1 381 370	1 326 907

Notes to the annual financial statements (continued)

At 31 March £'000	Freehold properties	Leasehold improve-ments	Furniture and vehicles	Equipment	Operating leases*	Total
31. Property and equipment						
2013						
Cost						
At beginning of year	3 316	55 764	15 789	30 199	104 675	209 743
Exchange adjustments	339	697	147	204	–	1 387
Acquisition of subsidiary undertakings	–	–	423	742	–	1 165
Additions	–	4 404	1 268	4 901	9 338	19 911
Disposals	(934)	(2 302)	(1 166)	(7 158)	(50 766)	(62 326)
At end of year	2 721	58 563	16 461	28 888	63 247	169 880
Accumulated depreciation						
At beginning of year	(174)	(19 488)	(8 971)	(21 024)	(32 589)	(82 246)
Exchange adjustments	(15)	(226)	(130)	(150)	–	(521)
Disposals	99	905	1 017	3 528	15 868	21 417
Depreciation charge for year	(286)	(5 009)	(2 558)	(4 176)	(16 072)	(28 101)
At end of year	(376)	(23 818)	(10 642)	(21 822)	(32 793)	(89 451)
Net carrying value	2 345	34 745	5 819	7 066	30 454	80 429
2012						
Cost						
At beginning of year	7 058	43 668	16 480	27 691	210 342	305 239
Exchange adjustments	12	(75)	113	(153)	–	(103)
Acquisition of subsidiary undertakings	–	–	1 246	1 888	–	3 134
Additions	–	18 724	2 435	2 479	38 852	62 490
Disposals	(3 754)	(6 553)	(4 485)	(1 706)	(144 519)	(161 017)
At end of year	3 316	55 764	15 789	30 199	104 675	209 743
Accumulated depreciation						
At beginning of year	(36)	(21 253)	(9 765)	(21 532)	(15 815)	(68 401)
Exchange adjustments	–	57	(11)	147	–	193
Disposals	–	5 603	3 152	3 746	11 770	24 271
Depreciation charge for year	(138)	(3 895)	(2 347)	(3 385)	(28 544)	(38 309)
At end of year	(174)	(19 488)	(8 971)	(21 024)	(32 589)	(82 246)
Net carrying value	3 142	36 276	6 818	9 175	72 086	127 497

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

On 3 December 2010 the group acquired a portfolio of operating leased assets comprising motor vehicles. The operating lease income from this portfolio has been included in other operating income (note 5) and the depreciation of these operating leased assets has been shown separately on the face of the income statement.

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

Investment properties are carried at fair value.

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

Notes to the annual financial statements (continued)

At 31 March £'000	2013	2012
33. Goodwill		
Cost		
At beginning of year	581 813	543 564
Acquisition of subsidiaries	12 159	38 287
Written off	(32 649)	–
Exchange adjustments	3 071	(38)
At end of year	564 394	581 813
Accumulated impairments		
At beginning of year	(127 190)	(105 611)
Income statement amount	(13 409)	(21 510)
Written off	32 649	–
Exchange adjustments	202	(69)
At end of year	(107 748)	(127 190)
Net carrying value	456 646	454 623
Analysis of goodwill by line of business and geography		
UK and Other		
Asset Management	88 045	88 045
Wealth & Investment	243 102	233 120
Specialist Banking	75 242	88 671
	406 389	409 836
Australia		
Specialist Banking	50 257	44 787
Total group	456 646	454 623

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

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

Discount rates are 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 the most recent financial budgets for the next financial year and are extrapolated for a period of three to five years, adjusted for expected future events.

The three most significant cash-generating units giving rise to goodwill are Investec Asset Management, Kensington and Investec Wealth & Investment (IWI) which now includes the business of Williams de Broë (acquired in 2012 as part of the Evolution Group (EVG)) which was merged with IWI in August 2012.

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

For Investec Asset Management, the value placed on the business in the sale of 15% of the company to management comfortably supports the value of the goodwill of £88 million.

Goodwill of £121.1 million arising on the acquisition of Kensington on 7 August 2008 was written down by £60.0 million at 31 March 2008 and by a further £21.5 million in the year ended 31 March 2012 to £39.7 million.

The remaining goodwill has been tested for impairment on the basis of the existing book, assuming no new mortgage origination and no recovery in securitisation markets. Cash flows have been projected for a seven year period using the latest available information on debts and expected repayments discounted at 16.1% (2012: 14.9%). On this basis goodwill is above book value. Future impairment of this goodwill will be largely dependent on the level of impairment of the underlying mortgage assets. On this basis and based on the sensitivity analysis performed by management, goodwill is above book value.

33. Goodwill (continued)

Movement in goodwill

2013

Goodwill arising from acquisitions in 2013 (as detailed in note 35):

- Neontar Limited – £6.4 million
- Investec Asset Finance & Leasing (Pty) Ltd – £2.6 million
- EVG – £3.2 million

2012

Goodwill arising from acquisitions in 2012 (as detailed in note 35):

- EVG – £36.0 million
- Investec Capital Asia Limited – £2.3 million

34. Intangible assets

At 31 March £'000	Acquired software	Intellectual property	Management contracts	Client relationships	Total
2013					
Cost					
At beginning of year	52 265	3 376	–	181 827	237 468
Exchange adjustments	519	200	61	234	1 014
Acquisition of a subsidiary undertaking	–	–	822	3 192	4 014
Additions	1 874	205	–	–	2 079
Disposals	(6 173)	(255)	–	–	(6 428)
At end of year	48 485	3 526	883	185 253	238 147
Accumulated amortisation impairments					
At beginning of the year	(37 520)	(298)	–	(15 453)	(53 271)
Exchange adjustments	(359)	(30)	–	200	(189)
Disposals	6 507	–	–	–	6 507
Amortisation	(5 750)	–	(79)	(13 234)	(19 063)
At end of year	(37 122)	(328)	(79)	(28 487)	(66 016)
Net carrying value	11 363	3 198	804	156 766	172 131
2012					
Cost					
At beginning of year	49 866	1 245	–	113 100	164 211
Exchange adjustments	30	5	–	23	58
Acquisition of a subsidiary undertaking	242	–	–	68 688	68 930
Additions	2 127	2 126	–	16	4 269
At end of year	52 265	3 376	–	181 827	237 468
Accumulated amortisation and impairments					
At beginning of year	(31 743)	(296)	–	(5 932)	(37 971)
Exchange adjustments	234	(2)	–	9	241
Amortisation	(6 011)	–	–	(9 530)	(15 541)
At end of year	(37 520)	(298)	–	(15 453)	(53 271)
Net carrying value	14 745	3 078	–	166 374	184 197

Client relationships all relate to the acquisitions of Rensburg Sheppards plc in June 2012, EVG in December 2011, Investec Capital Asia Limited in April 2011 and NCB Group in June 2012.

