Annual Report

Out of the Ordinary®

Investec

2014 | Investec Bank (Australia) Limited integrated annual review and financial statements

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Investec in
perspective

We strive to be a distinctive specialist bank and asset manager, driven by commitment to our core philosophies and values

Who we are

Founded as a leasing company in Johannesburg in 1974.	We acquired a banking licence in 1980 and were listed on the JSE Limited South Africa in 1986.
In July 2002, we created a dual listed companies structure (DLC) listed in London and Johannesburg.	A year later, we concluded a significant empowerment transaction in which our empowerment partners collectively acquired a 25.1% stake in the issued share capital of Investec Limited.
Since inception, we have expanded through a combination of substantial organic growth and a series of strategic acquisitions.	Today, we have an efficient integrated international business platform, offering all our core activities in the UK and South Africa and select activities in Australia.

We value

1 Distinctive performance	2 Client focus	3 Cast-iron integrity	4 Dedicated partnership
Outstanding talent – empowered, enabled and inspired	Distinctive offering	Moral strength	Respect for others
Meritocracy	Leverage resources	Risk consciousness	Embrace diversity
Passion, energy, stamina, tenacity	Break china for the client	Highest ethical standards	Open and honest dialogue
Entrepreneurial spirit			Unselfish contribution to colleagues, clients and society

Our philosophies

Single organisation

Meritocracy

Focused businesses

Differentiated, yet integrated

Employee ownership

Creating an environment that stimulates extraordinary performance.

What we do

We provide a diverse range of financial products and services to a niche client base in three principal markets – the UK, South Africa and Australia as well as certain other countries.

Investec focuses on delivering distinctive profitable solutions for its clients in three core areas of activity, namely: Asset Management, Wealth & Investment and Specialist Banking.

Our strategic goals and objectives are based on the aspiration to be recognised as a distinctive specialist bank and asset manager. This distinction is embodied in our entrepreneurial culture, which is balanced by a strong risk management discipline, client-centric approach and an ability to be nimble, flexible and innovative. We do not seek to be all things to all people and aim to build well-defined, value-added businesses focused on serving the needs of select market niches where we can compete effectively.

The Investec distinction

1 Client focused approach

- Clients are at the core of our business
- We strive to build business depth by deepening existing and creating new client relationships
- High level of service by being nimble, flexible and innovative.

2 Specialised strategy

- Serving select market niches as a focused provider of tailored structured solutions
- Enhancing our existing position in principal businesses and geographies through organic growth and select bolt-on acquisitions.

3 Sustainable business

- Contributing to society, macro-economic stability and the environment
- Well-established brand
- Managing and positioning the group for the long term
- Balancing operational risk with financial risk whilst creating value for shareholders
- Cost and risk conscious.

4 Strong culture

- Strong, entrepreneurial culture that stimulates extraordinary performance
- Passionate and talented people who are empowered and committed
- Depth of leadership
- Strong risk awareness
- Employee ownership.

Our strategic focus

Our strategy

Our strategy for the past 20 years has been to build a diversified portfolio of businesses and geographies to support clients through varying markets and economic cycles. Since inception we have expanded through a combination of organic growth and strategic acquisitions.

In order to create a meaningful and balanced portfolio we need proper foundations in place which gain traction over time.

Our current strategic focus is to:

- Continue to build Asset Management organically by investing and building for the next phase of growth in line with a clear long-term strategy
- Maintain momentum in the Wealth & Investment business by building critical mass in future growth areas
- Improve returns in the Specialist Banking business by continuing to simplify the business and grow the business organically
- Provide an integrated full service solution for our private clients by advancing our strong digital platform
- Continue to leverage our extensive client base and attract new clients by extending the breadth and depth of the franchise.

Our diversified and balanced business model supporting long-term strategy

Broadly defined, we operate across three areas of specialisation focused on well-defined target clients:

Asset Management Operating completely independently	Specialist Banking	Wealth & Investment
Corporate/institutional/government		Private client (high net worth/high income)/ charities/trusts
Investment management services to third party institutions and intermediated savers	Advisory Transactional banking Lending Treasury and trading Investment activities	Investment management services Independent financial planning advice

We aim to maintain an appropriate balance between revenue earned from operational risk activities and revenue earned from financial risk activities.

This ensures that we are not over reliant on any one part of our businesses to sustain our activities and that we have a large recurring revenue base that enables us to navigate through varying cycles and supports our long-term strategy.

Capital light activities	Capital intensive activities
Contribute 52% to group income	Contribute 48% to group income
• Asset management • Wealth management • Advisory services • Transactional banking services • Property funds	• Lending portfolios • Investment portfolios • Trading income — client flows — balance sheet management
Fee and commission income	Net interest, investment and trading income

Types of income

Our operational structure

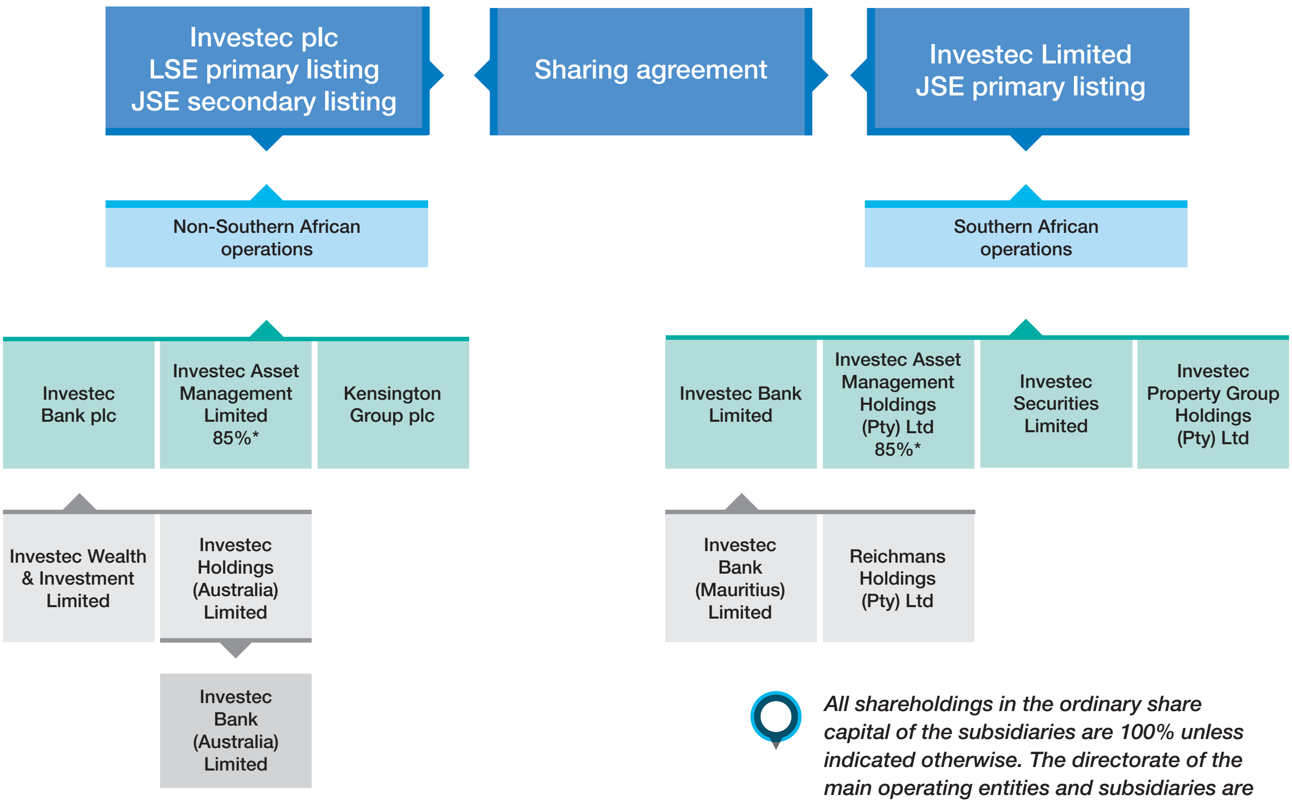
Operating structure

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 at 31 March 2014



All shareholdings in the ordinary share capital of the subsidiaries are 100% unless indicated otherwise. The directorate of the main operating entities and subsidiaries are indicated on pages 49 and 50 as well as on our website.

** 15% is held by senior management in the company*

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.

TWO

Overview of the activities
of Investec Bank (Australia) Limited

Overview of the activities of Investec Bank (Australia) Limited

Introduction

Investec Bank (Australia) Limited (IBAL or the bank) is a wholly-owned subsidiary of the Investec group, incorporated and domiciled in Australia. Its ultimate parent is Investec plc, the UK entity listed on the London Stock Exchange.

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

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

In July 2006 Investec Bank (Australia) Limited acquired NM Rothschild and Sons (Australia) Limited as a part of its banking operations. This created the opportunity to further its market presence in commodities and resource finance and treasury activities.

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

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

The financial year has seen Investec beginning the process of restructuring and reshaping the Australian business into a boutique operation focusing on Investec's core strengths across Capital Markets, Corporate Finance and Property Activities.

As part of this restructuring and reshaping, IBAL announced late in 2013 that independent advisers were appointed to identify alternatives for its Professional Finance and Asset Finance & Leasing businesses. In April 2014, an agreement was reached with Bank of Queensland to sell these two businesses and the deposit book, for a premium of A$210 million, subject to regulatory approval.

The agreement has been structured as a sale by Investec Holdings Australia Limited of its entire interest in Investec Bank (Australia) Limited.

IBAL employed approximately 443 staff in Australia at March 2014, and has offices in Sydney, Melbourne, Brisbane, Perth and Adelaide. The businesses being sold will see a transfer of over 300 people to Bank of Queensland.

IBAL is subject to regulation by the Australian Prudential Regulation Authority.

Currently, IBAL focuses on the following activities:

Private Banking Activities

Our approach to private and professional banking ensures clients can embrace both the opportunities and challenges they face, and enjoy the best possible returns from their relationships with us.

Private Client Treasury

The Private Client Treasury offers multi-currency money market and fixed interest products at competitive rates and flexible term structures to high net worth individuals, independent financial advisers, and the retail market.

Professional Finance

The Professional Finance team creates innovative products specifically designed to meet the personal and professional finance needs of medical, dental and accounting professionals. This enables these clients to maximise their personal wealth through cash management and investment opportunities. Professional Finance delivers tools of trade and personal finance, treasury and cash management facilities to medical and accounting professionals.

Corporate and Institutional Banking Activities

The Corporate and Institutional Banking division is made up of a number of specialist businesses:

Commodities and Resource Finance

Commodities and Resource Finance provides financial advice and solutions across the debt to equity spectrum to clients in the natural resources sector, including precious and base metals, minerals, and oil and gas. The team provides debt financing for junior and mid-tier resources companies that develop, expand or acquire projects around the world. In the precious and base metal markets, hedging and structured derivative solutions can be arranged for commodities, and the team can advise and implement appropriate hedging strategies for integrated resource finance transactions.

Aviation Finance

The Aviation Finance team have participated in or arranged over A$1 billion of aircraft sale and leaseback financings since 2008. The team is also responsible for managing the Investec Global Aircraft Fund, an Australian-based fund with *circa* A$1 billion of aircraft in Africa, Europe, India, China, Asia Pacific and South America, including all three of Australia's mainline carriers being Qantas, JetStar and Virgin Australia.

Corporate and Acquisition Finance

Corporate and Acquisition Finance targets event-driven borrowing, such as that for acquisitions, expansions, property, plant and equipment, project developments and refinancing by mid-tier and larger corporate borrowers and funds within Australia. The focus of this business is senior secured debt.

Power and Infrastructure Finance, including Social Infrastructure Finance

The power and infrastructure finance team provides specialised financial solutions to projects and sponsors in the infrastructure and energy sectors for complex or unusual projects, and can provide niche capital solutions for standard projects. The team can arrange, underwrite and provide senior and subordinated project and bridging finance, as well as offer debt advisory services. The sectors in which the team operates include renewable and conventional power generation, electricity transmission and distribution, bio-fuels, transport, pipelines, water, waste and public-private partnerships. The Australian team also works closely with other Investec global specialist teams based in London, Toronto and Johannesburg.

The Social Infrastructure team originates, finances and develops facilities with long-term sovereign or semi-sovereign rent streams for all levels of government, their agencies and universities. It also employs the same disciplines to originate high-quality institutional property.

Financial Markets

Financial Markets is responsible for trading, derivatives sales, and structuring across fixed income, currencies and commodities. The team is also responsible for managing the foreign exchange and interest rate risk of the balance sheet as well as funding the bank.

Overview of the activities of Investec Bank (Australia) Limited
(continued)

Corporate Finance Activities

Corporate Finance provides independent, objective advice on mergers, acquisitions and divestments, fund raising and capital structuring. The team has a successful track record in supporting growing and established companies across all sectors of the economy.

Typical clients include companies listed on the Australian Stock Exchange, large private companies and family businesses, private equity funds and Investec clients globally.

Corporate Finance bankers are valued for their relationship-based approach, innovative transaction structuring capabilities, proven deal origination and execution skills as well as their clear and practical advice.

Property Activities

The Property Investments group manages property funds and holds principal debt and equity interests in property-related opportunities.

By leveraging their funds management, structuring and property experience, the Property Investments team originates funds management opportunities, raises equity capital, and sources and manages appropriate property investments.

The funds managed by the group provide investors with the opportunity to gain exposure to a broad range of property assets. The Property Investments group currently manages the Investec Australia Property Fund, Investec Property Opportunity Funds, and the Toga Accommodation Fund.

The Investec Australia Property Fund was listed on the Johannesburg Stock Exchange on 23 October 2013, as an inward-listed Australian real estate investment trust. The Investec Australia Property Fund offers South African investors exposure to the direct Australian property market, as well as providing exposure to the Australian Dollar.

Group Services and Other Activities

Central Services

Central Services comprises functional areas that provide services centrally across all business operations. Consistent with our philosophy of operating as a single organisation, Central Services provides integrating mechanisms between the business operations. While these services do not form part of the operating divisions, we have a policy in place whereby a portion of these costs are allocated to the business units. Our principal Central Services functions which relate to the operations and control of our business are Risk Management, Information Technology, Finance, Marketing and Communications, Human Resources, Organisation Development, Internal Audit and Compliance, Legal, Company Secretarial, Tax, Regulatory and Facilities Management.

Central Funding

The bank's business model involves maintaining a central pool of capital with the aim of obtaining economies of scale for corporate investments, funding and overall management. We use various sources of funding, depending on the specific financial and strategic requirements at the time. The funds raised are applied towards funding central services and debt obligations, and purchasing corporate assets and investments which are not allocated to our principal operating divisions.

Three

Financial
overview

Commentary on the results of Investec Bank (Australia) Limited for the year ended 31 March 2014

Introduction

The financial year resulted in IBAL beginning the process of reshaping the Australian business into a boutique operation focusing on Corporate Finance, Property Funds Management, Aviation, Commodity and Resource Finance Management, Power and Infrastructure Finance, Corporate and Acquisition Finance and Financial Markets.

The balance sheet at 31 March 2014 reflects:

- A high-quality liquid asset (HQLA) ratio of 25.1%
- A level 2 capital adequacy ratio of 16.1% (tier 1 of 12.2%) and a level 1 capital adequacy ratio of 15.2% (tier 1 of 11.2%)
- Private client deposits constituting 80% of total funding (excluding securitisation).

Financial performance

To reflect the results to 31 March 2014 in a meaningful way, the costs related to the reshaping of the Investec Australia operations have been separately identified as have the results of the non-core property development finance business which ceased operating in 2012 and whose loan assets are substantially sold or being run-off.

For the year ended 31 March 2014, Investec Bank (Australia) Limited reported a loss before tax from core operations of A$5.4 million (2013: A$36.6 million profit).

Following the mid-year strategic review of the Australian business model, the second half of the financial year resulted in a profit before tax from core operations of A$1.5 million (first half loss A$6.9 million).

At 31 March 2014, Investec Bank (Australia) Limited's loan book was A$3.1 billion (2013: A$3.2 billion).

Total deposits and wholesale funding (excluding securitised liabilities and subordinated liabilities) at 31 March 2014 were A$3.1 billion (2013: A$3.3 billion), of which 80% relate to private client deposits.

Strategy and outlook

As set out in the introduction above, Investec Australia is being reshaped into a boutique operation.

The Investec group remains committed to the Australian market. With Investec Australia's experienced leadership team and a focused business backed by a strong global balance sheet and parent, Investec is in a good position to concentrate on its specialist niches and to demonstrate its distinctive approach.

Presentation of information

The information contained in this report is presented in Australian Dollars and all values have been rounded to the nearest million unless otherwise stated.

The financial results for the year ended 31 March 2014 are summarised below:

A$'million	Half-year 1 Apr – Sep	Half-year 2 Oct – Mar	31 March 2014	31 March 2013
Core businesses	(6.9)	1.5	(5.4)	36.6
Non-core property development finance business	(12.5)	(5.8)	(18.3)	(31.4)
Restructure and reshaping costs	(24.0)	(24.2)	(48.2)	–
Profit/(loss) before tax	(43.4)	(28.5)	(71.9)	5.2
Income tax (expense)/benefit	–	1.8	1.8	1.1
Profit/(loss) after income tax	(43.4)	(26.7)	(70.1)	6.3

Commentary on the results of Investec Bank (Australia) Limited for the year ended 31 March 2014 (continued)

Financial highlights

	31 March 2014	31 March 2013
Total operating income (A$'million)	183.2	207.2
Restructure and reshaping costs (A$'million)	(48.2)	–
Operating profit/(loss) before income tax (A$'million)	(71.9)	5.2
Total shareholders' equity (A$'million)	559.1	607.4
Total assets (A$'million)	4 586.5	4 753.6
Capital adequacy ratio	15.2%	15.3%
Tier 1 ratio	11.2%	11.3%
Cash and near cash ratio	31.5%	30.4%
HQLA ratio	25.1%	25.5%

Segmental information

For the year ended 31 March 2014 A$'million	Private Banking Activities*	Non-core property development finance business	Total Private Banking	Corporate and Institutional Banking	Investment Banking	Property Activities	Group Services and Other Activities	Restructure and reshaping costs	Total
Profit/(loss) before income tax	(13.0)*	(18.3)	(31.3)	13.2	(11.2)	6.7	(1.1)	(48.2)	(71.9)

For the year ended 31 March 2013 A$'million	Private Banking Activities*	Non-core property development finance business	Total Private Banking	Corporate and Institutional Banking	Investment Banking	Property activities	Group Services and Other Activities	Restructure and reshaping costs	Total
Profit/(loss) before income tax	7.7*	(31.4)	(23.7)	24.5	9.6	3.5	(8.7)	–	5.2

** Includes profit from the Professional Finance business of A$18.2 million (2013: A$17.9 million).*

FOUR

Risk
management

Risk management

Philosophy and approach to risk management

Investec Bank (Australia) Limited recognises that an effective risk management function is fundamental to its business. 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 our day-to-day activities.

Risk Management (part of Central Services) independently monitors, manages and reports on our risk to ensure it is within the stated appetite as mandated by the board of directors through the Investec board Australian risk and capital committee. Business units are ultimately responsible for managing 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 growth across our business.

Risk Management operates as a series of specialist teams, in line with our management approach, to promote sound risk management practices and to ensure that the appropriate processes are used to address all risks across Investec Bank (Australia) Limited. Risk Management continually seeks new ways to enhance its techniques.

This section provides an overview of these types of risks.

Risk Management's objectives

Risk Management's objectives are to:

- Be the custodian of our risk management culture
- Ensure the business operates within the board-stated appetite
- Support the long-term sustainability of the group by providing an established, independent framework for identifying, evaluating, mentoring and mitigating risk
- Set, approve and monitor adherence to risk parameters and limits across Investec Bank (Australia) Limited 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 board 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.

An overview of key risks, policies and procedures

In our ordinary course of business we face a number of risks that could affect our business operations including (but not limited to) the list below. The sections that follow provide information on a number of these risk areas.

Key risks

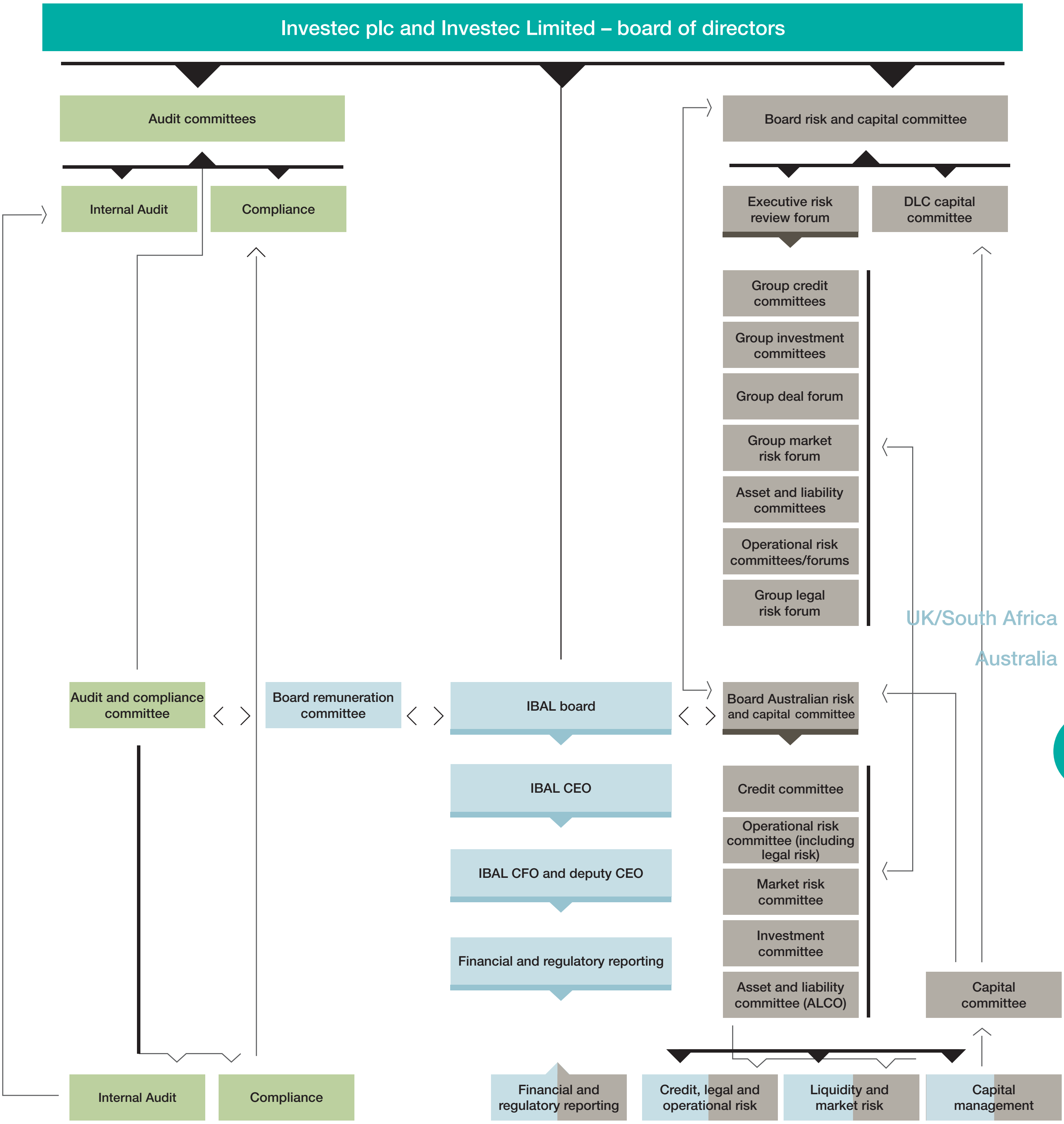
- Credit and counterparty risk exposes us to losses caused by financial or other problems experienced by our clients
- Liquidity risk may impair our ability to fund our operations
- Our net interest earnings and net asset value may be adversely affected by interest rate risk
- Market, business and general economic conditions and fluctuations could adversely affect our businesses in a number of ways
- We may be unable to recruit, retain and motivate key personnel
- Employee misconduct could cause harm that is difficult to detect
- Operational risk may disrupt our business or result in regulatory action
- We may be vulnerable to the failure of our systems and breaches of our security systems
- We may have insufficient capital in the future and may be unable to secure additional financing when it is required
- The financial services industry in which we operate is intensely competitive
- Legal and regulatory risks are substantial in our businesses
- Reputational and strategic risk.

Risk and compliance structure

A number of committees and forums identify and manage risk at a business unit level. These committees and forums operate together with Group Risk Management and are mandated by the boards of Investec plc and Investec Limited and they cover all entities within Investec Bank (Australia) Limited.

A diagram of Investec Bank (Australia) Limited's governance and risk framework is provided below at 31 March 2014.

Investec Bank (Australia) Limited risk and compliance framework



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, we have credit committees, which operate under board-approved delegated limits, policies and procedures. The credit policies and framework have been approved by both Investec Bank (Australia) Limited board and Investec Group Risk. There is a high level of executive involvement and non-executive review and oversight in the credit decision-making forums. It is policy that all sanctioning credit committees have a majority of voting members who are independent of the originating business unit. All decisions to enter a transaction are based on unanimous consent.

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

- Day-to-day arrears management and regular arrears reporting ensures that individual positions and any potential trends are dealt with in a timely manner
- Watchlist committee, which reviews the management of distressed loans, potential problem loans and exposures in arrears that require additional attention and supervision
- Credit risk review committee, which meets monthly and considers risk appetite, policy and management issues relating to the portfolio as a whole.

Credit and counterparty risk appetite

Credit and counterparty risk is always assessed with reference to the aggregate exposure to a single counterparty or group of related parties to 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 limited risk appetite for unsecured debt and ensure that good quality collateral is provided in support of obligations.

We typically originate loans with the intent of holding these assets to maturity, 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. Assets originated by Investec Professional Finance (formerly known as Experien) have been securitised though various structures and these amount to A$805 million (2013: A$715 million). These securitisation structures have all been rated by S&P.

In order to allow activity in all product areas and markets, pricing is motivated by the relevant business unit on a transaction-by-transaction basis, with consideration given to the manner of origination of the asset and the forward strategy for the asset capital usage and liquidity. Pricing recommendations are discussed and agreed at the appropriate credit committee to ensure that reward is appropriate to the risk and that pricing is not compromised in the pursuit of volume or relationship. As a consequence of market behaviour, pricing for similar risk may differ from time to time.

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 is made to management, the executives and the board. The board regularly reviews and approves the appetite for credit and counterparty risk, which is documented in risk appetite statements and policy documents and implemented by our credit division.

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

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

Asset quality analysis – credit risk classification and provisioning policy

It is a policy requirement overseen by Central Credit Management that each operating division makes provision for specific impairments and calculates the appropriate level of portfolio impairments. This is in accordance with established Investec group guidelines and in conjunction with the watchlist committee policy and process. In the annual financial statements, credit losses and impairments are reported in accordance with International Financial Reporting Standards (IFRS).

The credit risk classification and provisioning policy is adopted per the group's parent Investec Bank plc, and has not been audited.

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 Investec Bank (Australia) Limited (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 (non-performing assets)	Specific impairments are evaluated on a case-by-case basis where objective evidence of impairment has arisen. In determining specific impairments, the following factors are considered: • Capability of the client to generate sufficient cash flow to service debt obligations and the ongoing viability of the client's business • Likely dividend or amount recoverable on liquidation or bankruptcy or business rescue • Nature and extent of claims by other creditors • Amount and timing of expected cash flows • Realisable value of security held (or other credit mitigants) • Ability of the client to make payments in the foreign currency, for foreign currency denominated accounts.	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, netting and margining agreement, 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 32.

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 lend for a maximum of a certain period of the lease.

The bulk of collateral taken by private clients is commercial and residential real estate. Commercial real estate generally takes the form of good quality property often underpinned by strong third party leases. Residential property is also generally of a high quality and based in desirable locations. Residential and commercial property valuations will continue to form part of our ongoing 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 normally requires a suretyship or guarantee in support of a transaction in our private client business.

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

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

Set-off has been applied between assets subject to credit risk and related liabilities in the annual 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 annual financial statements, but reported on a gross basis to regulators.

Investec places minimal reliance on credit derivatives in its credit risk mitigation techniques.

Further information on credit derivatives is provided on page 80.

Investec endeavours to implement robust processes to minimise the possibility of legal and/or operational risk through good quality tangible 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 management

An analysis of gross credit and counterparty exposures

A$'million	31 March 2014	31 March 2013	% change	Average*
Cash and balances at central banks	52.3	210.5	(75%)	131.4
Loans and advances to banks	114.2	124.1	(8%)	119.1
Sovereign debt securities	515.1	429.5	20%	472.3
Bank debt securities	245.4	262.2	(6%)	253.8
Other debt securities	14.7	32.8	(55%)	23.7
Derivative financial instruments	90.3	108.1	(16%)	99.2
Securities arising from trading activitites	–	12.0	(100%)	6.0
Loans and advances to customers (gross)	2 325.4	2 521.0	(8%)	2 423.2
Own originated loans and advances to customers securitised (gross)	806.2	716.2	13%	761.2
Total on-balance sheet exposures	4 163.6	4 416.4	(6%)	4 289.9
Guarantees^	57.5	56.9	1%	57.2
Contingent liabilities, committed facilities and other	400.4	237.0	69%	318.7
Total off-balance sheet exposures	457.9	293.9	56%	375.8
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	4 621.5	4 710.3	(2%)	4 665.7

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

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

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

The table below indicates which class of assets (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.