35. Acquisitions and disposals

2013

Acquisitions

On 11 June 2012 Investec plc acquired the entire issued share capital of Neontar Limited (parent of the NCB group (NCB)). The assets and liabilities at the date of acquisition, goodwil arising and total consideration paid are shown below:

	Book value of assets and liabilities			Fair value of assets and liabilities		
£'000	NCB	Other	Total	NCB	Other	Total
Loans and advances to banks	10 277	–	10 277	10 277	–	10 277
Trading securities	789	–	789	789	–	789
Investment securities	6 548	–	6 548	6 548	–	6 548
Deferred taxation assets	69	–	69	679	–	679
Other assets	51 393	–	51 393	50 513	1 009	51 522
Property and equipment	1 165	–	1 165	1 165	–	1 165
Intangible assets	–	–	–	4 014	–	4 014
Goodwill*	–	–	–	6 350	5 809	12 159
	70 241	–	70 241	80 335	6 818	87 153
Current taxation liabilities	74	–	74	74	–	74
Deferred taxation liabilities	–	–	–	502	–	502
Other trading liabilities	278	–	278	278	–	278
Other liabilities	45 366	–	45 366	50 981	4 207	55 188
	45 718	–	45 718	51 835	4 207	56 042
Net assets/fair value of net assets acquired	24 523	–	24 523	28 500	2 611	31 111
Fair value of cash consideration				28 500	2 611	31 111
				28 500	2 611	31 111
Loans and advances to banks at acquisition						10 277
Fair value of cash consideration						(31 111)
Net cash outflow						(20 834)

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

For the post-acquisition period 12 June 2012 to 31 March 2013, the operating income of NCB totalled £12.705 million and losses before taxation totalled £2.609 million.

The group's operating income before impairment losses on loans and advances of Investec would have been £1 179.183 million and the group's operating profit would have totalled £82.676 million, if the acquisition of NCB had been on 1 April 2012 as opposed to 11 June 2012.

Disposals

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

2012

Acquisitions

Acquisition of Evolution Group

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

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

Acquisition of Access Capital Limited

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

Notes to the annual financial statements (continued)

35. Acquisitions and disposals (continued)

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

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

* *The goodwill arising from the acquisition of EVG consists largely of the benefits expected to arise from the enhancement of the group's wealth and investment offering through the combination of EVG's subsidiary, Williams de Broë, with the group's existing wealth and investment business. In the case of ICAL, the goodwill represents the benefits expected to arise from extending the group's investment banking capability to the Hong Kong market. None of the goodwill arising during the year is expected to be deductible for tax purposes.*

For the post-acquisition period 23 December 2011 to 31 March 2012, the operating income of EVG totalled £20.732 million and losses before taxation, including integration costs, totalled £21.916 million.

The operating income before impairment losses on loans and advances of Investec would have been £2 000.551 million and operating profit would have totalled £283.989 million, if the acquisition of EVG had been on 1 April 2011 as opposed to 22 December 2011. £17.117 million of costs arising from the integration of the acquired subsidiaries and £5.342 million of the direct costs associated to the acquisition have been expensed in the income statement.

Disposals

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

Notes to the annual financial statements (continued)

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

At 31 March £'000	2013	2012
37. Debt securities in issue		
Bonds and medium-term notes repayable*:		
Less than three months	33 765	224 361
Three months to one year	72 053	56 098
One year to five years	92 029	123 156
Greater than five years	5 638	–
	203 485	403 615
Other unlisted debt securities in issue repayable*:		
Less than three months	93 749	333 092
Three months to one year	183 750	8 494
One year to five years	964 741	1 127 243
Greater than five years	316 613	307 008
	1 558 853	1 775 837
	1 762 338	2 179 452

* *The 2012 disclosures have been restated to correctly reflect the split between bonds and medium-term notes repayable (reflected as £nil in the 2012 financial statements) and other unlisted debt securities in issue (reflected as £2179.452 million in the 2012 financial statements). The total debt securities in issue were unchanged.*

At 31 March £'000	2013	2012
38. Other liabilities		
Settlement liabilities	911 512	768 887
Other creditors and accruals	304 865	254 909
Other non-interest bearing liabilities	159 082	137 687
	1 375 459	1 161 483

Notes to the annual financial statements (continued)

At 31 March £'000	2013	2012
39. Pension commitments		
Income statement charge		
Defined benefit obligations net income included in net interest income	(60)	(685)
Cost of defined contribution schemes included in staff costs	20 507	18 829
Net income statement charge in respect of pensions	20 447	18 144

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

	2013	2012
The major assumptions used were:		
Discount rate	4.40%	4.70%
Rate of increase in salaries	3.40%	3.30%
Rate of increase for pensions in payment	1.8% – 3.3%	2.1% – 3.2%
Inflation (RPI)	3.30%	3.30%
Inflation (CPI)	2.40%	2.30%

Demographic assumptions

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

	Years	Years
Male aged 65	87.6	87.4
Female aged 65	89.6	89.5
Male aged 45	89.5	89.3
Female aged 45	91.0	90.0

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

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

Notes to the annual financial statements (continued)

39. Pension commitments
(continued)

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

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

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

Notes to the annual financial statements (continued)