Consolidated A$'million	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note reference	Total balance sheet
At 31 March 2014				
Cash and balances at central banks	52.3	12.8		65.1
Loans and advances to banks	114.2	176.8		291.0
Sovereign debt securities	515.1	–		515.1
Bank debt securities	245.4	–		245.4
Other debt securities	14.7	–		14.7
Derivative financial instruments	90.3	0.7		91.0
Investment portfolio	–	11.6		11.6
Loans and advances to customers	2 325.4	(19.1)	1	2 306.3
Own originated loans and advances to customers securitised	806.2	(1.1)	1	805.1
Interest in associated undertakings	–	6.1		6.1
Deferred taxation assets	–	15.7		15.7
Other assets	–	126.5		126.5
Property and equipment	–	11.8		11.8
Goodwill	–	73.5		73.5
Intangible assets	–	7.6		7.6
Total on-balance sheet exposures	4 163.6	422.9		4 586.5

1 *Relates to impairments, further information is provided on page 26.*

* *Please refer to page 54 for the audited numbers in relation to total assets and total liabilities. The detail split has not been audited.*

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

The table below indicates which class of assets (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.

Consolidated A$'million	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note reference	Total balance sheet
At 31 March 2013				
Cash and balances at central banks	210.5	4.0		214.5
Loans and advances to banks	124.1	4.0		128.1
Sovereign debt securities	429.5	–		429.5
Bank debt securities	262.2	–		262.2
Other debt securities	32.8	–		32.8
Derivative financial instruments	108.1	0.6		108.7
Securities arising from trading activities	12.0	–		12.0
Investment portfolio	–	16.8		16.8
Loans and advances to customers	2 521.0	(24.9)	1	2 496.1
Own originated loans and advances to customers securitised	716.2	(0.8)	1	715.4
Interest in associated undertakings	–	5.6		5.6
Deferred taxation assets	–	15.7		15.7
Other assets	–	196.4		196.4
Property and equipment	–	14.3		14.3
Goodwill	–	94.1		94.1
Intangible assets	–	11.4		11.4
Total on-balance sheet exposures	4 416.4	337.2		4 753.6

1 *Relates to impairments, further information is provided on page 26.*

** *Please refer to page 54 for the audited numbers in relation to total assets and total liabilities. The detail split has not been audited.*

A summary of gross credit and counterparty exposures by industry*

A$'million	Gross core loans and advances 31 March 2014	Gross core loans and advances 31 March 2013	Other credit and counterparty 31 March 2014	Other credit and counterparty 31 March 2013	Total 31 March 2014	Total 31 March 2013
HNW and professional individuals	2 298.7	2 047.3	312.4	72.7	2 611.1	2 120.0
Lending collateralised by property	179.7	–	54.0	–	233.7	–
Agriculture	18.7	0.2	4.5	–	23.2	0.2
Electricity, gas and water (utility services)	1.9	67.8	1.2	3.6	3.1	71.4
Public and non-business services	53.0	99.6	575.4	658.3	628.4	757.9
Business service	98.1	147.4	9.8	45.5	107.8	192.9
Finance and insurance	21.0	65.2	431.3	491.2	452.3	556.4
Retailers and wholesalers	42.2	67.8	9.7	28.1	51.9	95.9
Manufacturing and commerce	28.5	50.1	6.4	23.3	34.9	73.4
Construction	66.3	52.2	21.8	40.2	88.1	92.4
Commercial real estate	62.8	366.1	0.4	30.0	63.3	396.1
Mining and resource	151.3	99.4	53.3	71.3	204.6	170.7
Leisure, entertainment and tourism	24.8	63.7	0.2	1.3	25.0	65.0
Transport	67.6	110.4	1.0	7.7	68.6	118.1
Communication	17.0	–	8.5	–	25.5	–
Total	3 131.6	3 237.2	1 489.9	1 473.2	4 621.5	4 710.3

* *The total gross credit and counterparty exposure by industry agrees to note 41 to the annual financial statements.*

Detailed analysis of gross credit and counterparty exposures by industry*

A$'million	HNW and professional individuals	Lending collateralised by property	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business service
At 31 March 2014						
Cash and balances at central banks	–	–	–	–	52.2	–
Loans and advances to banks	–	–	–	–	–	–
Non-sovereign and non-bank cash placements	–	–	–	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	–	–
Sovereign debt securities	–	–	–	–	515.0	–
Bank debt securities	–	–	–	–	–	–
Other debt securities	–	–	–	–	–	–
Derivative financial instruments	2.6	–	–	1.2	8.1	0.2
Securities arising from trading activities	–	–	–	–	–	–
Loans and advances to customers (gross)	1 492.5	179.7	18.7	1.9	53.0	98.1
Own originated loans and advances to customers	806.2	–	–	–	–	–
Property and equipment	–	–	–	–	–	–
Total on-balance sheet exposures	2 301.3	179.7	18.7	3.1	628.3	98.3
Guarantees	4.9	0.7	–	–	–	1.1
Contingent liabilities, committed facilities and other	305.0	53.3	4.5	–	–	8.4
Total off-balance sheet exposures	309.9	54.0	4.5	–	–	9.5
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	2 611.2	233.7	23.2	3.1	628.3	107.8
At 31 March 2013						
Cash and balances at central banks	–	–	–	–	210.5	–
Loans and advances to banks	–	–	–	–	–	–
Non-sovereign and non-bank cash placements	–	–	–	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	–	–
Sovereign debt securities	–	–	–	–	429.5	–
Bank debt securities	–	–	–	–	–	–
Other debt securities	–	–	–	–	–	–
Derivative financial instruments	–	–	–	3.4	6.8	0.3
Securities arising from trading activities	–	–	–	–	–	–
Loans and advances to customers (gross)	1 331.1	–	0.2	67.8	99.6	147.3
Own originated loans and advances to customers	716.2	–	–	–	–	–
Property and equipment	–	–	–	–	–	–
Total on-balance sheet exposures	2 047.3	–	0.2	71.2	746.4	147.6
Guarantees	3.2	–	–	0.2	–	1.3
Contingent liabilities, committed facilities and other	69.5	–	–	–	11.5	44.0
Total off-balance sheet exposures	72.7	–	–	0.2	11.5	45.3
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	2 120.0	– –	0.2	71.4	757.9	192.9

* *The total gross credit and counterparty exposure by industry agrees to note 41 to the annual financial statements. The industry split has not been audited.*

Finance and insurance (including central banks)	Retailers and wholesalers	Manufacturing and commerce	Construction	Commercial real estate	Mining and resources	Leisure, entertainment and tourism	Transport and communication	Total
–	–	–	–	–	–	–	–	52.2
114.2	–	–	–	–	–	–	–	114.2
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	515.0
245.4	–	–	–	–	–	–	–	245.4
14.7	–	–	–	–	–	–	–	14.7
53.9	1.4	1.4	19.8	0.4	0.5	–	1.0	90.5
–	–	–	–	–	–	–	–	–
21.0	42.2	28.5	66.3	62.8	151.3	24.8	84.6	2 325.4
–	–	–	–	–	–	–	–	806.2
–	–	–	–	–	–	–	–	–
449.2	43.6	29.9	86.1	63.2	151.8	24.8	85.6	4 163.6
2.1	6.4	–	0.1	–	42.0	0.2	–	57.5
1.1	1.9	5.0	1.9	–	10.8	–	8.5	400.4
3.2	8.3	5.0	2.0	–	52.8	0.2	8.5	457.9
452.4	51.9	34.9	88.1	63.2	204.6	25.0	94.1	4 621.5
–	–	–	–	–	–	–	–	210.5
124.1	–	–	–	–	–	–	–	124.1
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	429.5
262.2	–	–	–	–	–	–	–	262.2
22.2	–	–	10.6	–	–	–	–	32.8
68.4	1.7	1.1	23.8	0.1	0.8	–	1.7	108.1
12.0	–	–	–	–	–	–	–	12.0
65.2	67.8	50.1	52.2	366.2	99.4	63.7	110.4	2 521.0
–	–	–	–	–	–	–	–	716.2
–	–	–	–	–	–	–	–	–
554.1	69.5	51.2	86.6	366.3	100.2	63.7	112.1	4 416.4
2.1	1.0	6.1	–	1.4	41.6	–	–	56.9
0.2	25.3	16.1	5.8	28.4	28.9	1.3	6.0	237.0
2.3	26.3	22.2	5.8	29.8	70.5	1.3	6.0	293.9
556.4	95.8	73.4	92.4	396.1	170.7	65.0	118.1	4 710.3

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

Calculation of core loans and advances to customers

At 31 March A$'million	2014	2013
Loans and advances to customers as per the balance sheet	2 306.3	2 496.1
Add: own originated loans and advances securitised as per the balance sheet	805.1	715.4
Net core loans and advances to customers	3 111.4	3 211.5

The tables that follow provide information with respect to the asset quality of our core loans and advances to customers.

A$'million	31 March 2014	31 March 2013
Gross core loans and advances to customers	3 131.6	3 237.2
Total impairments	(20.2)	(25.7)
Specific impairments	(17.7)	(23.2)
Portfolio impairments	(2.5)	(2.5)
Net core loans and advances to customers	3 111.4	3 211.5
Average gross core loans and advances	3 184.4	3 130.7
Current loans and advances to customers	3 022.6	3 115.8
Past due loans and advances to customers (1 – 60 days)	31.7	25.7
Special mention loans and advances to customers	22.2	1.4
Default loans and advances to customers	55.1	94.2
Gross core loans and advances to customers	3 131.6	3 237.2
Current loans and advances to customers	3 043.1	3 115.8
Gross core loans and advances to customers that are past due but not impaired	46.4	46.5
Gross core loans and advances to customers that are impaired	42.1	74.9
Gross core loans and advances to customers	3 131.6	3 237.2
Total income statement charge for impairments, core loans and advances	(38.5)	(27.1)
Gross default loans and advances to customers	55.2	74.9
Specific impairments	(17.7)	(23.2)
Portfolio impairments	(2.5)	(2.5)
Defaults net of impairments	35.0	49.2
Collateral and other credit enhancements	(61.6)	(51.9)
Net default loans and advances to customers (limited to zero)	–	–
Ratios		
Total impairments as a % of gross core loans and advances to customers	0.65%	0.79%
Total impairments as a % of gross default loans	36.64%	27.25%
Gross defaults as a % of gross core loans and advances to customers	1.76%	2.91%
Defaults (net of impairments) as a % of net core loans and advances to customers	1.12%	2.13%
Credit loss ratio (i.e. income statement impairment charge as a % of average gross core loans and advances)	1.21%	0.86%

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

Consolidated
At 31 March

A$'million	2014	2013
Default loans that are current	20.5	24.6
1 – 60 days	37.0	26.3
61 – 90 days	2.2	3.1
91 – 180 days	11.9	12.9
181 – 365 days	14.2	31.1
>365 days	23.3	23.3
Past due and default core loans and advances to customers (actual capital exposure)	109.1	121.3
1 – 60 days	4.6	9.9
61 – 90 days	0.1	0.2
91 – 180 days	3.7	1.6
181 – 365 days	12.2	24.8
>365 days	12.9	22.4
Past due and default core loans and advances to customers (actual amount in arrears)	33.5	58.9

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

A$'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
At 31 March 2014							
Watchlist loans neither past due nor impaired							
Total capital exposure	20.5	–	–	–	–	–	20.5
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	32.4	1.0	9.8	2.0	1.3	46.5
Amount in arrears	–	4.5	–	3.6	0.9	1.3	10.3
Gross core loans and advances to customers that are impaired							
Total capital exposure	–	4.6	1.2	2.1	12.2	22.0	42.1
Amount in arrears	–	–	0.1	0.1	11.3	11.6	23.1
At 31 March 2013							
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	26.0	1.2	12.4	6.7	0.2	46.5
Amount in arrears	–	9.9	0.2	1.5	3.7	0.1	15.4
Gross core loans and advances to customers that are impaired							
Total capital exposure	24.6	0.3	1.9	0.5	24.5	23.0	74.8
Amount in arrears	–	–	–	0.1	21.1	22.3	43.5

An age analysis of past due and default core loans and advances to customers at 31 March 2014 (based on total capital exposure)

A$'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	31.7	–	–	–	–	31.7
Special mention	–	0.7	0.9	–	–	–	1.6
Special mention (1 – 90 days)	–	0.7	–	–	–	–	0.7
Special mention (61 – 90 days and item well secured)	–	–	0.9	–	–	–	0.9
Default	–	4.6	1.3	11.9	14.2	23.3	55.3
Sub-standard	–	–	–	9.8	2.0	1.3	13.1
Doubtful	–	4.6	1.3	2.1	12.2	22.0	42.2
Loss	–	–	–	–	–	–	–
Total	–	37.0	2.2	11.9	14.2	23.3	88.6

An age analysis of past due and default core loans and advances to customers at 31 March 2014 (based on actual amount in arrears)

A$'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	4.6	–	–	–	–	4.5
Special mention	–	–	–	–	–	–	–
Special mention (1 – 90 days)	–	–	–	–	–	–	–
Special mention (61 – 90 days and item well secured)	–	–	–	–	–	–	–
Default	–	–	0.1	3.7	12.2	12.9	28.9
Sub-standard	–	–	–	3.6	0.9	1.3	5.8
Doubtful	–	–	0.1	0.1	11.3	11.6	23.1
Loss	–	–	–	–	–	–	–
Total	–	4.6	0.1	3.7	12.2	12.9	33.5

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

A$'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	25.7	–	–	–	–	25.7
Special mention	–	0.3	1.2	–	–	–	1.5
Special mention (1 – 90 days)	–	0.3	0.6	–	–	–	0.9
Special mention (61 – 90 days and item well secured)	–	–	0.6	–	–	–	0.6
Default	24.6	0.3	1.9	12.9	31.2	23.2	94.1
Sub-standard	–	–	–	12.4	6.7	0.2	19.3
Doubtful	24.6	0.1	1.9	0.4	24.5	23.0	74.5
Loss	–	0.2	–	0.1	–	–	0.3
Total	24.6	26.3	3.1	12.9	31.2	23.2	121.3

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

A$'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	9.8	–	–	–	–	9.8
Special mention	–	0.1	0.2	–	–	–	0.3
Special mention (1 – 90 days)	–	0.1	–	–	–	–	0.1
Special mention (61 – 90 days and item well secured)	–	–	0.2	–	–	–	0.2
Default	–	–	–	1.6	24.8	22.4	48.8
Sub-standard	–	–	–	1.5	3.7	0.1	5.3
Doubtful	–	–	–	0.1	21.1	22.3	43.5
Total	–	9.9	0.2	1.6	24.8	22.4	58.9

An analysis of core loans and advances to customers

A$'million	Gross core loans and advances that are neither past due nor impaired	Gross core loans and advances that are past due but not impaired	Gross core loans and advances that are impaired	Total gross core loans and advances (actual capital exposure)	Specific impairments	Portfolio impairments	Total net core loans and advances (actual capital exposure)	Actual amount in arrears
At 31 March 2014								
Current core loans and advances	3 043.1	–	–	3 043.1	–	(2.5)	3 040.6	–
Past due (1 – 60 days)	–	31.7	–	31.7	–	–	31.7	4.5
Special mention	–	1.6	–	1.6	–	–	1.6	0.1
Special mention (1 – 90 days)	–	0.7	–	0.7	–	–	0.7	0.1
Special mention (61 – 90 days and item well secured)	–	0.9	–	0.9	–	–	0.9	–
Default	–	13.1	42.1	55.2	(17.7)	–	37.5	28.9
Sub-standard	–	13.1	–	13.1	–	–	13.1	5.8
Doubtful	–	–	42.1	42.1	(17.7)	–	24.4	23.1
Total	3 043.1	46.4	42.1	3 131.6	(17.7)	(2.5)	3 111.4	33.5
At 31 March 2013								
Current core loans and advances	3 115.8	–	–	3 115.8	–	(2.5)	3 113.3	–
Past due (1 – 60 days)	–	25.7	–	25.7	–	–	25.7	9.8
Special mention	–	1.5	–	1.5	–	–	1.5	0.2
Special mention (1 – 90 days)	–	0.9	–	0.9	–	–	0.9	–
Special mention (61 – 90 days and item well secured)	–	0.6	–	0.6	–	–	0.6	0.2
Default	–	19.3	74.9	94.2	(23.2)	–	71.0	48.8
Sub-standard	–	19.3	–	19.3	–	–	19.3	5.3
Doubtful	–	–	74.6	74.6	(22.9)	–	51.7	43.5
Loss	–	–	0.3	0.3	(0.3)	–	–	–
Total	3 115.8	46.5	74.9	3 237.2	(23.2)	(2.5)	3 211.5	58.8

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

A$'million	Private Banking professional and HNW individuals	Corporate sector	Insurance, financial services (excluding sovereign)	Public and government sector (including central banks)	Trade finance and other	Total core loans and advances to customers
At 31 March 2014						
Current core loans and advances	2 411.6	557.6	21.0	53.0	–	3 043.2
Past due (1 – 60 days)	23.2	8.4	–	–	–	31.6
Special mention	0.8	0.9	–	–	–	1.7
Special mention (1 – 90 days)	0.3	0.5	–	–	–	0.8
Special mention (61 – 90 days and item well secured)	0.5	0.4	–	–	–	0.9
Default	42.8	12.3	–	–	–	55.1
Sub-standard	12.0	1.0	–	–	–	13.0
Doubtful	30.8	11.3	–	–	–	42.1
Total gross core loans and advances to customers	2 478.4	579.2	21.0	53.0	–	3 131.6
						–
Total impairments	(16.0)	(4.2)	–	–	–	(20.2)
Specific impairments	(13.5)	(4.2)	–	–	–	(17.7)
Portfolio impairments	(2.5)	–	–	–	–	(2.5)
Net core loans and advances to customers	2 462.4	575.0	21.0	53.0	–	3 111.4
At 31 March 2013						
Current core loans and advances	2 019.9	931.1	65.2	99.6	–	3 115.8
Past due (1 – 60 days)	15.0	10.7	–	–	–	25.7
Special mention	1.1	0.4	–	–	–	1.5
Special mention (1 – 90 days)	0.5	0.4	–	–	–	0.9
Special mention (61 – 90 days and item well secured)	0.6	–	–	–	–	0.6
Default	11.3	82.9	–	–	–	94.2
Sub-standard	5.9	13.4	–	–	–	19.3
Doubtful	5.1	69.5	–	–	–	74.6
Loss	0.3	–	–	–	–	0.3
Total gross core loans and advances to customers	2 047.3	1 025.1	65.2	99.6	–	3 237.2
Total impairments	(5.0)	(20.7)	–	–	–	(25.7)
Specific impairments	(2.5)	(20.7)	–	–	–	(23.2)
Portfolio impairments	(2.5)	–	–	–	–	(2.5)
Net core loans and advances to customers	2 042.3	1 004.4	65.2	99.6	–	3 211.5

Collateral

A summary of total collateral

A$'million	Collateral held against: Core loans and advances	Collateral held against: Other credit and counterparty exposures*	Total
At 31 March 2014			
Eligible financial collateral	227.3	1.7	229.0
Listed shares	223.6	–	223.6
Cash	3.7	1.7	5.4
Mortgages	1 432.3	8.6	1 440.9
Residential mortgages	252.3	8.3	260.6
Residential development	217.6	0.3	217.9
Commercial property developments	34.5	–	34.5
Commercial property investments	927.9	–	927.9
Other collateral	1 952.3	0.8	1 953.1
Unlisted shares	44.2	–	44.2
Debtors, stock and other corporate assets	1 163.8	–	1 163.8
Other	744.3	0.8	745.1
Total collateral	3 611.9	11.1	3 623.0
At 31 March 2013			
Eligible financial collateral	372.4	27.8	400.2
Listed shares	363.0	–	363.0
Cash	9.4	27.8	37.2
Mortgages	1 556.6	0.6	1 557.2
Residential mortgages	289.1	0.6	289.7
Residential development	224.2	–	224.2
Commercial property investments	1 043.3	–	1 043.3
Other collateral	1 738.5	10.7	1 749.2
Unlisted shares	106.6	–	106.6
Debtors, stock and other corporate assets	744.1	–	744.1
Guarantees	11.6	–	11.6
Other	876.2	10.7	886.8
Total collateral	3 667.5	39.1	3 706.6

* *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.*

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 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 Management 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.

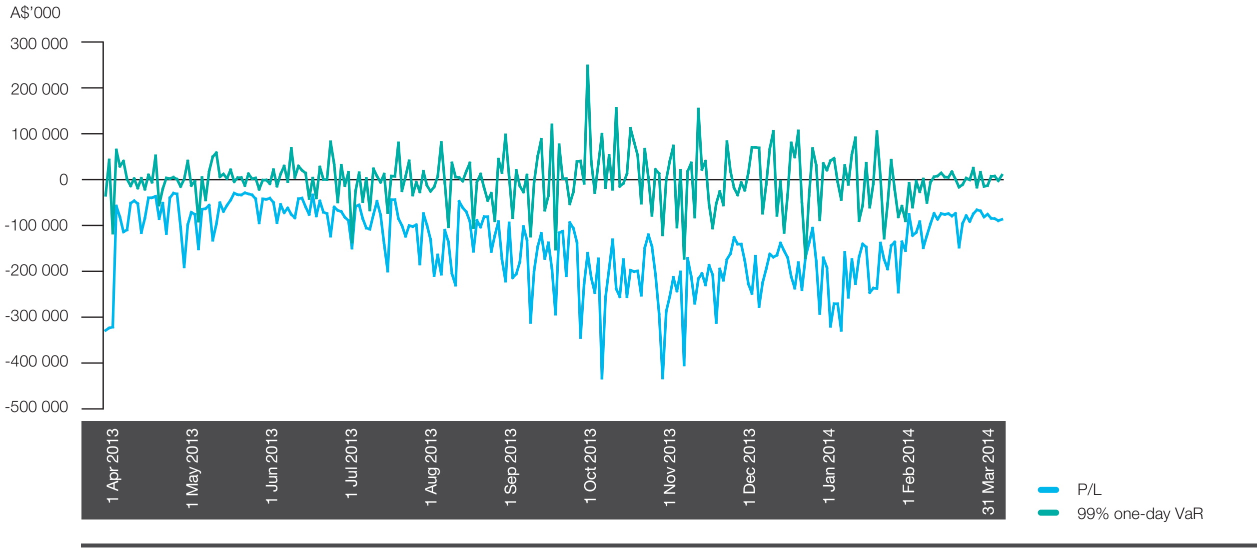
Consolidated A$'000	31 March 2014	31 March 2013
VaR 95% (one-day)		
Position	6.8	21.4
Option	–	–
Interest rates	46.8	90.4
Consolidated*	45.6	96.9
High	277.1	149.3
Low	16.5	12.2
Average	83.5	52.6

* *The table above agrees to note 41 in the annual financial statements.*

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

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

99% one-day VaR backtesting



Average VaR utilisation for 2014 was higher than levels experienced in 2013 as a result of increased trading activity, but remains modest relative to risk appetite. Using hypothetical (clean) profit and loss data for backtesting resulted in one exception over the year, i.e. where the loss was greater than the 99% one-day VaR. This is less than the expected number of exceptions at the 99% level. The exception was a result of a daily loss in foreign exchange positions, primarily due to a large movement in the AUD/USD exchange rate.

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from Investec Bank (Australia) Limited's investment portfolio.

The effect on equity due to a reasonably possible change in equity indices held over a one-year time horizon with all other variables held constant, is as follows. The table below agrees to note 41 in the annual financial statements.

	Change in equity price 2014 %	Effect on equity 2014 A$'million	Change in equity price 2013 %	Effect on equity 2013 A$'million
Market Indices				
ASX small cap	+/- 36.1	1.1/(1.1)	+/- 53.2	3.7/(3.7)

Stress testing

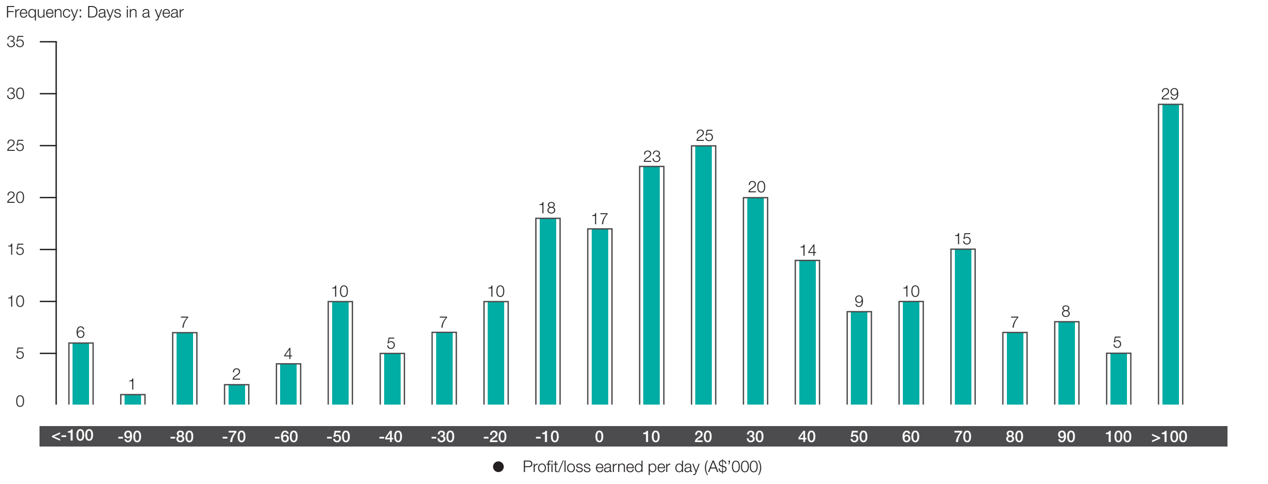
The table below indicates the potential losses that could arise if the portfolio is stress tested under extreme market conditions (99% extreme value theory).

Consolidated A$'million	31 March 2014	31 March 2013
Position	0.012	0.075
Option	–	–
Interest rates	0.140	0.456
Consolidated	0.138	0.435

Profit and loss histograms

The histogram below illustrates the distribution of daily revenue during the financial year for our trading businesses. The graph shows that positive trading revenue was realised on 165 days out of a total of 252 days in the trading business. The average daily trading revenue generated for the year ended 31 March 2014 was A$43 715 (2013: profit of A$17 157).

Profit and loss



Risk management

04

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 compared 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 510 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.

Market risk – derivatives

We enter into various derivative 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 portfolio over the reporting period on the basis of the notional principal and the fair value of all derivatives can be found on page 80.

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 and non-trading interest rate risks on balance sheet.

Balance sheet risk governance structure and risk mitigation

Under delegated authority of the board, the group has established asset and liability management committees (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 within a board-approved risk appetite.

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. Geographic entities 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, business heads, and any appropriate co-opted personnel. The ALCOs formally meet on a monthly basis to review the exposures that lie within the balance sheet together with market conditions, and decide on strategies to mitigate any undesirable liquidity and interest rate risk. The central treasury function within each region is mandated to holistically manage the liquidity mismatch and non-trading interest rate risk arising from our asset and liability portfolios on a day-to-day basis. The treasurers are 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. Non-trading interest rate risk and asset funding requirements are transferred from the originating business to the treasury function.

The central treasury function by core geography 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 functions are 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 taking into account the behavioural duration of the asset. 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 regulatory developments, best risk practice, and measures adopted in the broader market, and implements the changes to the bank's risk management and governance framework where relevant.

Scenario modelling and rigorous 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 are 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 analyse the possible impact of economic event risk on cash flows, liquidity, profitability and solvency position, so as to maintain 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 it proposes to both strengthen and harmonise global liquidity standards and plans 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 to be phased in from 2015 and a second consultation paper, the NSFR, was published in January 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 and pave the way for the group to emerge from a potential funding crisis with the best possible reputation and financial condition for continuing operations. 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 risk modelling 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 highlighting 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.

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 non-trading interest rate risk 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
- Together with the business, the treasurer develops strategies regarding changes in the volume, composition, pricing and interest rate characteristics of assets and liabilities to mitigate the interest rate risk and ensure a high degree of net interest margin stability over an interest rate cycle. These are presented, debated and challenged in the liability product and pricing forum and ALCO
- It is the responsibility of the liability product and pricing forum, a sub-committee 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 embedded option risk. This is performed for a variety of interest rate scenarios, covering:

- Interest rate expectations and perceived risks to the central view (house views)
- Standard shocks to levels and shapes of interest rates and yield curves
- Historically-based yield curve changes.

This is consistent with the standardised interest rate measurement recommended by the Basel framework for assessing interest rate risk in the 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 and ensure a high degree of the net interest margin stability over an interest rate cycle. 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, whilst economic value sensitivity and stress testing to macro-economic movement or changes to the yield curve 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 versus 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 providing central treasury with a holistic view of the exposure. 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 (covering capital, leverage 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 produce consultation documents in the next year on minimum standards for interest rate risk measurement in the banking book. The December 2013 Basel QIS document has called for information used to measure interest rate exposure.