39. Pension commitments (continued)

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

At 31 March £'000	2013	2012	2011	2010	2009
History of experience gains and losses					
GM scheme					
Defined benefit obligation	(115 643)	(100 743)	(91 552)	(102 018)	(79 586)
Plan assets	137 503	126 365	110 559	104 587	89 912
Surplus	21 860	25 622	19 007	2 569	10 326
Experience adjustments on plan liabilities	(15 881)	(8 843)	11 334	(18 585)	1 791
Experience adjustments on plan assets	8 592	11 478	1 178	7 794	(12 838)
IAM scheme					
Defined benefit obligation	(15 721)	(14 324)	(13 487)	(12 881)	(8 907)
Plan assets	21 944	14 327	12 279	11 596	7 695
Surplus/(deficit)	6 223	3	(1 208)	(1 285)	(1 212)
Experience adjustments on plan liabilities	(1 403)	(1 537)	1 145	(3 574)	518
Experience adjustments on plan assets	534	(801)	341	3 004	(2 953)

40. Subordinated liabilities

At 31 March £'000	2013	2012
Issued by Investec Finance plc		
Guaranteed subordinated step-up notes	33 979	33 979
Guaranteed undated subordinated callable step-up notes	18 990	19 230
Issued by Investec Bank plc		
Subordinated fixed rate medium-term notes	577 470	576 826
Issued by Investec Australia Limited		
Subordinated floating rate medium-term notes	45 633	7 057
Issued by Kensington Group plc		
Callable subordinated notes	71 173	71 184
	747 245	708 276
Remaining maturity:		
In more than two years, but not more than five years	124 142	124 393
In more than five years	623 103	583 883
	747 245	708 276

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

Notes to the annual financial statements (continued)

40. Subordinated liabilities (continued)

Guaranteed subordinated step-up notes

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

Guaranteed undated subordinated callable step-up notes

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

Medium-term notes

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

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

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

A$16 150 000 of floating rate medium-term notes (MTN) issued on 12 February 2010 at Australian three-month bank bills swap rate (BBSW) plus 5%. The maturity date is 12 February 2020. Interest is payable quarterly up to and excluding the early redemption date 12 February 2015. After this date, if the issuer's call is not exercised, the interest will be the aggregate of three-month BBSW plus 7.5% payable quarterly in arrears.

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

Callable subordinated notes

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

At 31 March	2013	2012

41. Ordinary share capital

Investec plc

Issued, allotted and fully paid

Number of ordinary shares	Number	Number
At beginning of year	598 339 612	537 176 089
Issued during the year	6 857 159	61 163 523
At end of year	605 196 771	598 339 612

Nominal value of ordinary shares	£'000	£'000
At beginning of year	120	108
Issued during the year	1	12
At end of year	121	120

Number of special converting shares	Number	Number
At beginning of year	276 020 221	272 836 668
Issued during the year	3 618 943	3 183 553
At end of year	279 639 164	276 020 221

Nominal value of special converting shares	£'000	£'000
At beginning of year	55	54
Issued during the year	1	1
At end of year	56	55

Number of UK DAN shares	Number	Number
At beginning and end of year	1	1

Nominal value of UK DAN share	£'000	£'000
At beginning and end of year	*	*

Number of UK DAS shares	Number	Number
At beginning and end of year	1	1

Nominal value of UK DAS share	£'000	£'000
At beginning and end of year	*	*

Number of special voting shares	Number	Number
At beginning and end of year	1	1

Nominal value of special voting share	£'000	£'000
At beginning and end of year	*	*

* *Less than £1 000.*

Notes to the annual financial statements (continued)

41. Ordinary share capital (continued)

Staff share scheme

The group operates a share option and a long term incentive plan for employees. The number of ordinary shares conditionally allocated to employees are disclosed in note 7.

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

For the year to 31 March	Number 2013	Number 2012
Opening balance	46 076 830	45 033 517
Issued during the year	12 112 551	8 776 990
Exercised	(5 333 003)	(5 733 448)
Lapsed	(2 342 024)	(2 000 229)
Closing balance	50 514 354	46 076 830

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

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

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

After the initial allocation referred to above, additional allocations are made to staff members at the discretion of group management and depending on the individual performance and contribution made by the respective staff members.

Notes to the annual financial statements (continued)

At 31 March £'000	2013	2012
42. Perpetual preference shares of holding company		
Perpetual preference share capital	151	151
Perpetual preference share premium (refer to note 43)	149 449	149 449
	149 600	149 600
Issued by Investec plc		
9 381 149 (2012: 9 381 149) non-redeemable, non-cumulative, non-participating preference shares of £0.01 each, issued at a premium of £8.58 per share:		
– preference share capital	94	94
– preference share premium	79 490	79 490
5 700 000 (2012: 5 700 000) non-redeemable, non-cumulative, non-participating preference shares of £0.01 each, issued at a premium of £8.86 per share:		
– Preference share capital	57	57
– Preference share premium	49 917	49 917
Preference shareholders will receive an annual dividend if declared based on the coupon rate (being equivalent to the base rate plus 1%) multiplied by the deemed value on a daily basis and payable in two semi-annual instalments.		
An ordinary dividend will not be declared by Investec plc unless the preference dividend has been declared.		
If declared, preference dividends are payable semi–annually at least seven business days prior to the date on which Investec plc pays its ordinary dividends, if any, but shall be payable no later than 120 business days after 31 March and 30 September respectively.		
Issued by Investec plc – Rand denominated		
1 859 900 (2012: 1 859 900) non-redeemable, non-cumulative, non-participating perpetual preference shares of ZAR0.001 each, issued at a premium of ZAR99.999 per share on 29 June 2011:		
– preference share capital	*	*
– preference share premium	16 601	16 601
416 040 (2012: 416 040) non-redeemable, non-cumulative, non-participating perpetual preference shares of ZAR0.001 each, issued at a premium of ZAR99.999 per share on 11 August 2011:		
– preference share capital	*	*
– preference share premium	3 441	3 441
Rand denominated preference shareholders will receive a dividend if declared based on the coupon rate (being equivalent to South African prime rate multiplied by 95%) multiplied by the deemed value on a daily basis and payable in two semi-annual instalments.		
An ordinary dividend will not be declared by Investec plc unless the Rand preference dividend has been declared.		
If declared, Rand preference dividends are payable semi-annually at least seven business days prior to the date on which Investec pays its ordinary dividends, if any, but shall be payable no later than 120 business days after 31 March and 30 September respectively.		
	149 600	149 600

* *Less than £1 000.*

Notes to the annual financial statements (continued)