The table below shows Investec Bank (Australia) Limited's stress sensitivity to interest rates in the banking book utilising EVaR.

The tables below agree to note 41 to the annual financial statements.

Consolidated A$'million	High for the year March 2014	Low for the year March 2014	Average for the year March 2014	At March 2014	High for the year March 2013	Low for the year March 2013	Average for the year March 2013	At March 2013
Economic value at risk	0.1	(4.5)	(1.7)	(2.1)	3.3	(0.2)	1.8	2.5

Investec Bank (Australia) Limited's interest sensitivity to EAR and EVaR in relation to the Investec Professional Finance trusts arises in relation to various note holdings that Investec Bank (Australia) Limited has in these trusts. These notes are liabilities of the relevant trusts and treated as assets in the balance sheet. As the notes form part of the assets in the balance sheet they are treated in the same manner and using the same methodologies as are used for all assets in the banking book in the calculation of the EAR and EVaR.

Investec Bank (Australia) Limited also measures, on a monthly basis, the stress sensitivity of earnings to interest rate movements, utilising an EAR sensitivity. The calculation involves the measuring of the static interest rate repricing gaps arising as a result of the varying interest rate repricing characteristics of assets, liabilities and capital, and the impact, over a 12-month period, of a 200bps interest rate movement on earnings arising from the static gap position.

The table below shows the stress sensitivity to interest rates in the banking book utilising the EAR methodology as described above.

Consolidated A$'million	High for the year March 2014	Low for the year March 2014	Average for the year March 2014	At March 2014	High for the year March 2013	Low for the year March 2013	Average for the year March 2013	At March 2013
Earnings at risk	1.6	(3.7)	(0.3)	(0.2)	5.3	(1.1)	2.9	2.5

Interest rate sensitivity gap

The tables below show our non-trading interest rate mismatch. These exposures affect the interest rate margin realised between lending and investment income and borrowing costs.

Interest rate sensitivity gap at 31 March 2014

A$'million	Not > three months	> Three months but < six months	> Six months but < one year	> One year but < five years	> Five years	Non-rate	Total
Cash and short-term funds – banks	354.4	–	–	–	–	1.7	356.1
Investment/trading assets	737.9	16.2	10.6	5.4	–	107.7	877.8
Securitised assets	210.6	62.5	115.6	410.5	5.9	–	805.1
Advances	1 515.6	88.0	97.8	535.7	9.6	59.6	2 306.3
Other assets	–	–	–	–	–	241.2	241.2
Assets	2 818.5	166.7	224.0	951.6	15.5	410.2	4 586.5
Deposits – non-banks	(1 807.7)	(560.0)	(131.1)	(211.5)	(11.8)	(33.1)	(2 755.2)
Negotiable paper	(153.7)	(2.0)	(34.3)	–	–	–	(190.0)
Securitised liabilities	(807.7)	–	–	–	–	–	(807.7)
Investment/trading liabilities	–	–	–	–	–	–	–
Subordinated loans	(130.1)	–	–	–	–	(1.1)	(131.2)
Other liabilities	–	–	–	–	–	(143.3)	(143.3)
Liabilities	(2 899.2)	(562.0)	(165.4)	(211.5)	(11.8)	(177.5)	(4 027.4)
Shareholders' funds	–	–	–	–	–	(559.1)	(559.1)
Balance sheet	(80.7)	(395.3)	58.6	740.1	3.7	(326.4)	–
Off-balance sheet	570.7	106.2	(97.5)	(579.4)	4.2	(4.2)	–
Repricing gap	490.0	(289.1)	(38.9)	160.7	7.9	(330.6)	–
Cumulative repricing gap	490.0	200.9	162.0	322.7	330.6	–	–

Interest rate sensitivity gap at 31 March 2013

A$'million	Not > three months	> Three months but < six months	> Six months but < one year	> One year but < five years	> Five years	Non-rate	Total
Cash and short-term funds – banks	342.6	–	–	–	–	–	342.6
Investment/trading assets	536.9	14.5	83.0	89.8	–	137.9	862.0
Securitised assets	243.1	50.6	107.8	310.7	3.0	0.1	715.4
Advances	1 761.3	99.4	131.0	451.6	29.1	23.7	2 496.1
Other assets	–	–	–	–	–	337.5	337.5
Assets	2 883.9	164.5	321.8	852.1	32.1	499.2	4 753.6
Deposits – non-banks	(1 575.3)	(414.9)	(175.7)	(202.6)	(11.3)	(85.7)	(2 465.5)
Negotiable paper	(217.0)	–	(199.0)	(251.4)	–	(18.1)	(685.5)
Securitised liabilities	(696.0)	–	–	–	–	–	(696.0)
Investment/trading liabilities	–	–	–	–	–	–	–
Subordinated loans	(119.3)	–	–	–	–	(1.0)	(120.3)
Other liabilities	–	–	–	–	–	(178.9)	(178.9)
Liabilities	(2 607.6)	(414.9)	(374.7)	(454.0)	(11.3)	(283.7)	(4 146.2)
Shareholders' funds	–	–	–	–	–	(607.4)	(607.4)
Balance sheet	276.3	(250.4)	(52.9)	398.1	20.8	(391.9)	–
Off-balance sheet	232.0	(57.6)	275.6	(424.8)	(21.4)	(3.7)	–
Repricing gap	508.3	(308.0)	222.7	(26.7)	(0.6)	(395.6)	–
Cumulative repricing gap	508.3	200.2	422.9	396.2	395.6	–	–

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 timely with minimal risk of capital loss
- Unpredicted customer non-payment of a loan obligation
- 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, namely 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 inter-group 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
- We maintain an internal funds transfer pricing system based on prevailing market rates. The central treasury function charges out the price of long- and short-term funding to internal consumers of liquidity, which ensures that the costs, benefits and risks of liquidity are clearly and transparently attributed to business lines and are understood by business line management. The funds transfer pricing methodology is designed to signal the right incentive to our lending business
- The group maintains adequate contingency funding plans designed to protect depositors, creditors and shareholders and maintain market confidence during adverse liquidity conditions.

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

We target a diversified funding base, avoiding undue concentrations by investor type, maturity, market source, instrument and currency. This demonstrates 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.

Liquidity mismatch

The tables within note 41 to the financial section of this report show our discounted contractual liquidity mismatch.

With respect to the contractual liquidity mismatch:

- No assumptions are made except as mentioned below, and we record all assets and liabilities with the underlying contractual maturity as determined by the cash flow profile for each deal
- As an integral part of the broader liquidity generation strategy, we maintain a liquidity buffer in the form of unencumbered cash, government, or bank paper (typically eligible for repurchase with the central bank), and near cash as a buffer against both expected and unexpected cash flows
- The actual contractual profile of this asset class is of little consequence, as practically Investec would meet any unexpected net cash outflows by repo'ing or selling these securities, we have:

- set the time horizon to 'on demand' to monetise our statutory liquid assets for which liquidity is guaranteed by the central bank
- set the time horizon to one month to monetise our cash and near cash portfolio of 'available-for-sale' discretionary treasury assets, where there are deep secondary markets for this elective asset class
- reported the 'contractual' profile by way of a note to the tables.

With respect to the behavioural liquidity mismatch:

- 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.

Contractual liquidity at 31 March 2014

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	Un-allocated	Total
Assets									
Cash and short-term funds – banks	179.6	51.3	–	–	50.2	75.0	–	–	356.1
Investment assets*	746.8	7.8	25.6	6.9	20.1	36.6	34.0	–	877.8
Securitised assets	0.5	26.4	67.0	79.0	150.3	475.0	6.9	–	805.1
Advances**	62.0	59.4	181.2	172.6	325.9	1 395.4	109.8	–	2 306.3
Other assets	–	–	–	–	–	–	–	241.2	241.2
Total assets	988.9	144.9	273.8	258.5	546.5	1 982.0	150.7	241.2	4 586.5
Deposits – non-banks	(359.7)	(367.0)	(1 094.2)	(565.3)	(134.5)	(222.6)	(11.9)	–	(2 755.2)
Negotiable paper	–	(1.1)	(6.1)	(2.0)	(180.8)	–	–	–	(190.0)
Securitised liabilities	(0.6)	(26.5)	(67.2)	(79.2)	(275.9)	(357.4)	(0.9)	–	(807.7)
Investment/trading liabilities	(0.2)	(5.4)	(10.4)	(6.2)	(14.2)	(28.3)	(15.0)	–	(79.7)
Subordinated liabilities	–	–	–	–	(20.0)	(111.2)	–	–	(131.2)
Other liabilities	–	–	–	–	–	–	–	(63.6)	(63.6)
Liabilities	(360.5)	(400.0)	(1 177.9)	(652.7)	(625.4)	(719.5)	(27.8)	(63.6)	(4 027.4)
Shareholders' funds	–	–	–	–	–	–	(559.1)	–	(559.1)
Contractual liquidity gap	628.4	(255.1)	(904.1)	(394.2)	(78.9)	1 262.5	(436.2)	177.6	–
Cumulative liquidity gap	628.4	373.3	(530.8)	(925.0)	(1 003.9)	258.6	(177.6)	–	–

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	Un-allocated	Total
* Investment assets	50.4	233.2	143.2	32.6	132.0	230.6	55.8	–	877.8
** Advances	104.6	58.2	179.0	166.6	314.0	1 374.1	109.8	–	2 306.3

Behavioural liquidity

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	Un-allocated	Total
Behavioural liquidity gap	936.3	(357.7)	(865.0)	(564.0)	(247.0)	1 178.7	(259.5)	178.2	–
Cumulative	936.3	578.6	(286.4)	(850.4)	(1 097.4)	81.3	(178.2)	–	

Contractual liquidity 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	Un-allocated	Total
Assets									
Cash and short-term funds – banks	342.6	–	–	–	–	–	–	–	342.6
Investment assets*	664.7	2.8	7.0	26.8	28.6	91.5	24.0	16.8	862.0
Securitised assets	2.2	21.1	65.7	71.2	146.4	405.4	3.4	–	715.4
Advances**	17.6	63.7	218.1	322.1	445.7	1 288.4	140.5	–	2 496.1
Other assets	–	–	–	–	–	–	–	337.5	337.5
Total assets	1 027.0	87.6	290.8	420.1	620.7	1 785.2	167.9	354.3	4 753.6
Deposits – non-banks	(380.1)	(338.8)	(917.9)	(423.3)	(179.6)	(214.3)	(11.4)	–	(2 465.5)
Negotiable paper	–	(5.2)	(12.2)	–	(206.5)	(461.6)	–	–	(685.5)
Securitised liabilities	(2.1)	(20.5)	(63.9)	(147.5)	(116.8)	(342.8)	(2.5)	–	(696.0)
Investment/trading liabilities	(0.6)	(6.3)	(3.5)	(7.3)	(12.7)	(36.1)	(18.2)	–	(84.3)
Subordinated liabilities	–	–	–	–	–	(120.3)	–	–	(120.3)
Other liabilities	–	–	–	–	–	–	–	(94.6)	(94.6)
Liabilities	(382.9)	(370.8)	(997.5)	(578.1)	(515.6)	(1 175.1)	(32.1)	(94.6)	(4 146.2)
Shareholders' funds	–	–	–	–	–	–	(607.3)	–	(607.4)
Contractual liquidity gap	644.1	(283.2)	(706.8)	(158.0)	105.1	610.1	(471.4)	259.7	–
Cumulative liquidity gap	644.1	360.9	(345.9)	(503.9)	(398.8)	211.4	(260.1)	(0.4)	(0.4)

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	Un-allocated	Total
* Investment assets	10.7	12.6	51.1	50.7	120.2	556.0	44.0	16.7	862.0
** Advances	158.7	57.6	206.0	289.8	381.2	1 262.3	140.5	–	2 496.1

Behavioural liquidity

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	Un-allocated	Total
Behavioural liquidity gap	954.8	(335.0)	(606.0)	(365.5)	(35.5)	598.5	(471.4)	260.1	–
Cumulative	954.8	619.8	13.8	(351.7)	(387.2)	211.3	(260.1)	–	–

Balance sheet risk year in review

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 billion.

Total customer deposits grew by 11.6% from 1 April 2013 to A$2.7 billion at 31 March 2014, following the launch of various new banking products and services. The strategic changes announced in respect of the operation of Investec Australia have at present had no material impact on Investec Australia's funding ability or liquidity position relative to target levels.

During the year Australia undertook a further term securitisation of A$278.2 million Professional Finance Assets from the Impala securitisation vehicle.

In addition we bought back A$412.6 million of previously issued government guaranteed term debt and redeemed A$57.3 million of government-guaranteed term debt at contractual maturity.

Analysis of financial liabilities by remaining undiscounted contractual flows

At 31 March 2014

A$'million	Up to one month	One to three months	Three to 12 months	One to five years	> Five years	Total
Liabilities						
Customer accounts	783.4	1 102.7	720.2	246.7	17.2	2 870.2
Derivative financial instruments	9.2	17.9	41.6	38.7	23.2	130.6
Debt issued and other borrowed funds	29.4	82.4	569.6	414.6	6.0	1 102.0
Subordinated loans	0.4	1.6	26.0	124.9	–	152.9
Total liabilities	822.4	1 204.6	1 357.4	824.9	46.4	4 255.7

At 31 March 2013

A$'million	Up to one month	One to three months	Three to 12 months	One to five years	> Five years	Total
Liabilities						
Customer accounts	746.6	922.7	625.4	241.7	17.2	2 553.6
Derivative financial instruments	3.2	12.7	33.9	45.4	25.7	120.9
Debt issued and other borrowed funds	30.8	99.9	538.0	855.7	15.9	1 540.3
Subordinated loans	0.9	1.1	6.3	142.0	–	150.3
Total liabilities	781.5	1 036.4	1 203.6	1 284.8	58.8	4 365.1

Operational risk management

Introduction

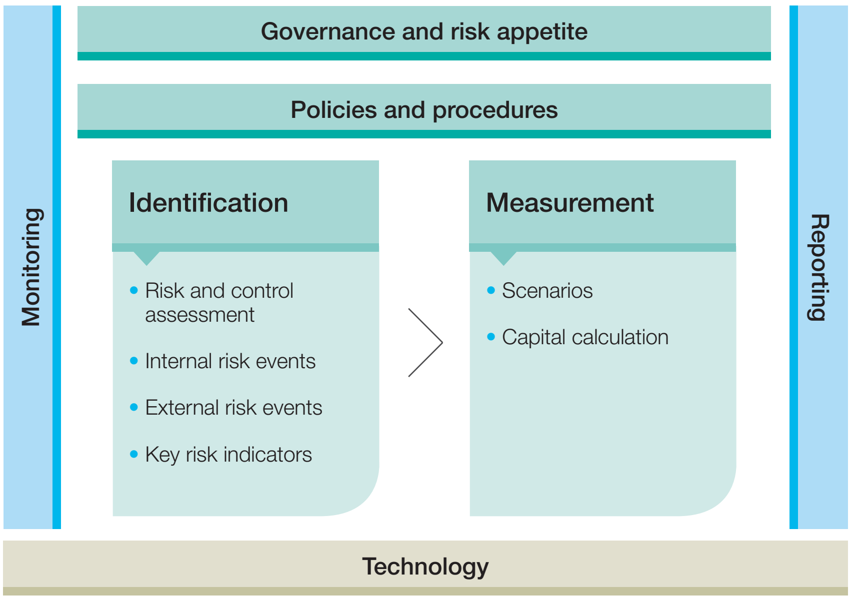
Operational risk is the risk of loss arising from inadequate or failed internal processes, people or systems, or external events. Operational risk has both financial and non-financial impacts.