At 31 March £'000	2013	2012
43. Share premium		
Share premium account Investec plc	980 761	958 202
Perpetual preference share premium	149 449	149 449
	1 130 210	1 107 651

At 31 March	2013	2012
44. Treasury shares		
	£'000	£'000
Investec plc ordinary shares	41 768	27 854
Premium paid on options to acquire Investec plc shares	10 330	14 087
Treasury shares held by subsidiaries of Investec plc	52 098	41 941
	Number	Number
Investec plc shares held by subsidiaries	11 079 853	7 810 932
Reconciliation of treasury shares	Number	Number
At beginning of year	7 810 932	2 214 134
Purchase of own shares by subsidiary companies	8 905 711	13 834 740
Shares disposed of by subsidiaries	(5 636 790)	(8 237 942)
At end of year	11 079 853	7 810 932
Market value of treasury shares:	£'000	£'000
Investec plc	50 857	29 838
	50 857	29 838

Notes to the annual financial statements (continued)

At 31 March £'000	2013	2012
45. Non-controlling interests		
Non-controlling interests in partially held subsidiaries	(4 552)	(2 350)
Perpetual preferred securities issued by subsidiaries	169 106	166 762
	164 554	164 412
Perpetual preferred securities issued by subsidiaries		
Issued by Investec plc subsidiaries	169 106	166 762
€200 000 000 (2012: €200 000 000) fixed/floating rate guaranteed non-voting non-cumulative perpetual preferred securities (preferred securities) were issued by Investec Tier 1 (UK) LP (a limited partnership organised under the laws of England and Wales) on 24 June 2005. The preferred securities which are guaranteed by Investec plc are callable at the option of the issuer subject to the approval of the Financial Services Authority on the tenth anniversary of the issue and if not called are subject to a step-up in coupon of one and a half times the initial credit spread above the three-month euro-zone interbank offered rate. Until the tenth anniversary of the issue the dividend on the preferred securities will be at 7.075%.		
The issuer has the option not to pay a distribution when it falls due but this would then prevent the payment of ordinary dividends by the company.		
Under the terms of the issue there are provisions for the preferred securities to be substituted for preference shares issued by the company if Investec plc's capital ratios fall below the minimum level permitted by the regulator.		
	169 106	166 762

At 31 March £'000	2013 Total future minimum payments	2013 Present value	2012 Total future minimum payments	2012 Present value
46. Finance lease disclosures				
Finance lease receivables included in loans and advances to customers				
Lease receivables due in:				
Less than one year	196 809	155 543	160 997	133 725
One to five years	455 322	376 337	342 161	299 169
Later than five years	10 407	7 756	25 648	19 695
	662 538	539 636	528 806	452 589
Unearned finance Income	122 902		76 217	

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

Notes to the annual financial statements (continued)

At 31 March £'000	2013	2012
47. Notes to cash flow statement		
Profit before taxation adjusted for non-cash items is derived as follows:		
Profit before taxation	81 957	32 586
Adjustment for non-cash items included in net income before taxation:		
Impairment of goodwill	13 409	21 510
Amortisation of acquired intangibles	13 313	9 530
Depreciation of operating lease assets	16 072	28 544
Depreciation and impairment of property, equipment and intangibles	17 780	15 776
Impairment of loans and advances	189 036	255 791
Operating income from associates	(3 476)	(1 678)
Dividends received from associates	559	295
Share-based payment charges	34 164	32 550
Profit before taxation adjusted for non-cash items	362 814	394 904
Increase in operating assets		
Loans and advances to banks	(258 408)	17 132
Reverse repurchase agreements and cash collateral on securities borrowed	(369 455)	313 810
Sovereign debt securities	(13 106)	(797 647)
Bank debt securities	369 351	510 910
Other debt securities	8 170	(23 401)
Derivative financial instruments	(83 132)	(304 522)
Securities arising from trading activities	(300 404)	118 427
Investment portfolio	(64 734)	(141 750)
Loans and advances to customers	9 330	(383 894)
Securitised assets	188 445	631 310
Other assets	(19 338)	(364 225)
Investment properties	–	(11 500)
	(533 281)	(435 350)
(Decrease)/increase in operating liabilities		
Deposits by banks	(137 904)	(26 161)
Derivative financial instruments	83 268	197 710
Other trading liabilities	100 857	(133 180)
Repurchase agreements and cash collateral on securities lent	(78 274)	408 007
Customer accounts	253 996	762 815
Debt securities in issue	(417 114)	196 625
Securitised liabilities	(215 606)	(757 445)
Other liabilities	114 150	158 308
	(296 627)	806 679

At 31 March £'000	2013	2012
48. Commitments		
Undrawn facilities	638 113	673 367
Other commitments	14 283	5
	652 396	673 372

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.

	2013	2012
Operating lease commitments		
Future minimum lease payments under non-cancellable operating leases:		
Less than one year	27 021	20 117
One to five years	97 894	76 369
Later than five years	54 542	31 670
	179 457	128 156

At 31 March 2013, the group was obligated under a number of operating leases for properties, computer equipment and office equipment for which the future minimum lease payments extend over a number of years. The annual escalation clauses range between 7% and 13.5% per annum. The majority of the leases have renewal options.

	2013	2012
Operating lease receivables		
Future minimum lease payments under non-cancellable operating leases:		
Less than one year	1 128	27 922
One to five years	1 374	15 416
Later than five years	12	–
	2 514	43 338

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

At 31 March	Carrying amount		Related liability	
£'000	2013	2012	2013	2012
Pledged assets				
Loans and advances to customers	–	14 868	–	14 026
Other loans and advances to customers	–	292	–	292
Loans and advances to banks	338 556	226 870	339 429	226 870
Sovereign debt securities	376 601	317 776	231 803	317 776
Bank debt securities	116 560	56 601	71 744	56 601
Other debt securities	–	12 520	–	12 520
Securities arising from trading activities	604 517	328 654	610 459	328 654
Investment portfolio	–	690	–	690
Reverse repurchase agreements and cash collateral on securities borrowed	652 628	966 714	545 427	1 002 384
Derivatives	–	255 716	–	–
	2 088 862	2 180 701	1 798 862	1 959 813

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

Notes to the annual financial statements (continued)

At 31 March £'000	2013	2012
49. Contingent liabilities		
Guarantees and assets pledged as collateral security:		
– Guarantees and irrevocable letters of credit	83 411	70 331
	83 411	70 331

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

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

Financial Services Compensation Scheme

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

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

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

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

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

Legal proceedings

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

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

50. Hedges

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

The accounting treatment of accounting hedges is dependent on the classification between fair value hedges and cash flow hedges and in particular accounting hedges require the identification of a direct relationship between a hedged item and hedging instrument. This relationship is established in limited circumstances based on the manner in which the group manages its risk exposure. Below is a description of each category of accounting hedges achieved by the group.

Fair value hedges

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

Notes to the annual financial statements (continued)

50. Hedges
(continued)

At 31 March £'000	Description of financial instrument designated as hedging instrument	Fair value of hedging instrument	Cumulative gains/ (losses) on hedging instrument	Current year gains/ (losses) on hedging instrument	Cumulative gains/ (losses) on hedged item	Current year gains/ (losses) on hedged item
2013						
Assets	Interest rate swap	(41 909)	(42 344)	(19 068)	35 744	12 072
	Cross currency swap	(582)	(582)	29	582	(29)
Liabilities	Interest rate swap	20 479	20 479	(8 644)	(21 231)	8 417
	Cross currency swap	(3 081)	(3 081)	179	3 101	7
		(25 093)	(25 528)	(27 504)	18 196	20 467
2012						
Assets	Interest rate swap	12 188	12 372	4 016	(12 891)	(4 551)
	Cross currency swap	144 205	238 005	(120 106)	(238 005)	120 106
Liabilities	Interest rate swap	(7 920)	(28 321)	289	28 387	(5 958)
		148 473	222 056	(115 801)	(222 509)	109 597

Cash flow hedges

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

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

Release to the income statement from cash flow hedge reserves is included within interest received.

Hedges of net investments in foreign operations

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

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

There was no ineffective portion recognised in the income statement.

Notes to the annual financial statements (continued)

For the year to 31 March £'000	2013	2012

51. Related party transactions

Transactions, arrangements and agreements involving directors and others:

Particulars of transactions, arrangements and agreements entered into by the group with directors and connected persons and companies controlled by them, and with officers of the company, were as follows:

Directors, key management and connected persons and companies controlled by them

£'000	2013	2012
Loans		
At beginning of year	34 092	21 451
Increase in loans	20 497	26 110
Repayment of loans	(11 126)	(13 469)
At end of year	43 463	34 092
Guarantees		
At beginning of year	367	–
Additional guarantees granted	5 552	367
Guarantees cancelled	(1 162)	–
At end of year	4 757	367
Deposits		
At beginning of year	(46 657)	(49 606)
Increase in deposits	(33 041)	(24 615)
Decrease in deposits	26 154	27 564
At end of year	(53 544)	(46 657)

The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security as for comparable transactions with persons of a similar standing or where applicable, with other employees. The transactions did not involve more than the normal risk of repayment. None of these loans have been impaired.

At 31 March £'000	Investec Limited and subsidiaries	Associates	Total
Transactions with other related parties			
2013			
Assets			
Loans and advances to banks	6 854	–	6 854
Loans and advances to customers	–	9 529	9 529
Other loans and advances	1 554	–	1 554
Reverse repurchase agreements and cash collateral on securities borrowed	305 342	–	305 342
Derivative financial instruments	22 826	–	22 826
Other assets	28 659	–	28 659
Liabilities			
Deposits by banks	(13 948)	–	(13 948)
Customer accounts – deposits	(8 014)	–	(8 014)
Debt securities in issue	(297 820)	–	(297 820)
Derivative financial instruments	(36 090)	–	(36 090)
Other liabilities	(8 855)	–	(8 855)
Subordinated liabilities	(34 427)	–	(34 427)

Notes to the annual financial statements (continued)

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

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

During the year to March 2013, interest of £16.9 million (2012: £11.2 million) was paid to entities in the Investec Limited group. Interest of £29.8 million (2012: £2.3 million) was received from Investec Limited group.

In the normal course of business, services are rendered between Investec plc and Investec Limited entities. In the year to 31 March 2013, this resulted in a net payment to Investec Limited of £7.0 million (2012: £9.0 million). Specific transactions of an advisory nature between group entities have resulted in a net fee payment to Investec Limited of £nil (2012: £nil).

Investec plc provides certain banking and financial services to associates and joint ventures, including loans, overdrafts, interest and non-interest bearing deposits and current accounts. All of these transactions arose from the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

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

At 31 March £'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
2013								
Liabilities								
Deposits by banks	314 044	337 017	84 820	77 293	181 393	723 501	127 742	1 845 810
Derivative financial instruments	360 152	19 713	53 259	39 930	61 510	292 723	117 464	944 751
Derivative financial instruments – held for trading	119 569	–	–	–	–	–	–	119 569
Derivative financial instruments – held for hedging risk	240 583	19 713	53 259	39 930	61 510	292 723	117 464	825 182
Repurchase agreements and cash collateral on securities lent	450 906	–	–	–	–	501 799	–	952 705
Customer accounts (deposits)	1 527 668	1 081 114	3 340 883	3 026 485	862 133	1 391 865	101 887	11 332 035
Debt securities in issue	–	59 122	110 189	151 365	270 099	1 010 114	520 003	2 120 892
Liabilities arising on securitisation of own originated loans and advances	376	17 304	53 713	56 091	159 582	263 409	10 904	561 379
Liabilities arising on securitisation of other assets	–	–	89 562	80 147	144 949	1 015 780	1 446 346	2 776 784
Other liabilities	567 132	782 891	146 074	20 837	115 705	100 888	15 907	1 749 434
Subordinated liabilities	891	247	391	2 161	65 874	454 100	760 954	1 284 618
Total on balance sheet liabilities	3 221 169	2 297 408	3 878 891	3 454 309	1 861 245	5 754 179	3 101 207	23 568 408
Contingent liabilities	40 394	991	3 524	4 024	5 014	21 112	8 352	83 411
Commitments	136 710	15 766	161 268	50 918	73 204	192 367	22 163	652 396
Total liabilities	3 398 273	2 314 165	4 043 683	3 509 251	1 939 463	5 967 658	3 131 722	24 304 215

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

Trading liabilities are typically held for short periods of time.