We recognise that there is significant operational risk inherent in the operations of a bank. Our objective is therefore to manage and mitigate risk exposures and events by adopting sound operational risk management practices.

Operational Risk Management Framework

The bank continues to operate under the Standardised Approach (TSA) to operational risk which forms the basis of the operational risk management framework. The framework is embedded at all levels of the organisation and is continually reviewed to ensure appropriate and effective management of operational risk.

The diagram below depicts how the components of operational risk are integrated.



Operational risk governance structure

The governance structure adopted to manage operational risk is enforced in terms of a levels of defence model and supports the principle of combined assurance.

The governance structure for operational risk management is outlined below.

Board

The board is responsible for reviewing and approving the overall risk management strategy, including determining the risk appetite and tolerance for the bank. The board carries out these responsibilities through the Board Australia Risk and Capital Committee (BARC).

Internal assurance

There is an independent review of the operational risk framework and its effectiveness. The audit findings are integrated into the operational risk management process.

Operational risk management

An independent specialist operational risk management function promotes consistent and sound operational risk management practices and processes across Investec Bank (Australia) Limited. Operational Risk provides reporting to the board and board committees on operational risk exposures, events and emerging issues.

Senior management

Senior management is responsible for identifying, evaluating and managing the risks at business unit level. They are required to establish and maintain an appropriate operational risk and control environment.

Risk Appetite and Tolerance

The Operational Risk Tolerance policy defines the amount of operational risk exposure, or potential adverse impact from a risk event, that the bank is willing to accept or retain. The objective of the policy is to encourage action and mitigation of risk exposures and provides management guidance to respond appropriately. Additionally, the policy defines capturing and reporting thresholds for risk events and guidance to respond to key risk indicators appropriately.

Operational risk practices

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

Risk and control assessment	Internal risk events	External risk events	Key risk indicators	Scenarios and capital calculation	Reporting and monitoring	Technology
Qualitative assessments that identify key operational risks and controls Identifies ineffective controls and improves decision-making through an understanding of the operational risk profile	Incidents resulting from failed systems, processes or people or external events A causal analysis is performed Enables business to identify trends in risk events and address control weaknesses	Access to data from an external data consortium Events 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	Metrics are used to monitor risk exposures against identified thresholds Assists in predictive capability	Extreme, yet plausible scenarios are evaluated for financial and non-financial impacts Used to measure exposure arising from key risks, which is considered in determining internal operational risk capital requirements	A reporting process is in place to ensure that risk exposures are identified and that key risks are appropriately escalated and managed Monitoring compliance with operational risk policies and practices ensure the framework is embedded in day-to-day business activities	An operational risk system is in place to support operational risk practices and processes

Capital adequacy

Investec Bank (Australia) Limited is regulated, on both a stand-alone entity and a consolidated basis, by APRA and is required to maintain certain minimum ratios of capital to risk-weighted assets, as outlined in the APRA Basel III capital reforms. As a subsidiary of Investec plc, and ultimately Investec Limited, Investec Bank (Australia) Limited is additionally subject to the regulatory requirements of the Prudential Regulation Authority (PRA) and the South African Reserve Bank (SARB).

Under the new APRA Basel III prudential standards, capital resources are comprised of three components: common equity tier 1 (CET1), tier 1 and tier 2 capital. Tier 1 capital is made up of CET1, consisting primarily of shareholder funds and retained earnings, and additional tier 1 capital. Intangible assets, deferred tax assets and other items are then deducted to arrive at the final tier 1 capital resources.

Tier 2 capital consists of capital instruments that do not meet the tier 1 requirements for permanency and absence of fixed servicing costs, as well as eligible general provisions for doubtful debts.

Capital adequacy

March 2013 and 2014 disclosures are subject to Basel III regulations

A$'million	31 March 2014	31 March 2013
Tier 1 capital		
Shareholders' equity	539.0	596.1
Shareholders' equity per balance sheet	539.0	596.1
Non-contolling interests	–	–
Regulatory adjustments to the accounting basis	–	2.0
Unrealised losses on available-for-sale equities	–	–
Defined benefit pension fund adjustment	–	–
Unrealised gains on available-for-sale equities	–	2.0
Prudent valuation	–	–
Cash flow hedge reserve	–	–
Deductions	(151.7)	(193.6)
Goodwill and intangible assets	(73.5)	(105.4)
Unconsolidated investments	(17.8)	(22.9)
Securitisation positions	(42.5)	(55.2)
Other deductions	(17.9)	(10.1)
Common equity tier 1 capital	387.3	404.5
Additional tier 1 capital before deductions	–	–
Deductions	–	–
Total tier 1 capital	387.3	404.5
Total qualifying tier 2 capital before deductions	124.7	135.2
Unrealised gains on available-for-sale equities	–	–
Collective impairment allowances	–	–
Tier 2 instruments	26.6	24.8
Phase out of non-qualifying tier 2 instruments	98.1	110.4
Deductions	–	–
Unconsolidated investments	–	–
Securitisation positions	–	–
Tier 2 capital	124.7	135.2
Total regulatory capital	512.0	539.7

Capital adequacy (continued)

March 2013 and 2014 disclosures are subject to Basel III regulations

A$'million	31 March 2014	31 March 2013
Risk-weighted assets	3 185.2	3 422.4
Credit risk – prescribed standardised exposure classes	2 726.2	2 978.8
Corporates	729.0	1 095.1
Secured on real estate property	93.8	121.6
Counterparty risk on trading positions	70.3	68.3
Short-term claims on institutions and corporates	24.7	19.5
Retail	1 495.6	1 179.8
Institutions	118.3	69.2
Other exposure classes	194.5	425.3
Securitised exposures	2.9	4.4
Equity risk – standardised approach	–	–
Listed equities	–	–
Unlisted equities	–	–
Market risk – portfolios subject to internal models approach	54.5	46.7
Interest rate	52.2	43.1
Foreign exchange	1.8	3.4
Commodities	0.5	0.2
Operational risk – standardised approach	401.7	392.5
Total capital ratio (level 2)	16.1%	15.8%
Tier 1 ratio (level 2)	12.2%	11.8%
Core tier 1 ratio/common equity tier 1 ratio	12.2%	11.8%
Total capital adequacy ratio – pre-operational risk (level 2)	18.4%	17.8%
Tier 1 ratio – pre-operational risk (level 2)	13.9%	13.3%
Common equity tier 1 ratio – pre-operational risk (level 2)	13.9%	13.3%
Total capital adequacy ratio (level 1)	15.2%	15.4%
Tier 1 ratio (level 1)	11.2%	11.3%
Common equity tier 1 ratio (level 1)	11.2%	11.3%
Total capital adequacy ratio – pre-operational risk (level 1)	17.1%	17.2%
Tier 1 ratio – pre-operational risk (level 1)	12.7%	12.7%
Common equity tier 1 ratio – pre-operational risk (level 1)	12.7%	12.7%

Five

Annual financial **statements**

Directors' report

The directors of Investec Bank (Australia) Limited submit the following report for the year ended 31 March 2014.

Directors

The names and details of the company's directors in office during the financial year and until the date of this report are shown below. Directors were in office for the entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Richard Longes

BA, LLB, MBA

Chairman

(Appointed: 31 March 2014)

Richard has been a director of Investec Bank (Australia) Limited since March 2001. Richard is currently chairman of Austbrokers Holdings Limited and a non-executive director of Boral Limited. He was a co-founder of Investec Wentworth (Pty) Ltd (formerly Wentworth Associates) and was previously a partner in the law firm, Freehills. He holds, or has held, positions with government advisory boards, including the review of the National Museum and the Funds Management Committee for the IIF programme, and non-profit organisations. Richard was previously chairman of MLC Limited and General Property Trust.

Peter Thomas

CA(SA)

Peter is a Chartered Accountant and former managing director of The Unisec Group Limited. His current directorships include Investec plc, Investec Limited, Investec Bank Limited, Investec Bank (Mauritius) Limited, Investec USA Holdings Corp., JCI Limited and Boschendal (Pty) Ltd.

Alan Chonowitz

BAcc, MCom, CA

Deputy chief executive officer and chief financial officer

Alan has been CFO of Investec Bank (Australia) Limited since 2001 and the deputy CEO since March 2009. His responsibilities include finance, risk, and corporate governance. Alan is a director of Investec Bank (Australia) Limited and a number of its subsidiaries. Alan's experience includes significant exposure to the finance and funds management industries, where he has been responsible for financial structuring, financial and regulatory reporting, corporate advisory services and strategic planning.

John Murphy

BCom, MCom, ACA, FASA

John is a director of Investec Bank (Australia) Limited, becoming non-executive in October 2011. He is a member of the board audit, risk, remuneration and investment committees. Until that date John was the managing director of Investec Wentworth Private Equity Limited. John remains a board member of a number of the private equity fund investments including Ariadne Australia Limited, Staging Connections Group Limited, Vocus Communications Limited and Gale Pacific Limited. John is also a director of Redflex Holdings Limited and Kresta Holdings Limited.

Stephen Koseff

BCom, CA(SA), H Dip BDP, MBA

Investec group chief executive officer

Stephen Koseff is chief executive officer of the Investec group. Stephen has been with the company for 34 years in various capacities and has been in his current role as chief executive officer since 1996.

Stephen is a qualified Chartered Accountant and holds a Masters Degree in Business Administration and a Higher Diploma in Business Data Processing.

In addition to his directorships of Investec Limited and Investec plc and various other Investec subsidiaries, he is a non-executive director of the South African Banking Association. He is a former chairman of the South African Banking Association, a former non-executive director of The Bidvest Group Limited and former director of the Johannesburg Stock Exchange, former member of the Financial Markets Advisory Board, and former chairman of the Independent Bankers Association.

David Gonski

AC, BCom, LLB, FAICD, FCPA

(Resigned as chairman: 31 March 2014)

David was the co-founder of Investec Wentworth (Pty) Ltd (formerly Wentworth Associates) and was previously a partner in the law firm, Freehills.

David is chairman of the Australia and New Zealand Banking Group Limited, Coca-Cola Amatil Limited, the Sydney Theatre Company, as well as the University of New South Wales Foundation. His other non-executive directorship is Australian Philanthropic Services Limited, Lowy Institute for International Policy and Singapore Telecommunications Limited. David is Chancellor of the University of New South Wales and was appointed a Companion of the Order of Australia in June 2007.

Geoffrey Levy

AO, BCom. LLB F FIN

(Resigned: 31 March 2014)

Geoff retired as executive chairman of Investec Bank (Australia) Limited on 1 January 2008 and assumed the non-executive position of deputy chairman until his resignation. Geoff was previously CEO of Investec Bank (Australia) Limited, a principal of Wentworth Associates and before that a partner in the law firm, Freehills. He has over 20 years' experience in the corporate advisory environment where he is regarded as an expert in mergers and acquisitions, capital raisings and general corporate commercial law. Geoff is a non-executive chairman of the Specialty Fashion Group Limited, Cromwell Group Limited, Monash Private Capital (Pty) Ltd and was appointed by the NSW Government to chair the Property Asset Utilisation Taskforce in December 2011. Geoff was appointed an Officer of the Order of Australia in 2005.

Kate Spargo

LLB (Hons), BA, FAICD

(Resigned: 24 February 2014)

Kate was appointed a director of Investec Bank (Australia) Limited in October 2005. After graduating from Adelaide University, she practised both as a litigator and in a partnership as a lawyer before moving to a broader business role. She has worked as an independent director for the past 15 years. She is currently a director of Sonic Healthcare Limited and UGL Limited, SMEC, Fletcher Building, Suncorp Portfolio Services Limited and Colnvest. She was appointed chairman of the Accounting Professional and Ethical Standards Board in 2007, and in 2010 a director of the International Ethical Standards Board for Accountants. She was also appointed board adviser at Griffith Hack, Patent Attorneys.

Robert Mansfield

AO, BCom, FCPA

(Resigned: 31 March 2014)

Robert attended the University of NSW and graduated in 1974 with a Bachelor of Commerce degree with a major in Accounting. He held the CEO position at McDonald's Australia Limited, Wormald International Limited, Optus Communications Limited and John Fairfax Limited. In November 1999 Robert was appointed a director of Telstra Corporation Limited and subsequently became Telstra's non-executive chairman which he served through to April 2004. Robert has been honoured with an Order of Australia award for his contribution to Australian business and economic development and to the telecommunications industry. His other board roles are chairman, board of governors, the Steve Waugh Foundation; chairman of the National Drug and Alcohol Research Centre (NDARC); chairman of the George Gregan Foundation, and a member of UNSW Medicine Advisory Council.

David Clarke

LLB

(Resigned as chief executive officer: 12 August 2013)

David was appointed to the position of chief executive officer with effect from 1 June 2009. Prior to joining Investec Bank (Australia) Limited, David was the CEO of Allco Finance Group and a director of AMP Limited, following five years at Westpac Banking Corporation where he held a number of senior roles, including chief executive of the wealth management business, BT Financial Group. David has 30 years' experience in investment banking funds management, property and retail banking. He was previously employed at Lend Lease Corporation Limited where he was an executive director and chief executive of MLC Limited, and prior to this was chief executive of Lloyds Merchant Bank in London. David is also currently chairman of the University of New South Wales Medicine Advisory Council.

Joint company secretaries

Paul Lam-Po-Tang

BCom, LLB

(Appointed: 1 April 2014)

Paul joined Investec in 2009. In addition to a Bachelor of Laws and a Bachelor of Commerce from the University of New South Wales, Paul is admitted as a solicitor to the Supreme Court of New South Wales.

Anthony Rubin

BCom, BAcc, CA

Anthony joined the Investec group in 1991. In addition to a Bachelor in Commerce and a Bachelor of Accountancy degrees, Anthony is a member of the Australian Institute of Chartered Accountants.

Principal activities

The principal activities during the financial year were Private Banking, Corporate Finance, Corporate and Institutional Banking Activities and Property Activities. For additional information refer to page 10.

Review of operations and results

For the year ended 31 March 2014, Investec Bank (Australia) Limited reported a loss before tax from core operations of A$5.4 million (2013: A$36.6 million profit).

Following the mid-year strategic review of the Australian business model, the second half of the financial year resulted in a profit before tax from core operations of A$1.5 million (first half loss A$6.9 million).

For additional information refer to page 13.

Dividends

No dividends were paid or provided for during the year.

Share options

There are no share options on issue in the consolidated entity.

Significant events after the balance sheet date

Events affecting operations, results or the state of affairs are detailed in note 36.

Rounding

The financial report is presented in Australian Dollars and all values have been rounded to the nearest hundred thousand dollars unless otherwise stated, under the option available to the company under ASIC Class Order 98/100.

Indemnification and insurance of directors and officers

In addition to the indemnity set out in the company's constitution, the consolidated entity has, during the financial year, paid an insurance premium in respect of its directors and executive officers in terms of which the cover provides indemnity against liabilities, to the extent permitted under the Corporations Act 2001 and Regulations. In accordance with commercial practice, the insurance policy prohibits disclosure of the terms of the policy including the nature of the liability insured against and the amount of the premium.

Directors' meetings

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director was as follows:

Directors' report (continued)

	Meetings eligible to attend	Meetings attended
Board meetings		
Alan Chonowitz	5	5
John Murphy	5	5
Peter Thomas	5	4
Richard Longes	5	4
Stephen Koseff	5	4
David Gonski (resigned March 2014)	5	5
Robert Mansfield (resigned March 2014)	5	5
Kate Spargo (resigned February 2014)	5	4
Geoff Levy (resigned March 2014)	5	4
David Clarke (resigned August 2013)	5	4
Audit and compliance committee		
Peter Thomas	4	4
Kate Spargo (resigned February 2014)	4	4
John Murphy	3	2
Board risk and capital committee		
Richard Longes	4	4
Peter Thomas	4	4
Stephen Koseff	4	1
Alan Chonowitz	4	4
Kate Spargo (resigned February 2014)	4	4
John Murphy	3	3
David Clarke (resigned August 2013)	1	1
Remuneration committee		
David Gonski (resigned March 2014)	5	5
Robert Mansfield (resigned March 2014)	5	5
Stephen Koseff	5	0
Richard Longes	5	4
John Murphy (appointed March 2014)	0	0

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

Report on the financial report

We have audited the accompanying financial report of Investec Bank (Australia) Limited, which comprises the statements of financial position at 31 March 2014, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 2.3, the directors also state, in accordance with Accounting Standard AASB 101 – Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

Independence

In conducting our audit we have complied with the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

a) the financial report of Investec Bank (Australia) Limited is in accordance with the Corporations Act 2001, including:

   i) giving a true and fair view of the company's and consolidated entity's financial positions at 31 March 2014 and of their performance for the year ended on that date; and

   ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.3.

Ernst & Young

Richard Balfour
Partner
Sydney

27 June 2014

Income statement

For the year to 31 March A$'million	Notes	Consolidated 2014	Consolidated 2013	Investec Bank (Australia) Limited 2014	Investec Bank (Australia) Limited 2013
Interest income	3	305.3	329.4	302.4	325.9
Interest expense	4	(182.9)	(223.4)	(181.7)	(223.2)
Net interest income		122.4	106.0	120.7	102.7
Fee and commission income	5	59.3	90.8	54.5	87.4
Fee and commission expense	6	(12.3)	(6.9)	(10.7)	(4.6)
Investment income/(loss)	7	(1.0)	5.0	(3.0)	24.7
Client flow trading income	7	18.8	10.5	17.1	10.5
Trading income arising from balance sheet management activities	7	(4.5)	(0.9)	(4.3)	(1.8)
Share of profit of investments accounted for using the equity method		0.5	2.7	0.3	2.6
Other income		60.8	101.2	53.9	118.8
Total operating income		183.2	207.2	174.5	221.5
Impairment losses on financial assets	8	(38.5)	(31.1)	(38.5)	(31.1)
Net operating income		144.7	176.1	136.0	190.4
Operating expenses	9	(168.4)	(170.9)	(165.5)	(168.3)
Profit/(loss) before restructuring and reshaping costs		(23.7)	5.2	(29.5)	22.1
Restructuring and reshaping costs	46	(48.2)	–	(46.4)	–
Profit/(loss) before income tax		(71.9)	5.2	(75.9)	22.1
Income tax benefit	10	1.8	1.1	2.9	1.5
Profit/(loss) after income tax		(70.1)	6.3	(73.0)	23.6

Statement of other comprehensive income

For the year to 31 March A$'million	Notes	Consolidated 2014	Consolidated 2013	Investec Bank (Australia) Limited 2014	Investec Bank (Australia) Limited 2013
Profit/(loss) after income tax		(70.1)	6.3	(73.0)	23.6
Fair value movements on cash flow hedges, net of tax	31	4.1	(1.5)	2.8	(4.5)
Fair value movements on available-for-sale assets, net of tax	31	(2.1)	4.5	(1.9)	4.5
Total gains and losses recognised directly in equity		2.0	3.0	0.9	–
Total comprehensive (loss)/income		(68.1)	9.3	(72.1)	23.6

Statement of financial position

At 31 March A$'million	Notes	Consolidated 2014	Consolidated 2013	Investec Bank (Australia) Limited 2014	Investec Bank (Australia) Limited 2013
Cash and balances at central banks	13	65.1	214.5	65.1	214.5
Loans and advances to banks	13	291.0	128.1	244.4	90.4
Sovereign debt securities	14	515.1	429.5	515.1	429.5
Bank debt securities	14	245.4	262.2	245.4	262.2
Other debt securities	14	14.7	32.8	14.7	32.8
Derivative financial instruments	15	91.0	108.7	90.3	108.1
Securities arising from trading activities		–	12.0	–	12.0
Assets held for sale	19	–	3.9	–	3.9
Investment portfolio		11.6	16.8	10.7	15.7
Loans and advances to customers	16	2 306.3	2 496.1	2 290.6	2 482.4
Own originated loans and advance to customers securitised	16	805.1	715.4	805.1	715.4
Investments accounted for using the equity method	21	6.1	5.6	0.5	–
Deferred tax assets	10	15.7	15.7	27.8	22.0
Other financial assets	17	54.7	54.7	206.0	251.7
Property, plant and equipment	22	11.8	14.3	11.8	14.3
Other assets	23	71.8	137.8	48.8	54.6
Goodwill	18	73.5	94.1	–	–
Intangible assets	20	7.6	11.4	7.6	9.6
Total assets		4 586.5	4 753.6	4 583.9	4 719.1
Customer accounts	24	2 755.2	2 465.5	2 755.2	2 465.5
Derivative financial instruments	15	79.7	84.3	72.9	73.9
Debt issued and other borrowed funds	25	190.0	685.5	190.0	685.5
Liabilities arising on securitisation of other assets	25	807.7	696.0	807.7	696.0
Other liabilities	28	63.6	94.6	68.1	66.8
Subordinated debt	26	131.2	120.3	131.2	120.3
Total liabilities		4 027.4	4 146.2	4 025.1	4 108.0
Share capital	29	311.7	291.7	311.7	291.7
Retained earnings	30	232.7	304.6	225.1	299.9
Other reserves	31	14.7	11.1	22.0	19.5
Total equity		559.1	607.4	558.8	611.1

Statement of changes in equity

For the year to 31 March A$'million	Consolidated Share capital	Consolidated Other reserves	Consolidated Retained earnings	Consolidated Total	Investec Bank (Australia) Limited Share capital	Investec Bank (Australia) Limited Other reserves	Investec Bank (Australia) Limited Retained earnings	Investec Bank (Australia) Limited Total
Balance 1 April 2012	291.7	9.4	297.0	598.1	291.7	20.8	275.0	587.5
Reversal/appropriation for unforeseeable credit risks and future losses	–	(1.3)	1.3	–	–	(1.3)	1.3	–
Net unrealised gains/(losses) on foreign exchange, net of tax	–	–	–	–	–	–	–	–
Fair value movement on cash flow hedge, net of tax	–	(1.5)	–	(1.5)	–	(4.5)	–	(4.5)
Net change in available-for-sale investments, net of tax	–	4.6	–	4.6	–	4.5	–	4.5
Net income recognised directly to equity	–	–	–	–	–	–	–	–
Profit for the year	–	–	6.3	6.3	–	–	23.6	23.6
At 31 March 2013	291.7	11.1	304.6	607.4	291.7	19.5	299.9	611.1
Equity issued	20.0	–	–	20.0	20.0	–	–	20.0
Reversal/appropriation for unforeseeable credit risks and future losses	–	1.8	(1.8)	–	–	1.8	(1.8)	–
Net unrealised gains/(losses) on foreign exchange, net of tax	–	–	–	–	–	–	–	–
Net change in available-for-sale investments, net of tax	–	(2.1)	–	(2.1)	–	2.8	–	2.8
Fair value movement on cash flow hedge, net of tax	–	4.1	–	4.1	–	(1.9)	–	(1.9)
Net income recognised directly to equity	–	–	–	–	–	–	–	–
Loss for the year	–	–	(70.1)	(70.1)	–	–	(73.0)	(73.0)
At 31 March 2014	311.7	14.7	232.7	559.1	311.7	22.0	225.1	558.8

Cash flow statement

For the year to 31 March A$'million	Notes	Consolidated 2014	Consolidated 2013	Investec Bank (Australia) Limited 2014	Investec Bank (Australia) Limited 2013
Interest and similar income		311.4	324.9	311.4	324.9
Interest expense and similar charges		(182.9)	(223.4)	(182.9)	(223.4)
Fees, income and receipts from customers		48.7	95.3	60.7	85.4
Payments to suppliers and employees		(185.3)	(129.4)	(155.0)	(162.7)
	32	(8.1)	67.4	34.2	24.2
(Increase)/decrease in operating assets and liabilities					
Net decrease/(increase) in loans and other receivables		55.5	(237.3)	11.4	(248.3)
Net decrease/(increase) in available-for-sale bonds and floating rate notes		(46.0)	592.7	(46.0)	588.5
Net increase/(decrease) in trading securities		12.0	(1.2)	12.0	(1.2)
Purchase of equity investments		(0.5)	(4.4)	(0.1)	(4.4)
Proceeds from sale of equity investments		9.2	8.9	8.4	8.8
Net proceeds from trading securities and derivatives		29.5	54.2	26.8	57.8
Net proceeds from deposits		289.7	95.4	289.7	95.4
Net cash from operating activities before income tax		341.3	575.7	336.4	520.8
Income tax paid		–	–	–	–
Net cash flows from operating activities		341.3	575.7	366.4	520.8
Cash flows from investing activities					
(Purchase)/disposal of assets held for sale/trading properties		36.9	(36.6)	5.3	6.2
Dividends received		2.0	0.4	0.1	20.8
Sale/(purchase) of equity accounted investments		(0.5)	0.6	(0.5)	–
Proceeds from/(expenditure on) intangible assets		(0.2)	(4.8)	(0.2)	(4.7)
Acquisition of Alliance Finance		–	(4.1)	–	–
Acquisition of plant and equipment		(0.4)	(3.4)	(0.4)	(3.4)
Net cash flows from investing activities		37.8	(47.9)	7.3	18.9
Cash flows from financing activities					
Advances (to)/from related parties		–	11.5	24.8	2.6
Proceeds from issue of subordinated debt		–	50.0	–	50.0
Redemption of subordinated debt		–	–	–	–
Proceeds from capital injection		20.0	–	20.0	–
Proceeds from issue of notes		762.2	1 355.0	762.2	1 355.0
Repayment of notes		(1 146.1)	(1 985.0)	(1 146.1)	(1 985.0)
Repayments/(extensions) of borrowings by related parties		–	–	–	–
Net cash flows from financing activities		(363.9)	(568.5)	(339.1)	(577.4)
Net (decrease)/increase in cash and cash equivalents		15.2	(40.7)	4.6	(37.7)
Cash and cash equivalents at the beginning of the year		340.9	381.6	304.9	342.6
Cash and cash equivalents at the end of the year	13, 32	356.1	340.9	309.5	304.9

Notes to the annual financial statements

For the year to 31 March 2014

1. Corporate information

Investec Bank (Australia) Limited is a company limited by shares that is incorporated and domiciled in Australia. Its ultimate Australian parent entity is Investec Holdings Australia Limited. Its ultimate parent is Investec plc, a UK entity listed on the London Stock Exchange.

The financial report of Investec Bank (Australia) Limited for the year ended 31 March 2014 was authorised for issue in accordance with a resolution of the directors on 27 June 2014.

2. Summary of significant accounting policies

2.1 Basis of preparation

In this financial report Investec Bank (Australia) Limited is referred to as IBAL or the bank. Investec Bank (Australia) Limited or the consolidated entity consists of the chief entity (IBAL) and its controlled entities.

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments, trading securities, bullion, available-for-sale investments, certain loans and properties, which have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged.

2.2 Basis of consolidation

The consolidated annual financial statements comprise the annual financial statements of Investec Bank (Australia) Limited and its subsidiaries at 31 March each year.

The annual financial statements of the subsidiaries are prepared for the same reporting period as the chief entity, using consistent accounting policies. In preparing the consolidated annual financial statements, all inter-company balances and transactions, income and expenses and profit and losses resulting from intragroup transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to Investec Bank (Australia) Limited and cease to be consolidated from the date on which control is transferred out of Investec Bank (Australia) Limited.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves allocation of the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

2.3 Statement of compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards.

When a new accounting standard is first adopted, any change in accounting policy is accounted for in accordance with the specific transitional provisions (if any), otherwise retrospectively.

(i) Standards adopted during the year

Standards and interpretations applied for the first time:

AASB10 – Consolidated Financial Statements – The first time adoption of the standard has had a material impact on the financial statements of Investec Bank (Australia) Limited. Assets originated by Investec Professional Finance (formerly known as Experien) have been securitised through various structures which, in prior reporting periods, were not consolidated by Investec Bank (Australia) Limited parent entity. The effects of the adoption of this standard are limited to the financial statements of Investec Bank (Australia) Limited standalone, as the securitised structures have always been included at a consolidated level.

The effects of this application for the current and prior years can be seen in notes 16, 23 and 25.

AASB 11 – Joint Arrangements – The revision has not had a material effect on the annual financial statements.

AASB 12 – Disclosure of Interests in Other Entities – The introduction has not had a material effect on the annual financial statements.

AASB 13 – Fair Value Measurement – The introduction has had a minimal effect on the method in which fair values are calculated for assets and liabilities.