For an unaudited analysis based on discounted cash flows please refer to pages 89 to 91.

Notes to the annual financial statements (continued)

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

At 31 March £'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
2012								
Liabilities								
Deposits by banks	298 736	297 336	365 479	172 983	77 805	613 558	92 059	1 917 956
Derivative financial instruments	551 979	1 052	11 949	4 087	19 317	175 517	44 217	808 118
Derivative financial instruments – held for trading	549 178	–	–	–	–	–	–	549 178
Derivative financial instruments – held for hedging risk	2 801	1 052	11 949	4 087	19 317	175 517	44 217	258 940
Repurchase agreements and cash collateral on securities lent	323 104	212 129	–	5 012	–	494 841	–	1 035 086
Customer accounts (deposits)	1 639 983	1 318 485	2 776 258	2 881 055	837 923	1 673 467	117 866	11 245 037
Debt securities in issue	–	230 913	147 212	51 009	53 219	1 584 641	530 276	2 597 270
Liabilities arising on securitisation of own originated loans and advances	1 667	23 617	56 163	62 835	284 752	236 736	96 738	762 508
Liabilities arising on securitisation of other assets	–	7 623	95 296	61 776	118 074	882 269	1 555 493	2 720 531
Other liabilities	905 646	240 857	161 835	71 360	83 726	61 531	617	1 525 572
Subordinated liabilities	–	(1 306)	669	900	13 310	167 944	630 978	812 495
Total on balance sheet liabilities	3 721 115	2 330 706	3 614 861	3 311 017	1 488 126	5 890 504	3 068 244	23 424 573
Contingent liabilities*	–	2 190	1 887	947	982	11 878	4 392	22 276
Commitments*	137 713	5 675	54 131	23 484	25 360	257 503	84 482	588 348
Total liabilities	3 858 828	2 338 571	3 670 879	3 335 448	1 514 468	6 159 885	3 157 118	24 035 197

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

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

Trading liabilities are typically held for short periods of time.

For an unaudited analysis based on discounted cash flows please refer to pages 89 to 91.

Notes to the annual financial statements (continued)

53. Principal subsidiaries and associated companies – Investec plc

At 31 March	Principal activity	Country of incorporation	Interest % 2013	Interest % 2012
Direct subsidiaries of Investec plc				
Investec 1 Limited	Investment holding	England and Wales	100.0%	100.0%
Investec Holding Company Limited	Investment holding	England and Wales	100.0%	100.0%
Indirect subsidiaries of Investec plc				
Investec Asset Finance plc	Leasing company	England and Wales	100.0%	100.0%
Investec Asset Finance & Leasing Pty Ltd (formerly Alliance Equipment Finance Pty Ltd)	Leasing company	Australia	100.0%	
Investec Asset Management Limited	Asset management	England and Wales	100.0%	100.0%
Investec Bank plc	Banking institution	England and Wales	100.0%	100.0%
Investec Bank (Australia) Limited	Banking institution	Australia	100.0%	100.0%
Investec Bank (Channel Islands) Limited	Banking institution	Guernsey	100.0%	100.0%
Investec Bank (Switzerland) AG	Banking institution	Switzerland	100.0%	100.0%
Investec Capital Asia Limited	Investment banking	Hong Kong	100.0%	100.0%
Investec Capital & Investments (Ireland) Limited (formerly NCB Stockbrokers Limited)	Financial services	Ireland	100.0%	
Investec Professional Finance Pty Ltd (formerly Investec Experien Pty Ltd)	Financial services	Australia	100.0%	100.0%
Investec Finance plc	Debt issuer	England and Wales	100.0%	100.0%
Investec Group (UK) plc	Holding company	England and Wales	100.0%	100.0%
Investec Group Investments (UK) Limited	Investment holding	England and Wales	100.0%	100.0%
Investec Investments (UK) Limited (formerly Guinness Mahon & Co Limited)	Investment holding	England and Wales	100.0%	100.0%
Investec Ireland Limited	Financial services	Ireland	100.0%	100.0%
Investec Securities (US) LLC	Financial services	USA	100.0%	100.0%
Investec Trust Holdings AG	Investment holding	Switzerland	100.0%	100.0%
Investec Trust (Switzerland) S.A.	Trust company	Switzerland	100.0%	100.0%
Investec Trust (Jersey) Limited	Trust company	Jersey	100.0%	100.0%
Investec Wealth & Investment Limited	Stockbroking and portfolio management	England and Wales	100.0%	100.0%
Kensington Group plc	Financial services	England and Wales	100.0%	100.0%
Leasedirect Finance Limited	Finance broker	England and Wales	100.0%	81.3%
Neontar Limited	Holding company	Ireland	100.0%	
Reichmans Geneva SA	Trade finance	Switzerland	100.0%	100.0%
Rensburg Sheppards plc	Holding company	England and Wales	100.0%	100.0%
St James's Park Mortgage Funding Limited	Financial services	England and Wales	100.0%	100.0%
Start Funding No. 1 Limited	Financial services	Ireland	100.0%	100.0%
Start Funding No. 2 Limited	Financial services	Ireland	100.0%	100.0%
Williams de Broë Limited	Stockbroking and portfolio management	England and Wales	100.0%	100.0%

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

53. Principal subsidiaries and associated companies – Investec plc (continued)

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

At 31 March	Principal activity	Country of incorporation	Interest % 2013	Interest % 2012
Principal associated companies				
Hargreave Hale Limited	Stockbroking and portfolio management	England and Wales	35.0%	35.0%

Investec plc has no equity interest in the following special purpose vehicles which are consolidated on the basis of the group sharing in the majority risks and rewards associated with the entities:

Bedrock CMBS GMBH
Foundation CMBS Limited
Gemgarto 2012-1 plc
Glacier Securities Limited (serious 2010-2)
Gresham Capital CLO V BV
Impala Trust No.1 – Sub Series 2
Impala Trust No.1 – Sub Series 2010-1
Impala Trust No.1 – Sub Series 2011-1
Impala Trust No.1 – Sub Series 2012-1
Kensington Mortgage Securities plc
Landmark Mortgage Securities No 1 plc
Landmark Mortgage Securities No 2 plc
Landmark Mortgage Securities No 3 plc
Money Partners Securities 1 plc
Money Partners Securities 2 plc
Money Partners Securities 3 plc
Money Partners Securities 4 plc
Nyala Funding Trust CMBS 2013-1
Nyala Funding Trust No. 1
Residential Mortage Securities 19 plc
Residential Mortage Securities 20 plc
Residential Mortage Securities 21 plc
Residential Mortage Securities 22 plc
Residential Mortage Securities 23 plc
Tamarin Securities Limited
Yorker Trust
Zebra Capital II Limited

Notes to the annual financial statements (continued)

54. Reclassifications

In the current year, the group has moved the Kensington warehoused assets and liabilities into other loans and advances and deposits by banks respectively. This change arises from simplifying the face of the balance sheet with the relevant information more appropriately detailed in the notes to the financial statements. The change has no impact to the income statement, balance sheet (other than noted below), cash flow statements and equity.

31 March £'000	Restated	As previously reported	Changes to previously reported
2012			
Other loans and advances	2 789 738	1 358 026	1 431 712
Warehoused assets – Kensington warehouse funding	–	1 431 712	(1 431 712)
Deposits by banks	1 848 534	1 013 622	834 912
Deposits by banks – Kensington warehouse funding	–	834 912	(834 912)
2011			
Other loans and advances	2 593 863	981 682	1 612 181
Warehoused assets – Kensington warehouse funding	–	1 612 181	(1 612 181)
Deposits by banks	1 874 695	899 153	975 542
Deposits by banks – Kensington warehouse funding	–	975 542	(975 542)

55. Post balance sheet events

Refer to pages 125 and 126 of the directors' report for details of events subsequent to the balance sheet date.

Balance sheet

At 31 March £'000	Notes	2013	2012
Assets			
Fixed assets			
Investments in subsidiary undertakings	b	1 817 840	1 790 348
Current assets			
Amounts owed by group undertakings		569 819	559 549
Tax		5 979	23 753
Other debtors		22	21
Prepayments and accrued income		126	199
Cash at bank and in hand:			
– balances with subsidiary undertaking		–	–
– balances with other banks		726	833
		576 672	584 355
Total assets		2 394 512	2 374 703
Current liabilities			
Bank loans			
– with subsidiary undertaking		8 814	1 502
– with other banks	c	128 419	130 532
Amounts owed to group undertakings		754 617	769 033
Other liabilities		768	1 063
Accruals and deferred income		3 950	3 680
		896 568	905 810
Capital and reserves			
Called up share capital	d	177	175
Perpetual preference shares	d	151	151
Share premium account	d	1 130 210	1 107 651
Capital reserve	d	356 292	356 292
Retained earnings	d	11 114	4 624
Total capital and reserves		1 497 944	1 468 893
Total capital and liabilities		2 394 512	2 374 703

The notes on pages 208 and 209 form an integral part of the financial statements.

Approved and authorised for issue by the board of directors on 11 June 2013 and signed on its behalf by:

Stephen Koseff
Chief Executive Officer

11 June 2013

Notes to the Investec plc parent company accounts

a. Accounting policies

Basis of preparation

The parent accounts of Investec plc are prepared under the historical cost convention and in accordance with UK accounting standards and on a going concern basis.

Foreign currencies

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

Investments

Investments are stated at cost less any impairment in value.

Income

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

Taxation

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

Company's own profit and loss account

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

Cash flow statement

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

Financial Instruments: Disclosures

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

Financial liabilities

Financial liabilities we recorded at amortised cost applying the effective interest rate method.

Related party transactions

Transactions, arrangements and agreements involving directors and others are disclosed in note 51 to the group financial statements. The company has taken advantage of the exemptions available in Financial Reporting Standard 8 from disclosing transactions with related parties which are wholly owned members of Investec plc group.

b. Investments in subsidiary undertakings

£'000	2013	2012
At beginning of year	1 790 348	1 584 528
Additions	54 984	381 640
Disposals	(27 492)	(175 820)
At end of year	1 817 840	1 790 348

On 11 June 2012 the company acquired Neontar Limited (the parent company of the NCB Group) and on 30 July 2012 transferred this interest to its wholly-owned subsidiary, Investec 1 in exchange for shares. The company's principal subsidiaries and associated companies are set out in note 53 to the group financial statements.

Notes to the Investec plc parent company accounts (continued)

c. Bank loans

The company drew down Euro denominated loans of €105 million on 7 March 2011. These loans were extended for 18 months on 14 August 2012 and bear interest at fixed margins above three-month EURIBOR and are repayable on 14 February 2014.

The company drew down a US Dollar denominated loan of $20 million on 4 September 2012 which bears interest at fixed margins above three-month LIBOR and is repayable on 4 March 2014.

The company drew down a GBP denominated loan of £28.5 million on 28 June 2012 which bears interest at fixed margins above three-month LIBOR and is repayable on 24 December 2013.

d. Statement of changes in shareholders' equity

£'000	Share capital	Perpetual preference shares	Share premium	Capital reserve	Profit and loss account	Total equity
At 1 April 2012	175	151	1 107 651	356 292	4 624	1 468 893
Issue of ordinary shares	2	–	22 559	–	–	22 561
Issue of preference shares	–	–	–	–	–	–
Share-based payment adjustment	–	–	–	–	(1 091)	(1 091)
Profit for the year	–	–	–	–	56 278	56 278
Dividends paid to preference shareholders	–	–	–	–	(3 696)	(3 696)
Dividends paid to ordinary shareholders	–	–	–	–	(45 001)	(45 001)
At 31 March 2013	177	151	1 130 210	356 292	11 114	1 497 944

e. Parent company profit and loss account

No profit and loss account is presented for the company as permitted by section 408 of the Companies Act 2006. The company's profit for the year, determined in accordance with the Act, was £56 278 000 (2012: £49 217 000).

f. Audit fees

Details of the company's audit fees are set out in note 6 of the group financial statements.

g. Dividends

Details of the company's dividends are set out in note 9 of the group financial statements.

h. Share capital

Details of the company's ordinary share capital are set out in note 41 of the group financial statements. Details of the perpetual preference shares are set out in note 42 of the group financial statements.

i. Audit opinion

The audit opinion on the financial statements of the Investec plc parent company is included in the combined consolidated financial statements of Investec plc and Investec Limited for the year ended 31 March 2013.

Shareholder information

Shareholder analysis

Investec ordinary shares

As at 31 March 2013 Investec plc had 605.2 million ordinary shares in issue.

Spread of ordinary shareholders as at 31 March 2013

Investec plc ordinary shares in issue

Number of shareholders	Holdings	% of total shareholders	Number of shares in issue	% of issued share capital
13 527	1 to 500	51.3%	2 340 881	0.4%
4 513	500 – 1 000	17.1%	3 524 226	0.6%
5 464	1 001 – 5 000	20.7%	12 504 667	2.1%
982	5 001 – 10 000	3.7%	7 200 240	1.2%
1 038	10 001 – 50 000	3.9%	24 580 738	4.1%
282	50 001 – 100 000	1.1%	20 101 295	3.3%
584	100 001 and over	2.2%	534 944 724	88.3%
26 390		100.0%	605 196 771	100.0%

Shareholder classification as at 31 March 2013

	Investec plc number of shares	% holding
Public*	592 664 903	97.9%
Non-public	12 531 868	2.1%
Non-executive directors of Investec plc/Investec Limited	3 863 253	0.6%
Executive directors of Investec plc/Investec Limited	7 049 470	1.2%
Investec staff share schemes	1 619 145	0.3%
Total	605 196 771	100.0%

* *As per the JSE Listings Requirements.*

Largest ordinary shareholders as at 31 March 2013

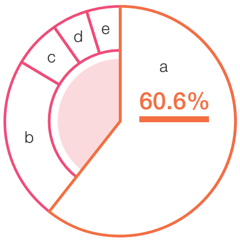
In accordance with the terms provided for in Section 793 of the UK Companies Act 2006, the group has conducted investigations into the registered holders of its ordinary shares (including nominee and asset management companies) and the results are as disclosed below.

Investec plc

	Shareholder analysis by manager group	Number of shares	% holding
1	Public Investment Corporation (ZA)	84 633 690	14.0%
2	Allan Gray (ZA)	52 346 104	8.6%
3	Coronation Fund Managers (ZA)	45 808 337	7.6%
4	Old Mutual (ZA)	30 972 966	5.1%
5	BlackRock Inc (US & UK)	24 348 318	4.0%
6	Sanlam Group (ZA)	22 277 772	3.7%
7	Legal & General Investment Management (UK)	18 112 607	3.0%
8	Norges Bank Investment Management (Oslo)	17 452 039	2.9%
9	Prudential Group (ZA)	17 337 742	2.9%
10	State Street Corporation (US and UK)	12 247 325	2.0%
		325 536 900	53.8%

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

Geographical holding by beneficial ordinary share owner as at 31 March 2013



Investec plc

a	South Africa	60.6%
b	UK	23.1%
c	USA and Canada	6.7%
d	Rest of Europe	5.1%
e	Other countries and unknown	4.5%

Share statistics

Investec plc

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 (Pounds)							
– year-end	4.59	3.82	4.78	5.39	2.92	3.39	6.58
– highest	5.14	5.22	5.50	5.62	4.21	7.65	6.76
– lowest	3.10	3.18	4.29	2.87	1.69	2.94	4.95
Number of ordinary shares in issue (million)[1]	605.2	598.3	537.2	471.1	444.9	423.3	381.6
Market capitalisation (£'million)[1]	2 778	2 286	2 568	2 539	1 299	1 435	2 511
Daily average volume of shares traded ('000)	1 305	1 683	1 634	1 933	2 604	3 926	2 832
Price earnings ratio[2]	12.4	12.0	11.1	12.0	6.9	6.0	12.4
Dividend cover (times)[2]	2.1	1.9	2.5	2.8	3.3	2.3	2.3
Dividend yield (%)[2]	3.9	4.5	3.6	3.0	4.5	7.4	3.5
Earnings yield (%)[2]	8.1	8.3	9.0	8.4	14.5	16.7	8.1

1 *The LSE only include the shares in issue for Investec plc, i.e. 605.2 million, in calculating market capitalisation, as Investec Limited is not incorporated in the UK.*

2 *Calculations are based on the group's consolidated earnings per share before goodwill, acquired intangibles and non-operating items; and dividends per share as prepared in accordance with IFRS and denominated in Pounds Sterling.*

Investec perpetual preference shares

Investec plc has issued perpetual preference shares, the details of which can be found on page 193.

Spread of perpetual preference shareholders as at 31 March 2013

Investec plc perpetual preference shareholders

Number of shareholders	Holdings	% of total shareholders	Number of preference shares in issue	% of issued preference share capital
134	1 to 500	10.8%	36 192	0.2%
153	500 – 1 000	12.4%	124 716	0.8%
661	1 001 – 5 000	53.6%	1 376 510	9.1%
100	5 001 – 10 000	8.1%	748 954	5.0%
127	10 001 – 50 000	10.3%	2 737 512	18.2%
28	50 001 – 100 000	2.3%	2 055 846	13.6%
31	100 001 and over	2.5%	8 001 419	53.1%
1 234		100.0%	15 081 149	100.0%

Investec plc (Rand denominated) perpetual preference shareholders

Number of shareholders	Holdings	% of total shareholders	Number of preference shares in issue	% of issued preference share capital
75	1 to 500	19.8%	23 313	1.0%
94	500 – 1 000	24.9%	74 584	3.3%
163	1 001 – 5 000	43.1%	358 603	15.8%
23	5 001 – 10 000	6.1%	167 231	7.3%
14	10 001 – 50 000	3.7%	297 273	13.1%
3	50 001 – 100 000	0.8%	248 215	10.9%
6	100 001 and over	1.6%	1 106 721	48.6%
378		100.0%	2 275 940	100.0%

Largest perpetual preference shareholders as at 31 March 2013

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

Investec plc

Chase Nominees Limited (Artemis)	10.6%

Investec plc (Rand denominated)

NES Investments (Pty) Ltd	5.3%
Liberty Active Investment	6.5%
Regent Insurance Company Limited	6.6%
TE Return FNB Pension Fund	7.9%
Cadiz Absolute Yield Fund	17.6%

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