AASB 119 – Employee Benefits: Revised Accounting for Defined Benefit Plans – The introduction has had no effect on the annual financial statements.

AASB 2012-2 – Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities – The effect of the introduction of this standard can be seen in note 45 to the annual financial statements where the potential effect of net arrangements on the entity's financial position has been disclosed.

AASB 2012-5 – Amendments to Australian Accounting Standard arising from Annual Improvements 2009-2011 Cycle – The introduction has not had a material effect on the annual financial statements.

AASB 2012-9 – Amendment to AASB 1048 arising from the withdrawal of Australian Interpretation 1039 Substantive Enactment of Major Tax Bills in Australia – The introduction has not had a material effect on the annual financial statements.

Australian accounting standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by Investec Bank (Australia) Limited for the annual reporting year ended 31 March 2014. These are outlined in the table below.

2. Summary of significant accounting policies (continued)

Accounting standards issued but not yet effective

Title	Summary	Application date of standard*	Impact on the financial report	Application date
AASB 1053				
Application of Tiers of Australian Accounting Standards	This standard establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements: a. Tier 1: Australian Accounting Standards b. Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements. Tier 2 comprises the recognition, measurement and presentation requirements of tier 1 and substantially reduced disclosures corresponding to those requirements. The following entities apply tier 1 requirements in preparing general purpose financial statements: a. For-profit entities in the private sector that have public accountability (as defined in this standard) b. The Australian Government and State, Territory and local governments. The following entities apply either tier 2 or tier 1 requirements in preparing general purpose financial statements: a. For-profit private sector entities that do not have public accountability b. All not-for-profit private sector entities c. Public sector entities other than the Australian Government and State, Territory and Local Governments.	1 July 2013	The impact to the financial report is expected to be minimal as Investec Bank (Australia) Limited currently reports at a tier 1 level.	1 April 2014
AASB 2011-4				
Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements	This amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies. It also removes the individual KMP disclosure requirements for all disclosing entities in relation to equity holdings, loans and other related party transactions.	1 July 2013	Impact to the financial report is expected to be minimal.	1 April 2014
Interpretation 21				
Levies	This Interpretation confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs. Applying the going concern assumption does not create a constructive obligation.	1 January 2014	Impact to the financial report is expected to be minimal.	1 April 2014

* *Designates the beginning of the applicable annual reporting period, unless otherwise stated.*

2. Summary of significant accounting policies (continued)

Accounting standards issued but not yet effective (continued)

Title	Summary	Application date of standard*	Impact on the financial report	Application date
AASB 9				
Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below. a. Financial assets that are debt instruments will be classified based on: (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. c. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. d. Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: (i) The change attributable to changes in credit risk are presented in other comprehensive income (OCI). (ii) The remaining change is presented in profit or loss. If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and AASB 2010-10. The AASB issued a revised version of AASB 9 (AASB 2013-9) during December 2013. The revised standard incorporates three primary changes: 1. New hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. 2. Entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of AASB 9 at the same time. a. In February 2014, the IASB tentatively decided that the mandatory effective date for AASB 9 will be 1 January 2018.	1 January 2018	The amendments are expected to directly impact on the measurement and/or recognition of amounts under the current AASBs. It is not possible for Investec Bank (Australia) Limited to determine this impact as yet.	1 April 2018

* *Designates the beginning of the applicable annual reporting period, unless otherwise stated.*

2. Summary of significant accounting policies (continued)

Accounting standards issued but not yet effective (continued)

Title	Summary	Application date of standard*	Impact on the financial report	Application date
AASB 2013-3				
Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets	AASB 2013-3 amends the disclosure requirements in AASB 136 Impairment of Assets. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.	1 January 2014	Impact to the financial report is expected to be minimal.	1 April 2014
AASB 2013-4				
Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting (AASB 139)	AASB 2013-4 amends AASB 139 to permit the continuation of hedge accounting in specified circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations.	1 January 2014	Impact to the financial report is expected to be minimal.	1 April 2014
AASB 2013-5				
Amendments to Australian Accounting Standards – Investment Entities (AASB 1, AASB 3, AASB 7, AASB 10, AASB 12, AASB 107, AASB 112, AASB 124, AASB 127, AASB 132, AASB 134 and AASB 139)	These amendments define an investment entity and require that, with limited exceptions, an investment entity does not consolidate its subsidiaries or apply AASB 3 Business Combinations when it obtains control of another entity. These amendments require an investment entity to measure unconsolidated subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. These amendments also introduce new disclosure requirements for investment entities to AASB 12 and AASB 127.	1 January 2014	The impact of the amendment will be assessed on a standard by standard basis.	1 April 2014

* *Designates the beginning of the applicable annual reporting period, unless otherwise stated.*

2. Summary of significant accounting policies (continued)

Accounting standards issued but not yet effective (continued)

Title	Summary	Application date of standard*	Impact on the financial report	Application date
AASB 1031				
Materiality	The revised AASB 1031 is an interim standard that cross-references to other Standards and the Framework (issued December 2013) that contain guidance on materiality. AASB 1031 will be withdrawn when references to AASB 1031 in all Standards and Interpretations have been removed.	1 January 2014	Impact to the financial report is expected to be minimal.	1 April 2014
AASB 2013-9				
Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments	The Standard contains three main parts and makes amendments to a number Standards and Interpretations. Part A of AASB 2013-9 makes consequential amendments arising from the issuance of AASB CF 2013-1. Part B makes amendments to particular Australian Accounting Standards to delete references to AASB-1031 and also makes minor editorial amendments to various other standards.	1 January 2014	Part A – The introduction has had a minimal effect on the method in which fair values are calculated for assets and liabilities. Part B – Impact to the financial report is expected to be minimal.	Part A – Applied Part B – 31 March 2016

* *Designates the beginning of the applicable annual reporting period, unless otherwise stated.*

2. Summary of significant accounting policies (continued)

2.4 Significant accounting judgements, estimates and assumptions

Investec Bank (Australia) Limited makes estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses within the financial year ended 31 March 2014. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans and receivables

Investec Bank (Australia) Limited reviews its loan portfolio to assess for indication of impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded, we make judgement as to whether there is observable data indicating that there is a measurable decrease in the estimated future cash flows from loans or portfolio loans. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Fair value of financial instruments

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), probability of default, volatilities and correlations require management to make estimates.

Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Impairment of available-for-sale equity investments

Investec Bank (Australia) Limited determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant and prolonged requires judgement. In making this judgement, we evaluate among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Fair value of properties

Investec Bank (Australia) Limited determines the fair value of properties from third party or internal assessments, in accordance with AASB 13.

2.5 Business combinations

The acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the combination. Where equity instruments are issued in a business combination, the fair value of the instruments is determined using valuation techniques. Transaction costs arising on the issue of equity instruments are recognised directly to equity.

Except for non-current assets or assets classified as held for sale (which are measured at the lower of their carrying amount and fair value), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of the business combination over the net fair value of Investec Bank (Australia) Limited's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than Investec Bank (Australia) Limited's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the statement of comprehensive income, but only after a reassessment of the identification and measurement of the net assets acquired.

When settlement of any part of the consideration is deferred, the amounts payable in the future are discounted to their present value at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

2.6 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to Investec Bank (Australia) Limited and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

Interest income and expense are recognised in the statement of comprehensive income for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, we estimate cash flows considering all contractual terms of the financial instrument but do not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fee and commission income and expense

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and IBAL has retained no part of the loan package, and if a portion has been retained it is at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party are recognised on completion of the services. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Fee and commission expenses are paid when the contractual obligations have passed to the third party.

2. Summary of significant accounting policies (continued)

Other income

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.

Dividend revenue is recognised when Investec Bank (Australia) Limited's right to receive the payment is established.

Share of profit/(loss) accounted for using the equity method

The post-acquisition results of associates are incorporated in Investec Bank (Australia) Limited's annual financial statements, using the equity method, from the effective dates of acquisition and up to the effective dates of disposal. The statement of comprehensive income includes Investec Bank (Australia) Limited's proportionate share of the results of operations.

2.7 Foreign currency translation

Both the functional and presentation currency of IBAL and its subsidiaries is Australian Dollars (A$). Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The assets and liabilities of foreign equity accounted investments are translated at exchange rates prevailing at balance sheet date. Exchange variations resulting from the translation are recognised in the foreign currency translation reserve.

2.8 Cash and liquid assets and loans and advances to banks

Cash and liquid assets includes cash on hand and in banks, Reserve Bank of Australia settlement accounts, bullion (refer to note 2(i)), bank bills with a term of three months or less, and short-term deposits. Cash at bank earns interest at floating rates based on daily bank deposit rates. They are brought to account at the face value or the gross value of the outstanding balance.

For the purposes of the cash flow statement, cash and cash equivalents comprise all instruments listed above excluding short-term deposits not available for day-to-day operations.

2.9 Bullion

Gold and silver bullion are principally acquired with the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin. They are measured as traded assets at fair (market) value. Any unrealised movements in fair value of these stocks are recognised in the statement of comprehensive income.

2.10 Other assets

Trade and other receivables

Trade and other receivables are carried at amortised cost and represent receivables for services provided prior to the end of the financial year that are not received and arise when the service obligation has been provided.

Property assets

Property assets are carried at the lower of cost or net realisable value.

2.11 Financial instruments – initial recognition and subsequent measurement

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that Investec Bank (Australia) Limited commits to purchase or sell the asset. Derivatives are recognised on trade date basis.

Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

Derivatives recorded at fair value through profit or loss

Investec Bank (Australia) Limited uses derivative financial instruments as risk management tools and as part of its trading activities. Derivatives include interest rate swaps and futures, foreign exchange (including bullion) spot, forwards, swaps and options, credit default swaps, and base metal spot and forwards. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives held for trading are included in the notes to the statement of comprehensive income in the line 'Gains less losses arising from trading securities and derivatives'.

Derivatives embedded in other financial instruments, such as the conversion option in an acquired convertible bond, are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through the profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the statement of comprehensive income.

Financial assets and liabilities held for trading

Financial assets or financial liabilities held for trading, comprising financial instruments held for trading other than derivatives, are recorded in the statement of financial position at fair value. Changes in fair value are recognised in the statement of comprehensive income in the line 'Trading income/(expense) arising from balance sheet management and other trading activities' according to the terms of the contract, or when the right to the payment has been established.

2. Summary of significant accounting policies (continued)

Included in this classification are debt securities, equities, commodities and short positions in debt securities and securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

2.12 Financial assets or financial liabilities designated at fair value through profit or loss

Financial assets and financial liabilities classified in this category are designated on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of comprehensive income at fair value. Changes in fair value are recorded through the profit or loss. Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract.

Included in this classification are loans and receivables to customers economically hedged by credit derivatives which do not qualify for hedge accounting as well as structured notes which are managed at fair value.

2.13 'Day 1' profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, we immediately recognise the difference between the transaction price and fair value (a 'Day 1' profit) in the notes to the statement of comprehensive income in 'Trading income/(expense) arising from balance sheet management and other trading activities'.

In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the statement of comprehensive income when inputs become observable, or when the instrument is derecognised.

2.14 Loans and advances to customers

Loans and advances to customers are financial assets with fixed or determined payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading or designated as available-for-sale investments.

After initial measurement, except as disclosed in the following paragraph, loans and advances to customers are subsequently measured at either amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in 'Interest income' in the statement of comprehensive income. The losses arising from impairment of such investments are recognised in the statement of comprehensive income line 'Impairment losses on financial assets'.

In addition to the above, Investec Bank (Australia) Limited had a loan exposure from which royalties were assigned as consideration for the exposure. These royalties are now recognised in loans and advances to customers and are valued at fair value through profit or loss in the statement of comprehensive income.

Previously the Yorker Trust (refer to note 39) deferred consideration receivable is included in loans and advances to customers.

2.15 Available-for-sale financial investments

Available-for-sale financial investments comprise: sovereign debt securities, bank debt securities, other debt securities and the investment portfolio.

Available-for-sale financial investments 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 sovereign debt securities, bank debt securities, other debt securities and listed and unlisted investments.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value, with the exception of unlisted equity instruments which are measured at cost. Unrealised gains and losses are recognised directly in equity in other reserves. When the security is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the statement of comprehensive income in 'Client flow trading income'. Where Investec Bank (Australia) Limited holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate. Dividends earned whilst holding available-for-sale financial investments are recognised in the statement of comprehensive income when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the statement of comprehensive income in 'Impairment losses on financial assets' and removed from the available-for-sale reserve.

2.16 Assets held for sale

Assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale the assets are remeasured. Thereafter the assets are measured at the lower of their carrying amount and fair value less cost to sell.

2.17 Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, when applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired; or
- We have transferred the rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement; and

2. Summary of significant accounting policies (continued)

- Either: (a) we have transferred substantially all the risks and rewards of the asset; or (b) we have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

When Investec Bank (Australia) Limited has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of Investec Bank (Australia) Limited's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that could be required to repay.

Where continuing involvement takes the form of a written and/or purchase option (including a cash-settlement option or similar provision) on the transferred asset, the extent of Investec Bank (Australia) Limited's continuing involvement is the amount of the transferred asset that may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of Investec Bank (Australia) Limited's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(ii) Securitisation

As part of its operational activities, Investec Bank (Australia) Limited securitises financial assets, generally through the sale of these assets to special purpose entities which issue securities to investors. The transferred assets may qualify for derecognition in full or in part. Interests in the securitised financial assets may be retained and are primarily classified as loans and receivables. Gains or losses on securitisations are based on the carrying amount of the financial assets derecognised and the retained interest, based on their relative fair values at the date of the transfer.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

2.18 Determination of fair value

The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market price of dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

Where stocks of gold and silver bullion are principally acquired with the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin, they are measured as traded assets at fair (market) value. Any unrealised movements in fair value of these stocks are recognised in the statement of comprehensive income.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models and other relevant calculation models.

2.19 Impairment of financial assets

Investec Bank (Australia) Limited assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Due from banks and loans and advances to customers

For amounts due from banks and loans and advances to customers carried at amortised cost, we first assess whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If we determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in the group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of future cash flows (excluding future expected credit losses that have not yet been incurred).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. 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 has been transferred to Investec Bank (Australia) Limited. If a write-off is later recovered, the recovery is credited to 'Impairment losses on financial assets' in the statement of comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of Investec Bank (Australia)

2. Summary of significant accounting policies (continued)

Limited's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on groups of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experiences.

Held-to-maturity financial investments

For held-to-maturity investments we assess individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income.

If, in a subsequent year, the amount of the estimated impairment loss decreased because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the statement of comprehensive income.

Available-for-sale financial investments

For available-for-sale financial investments, we assess at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income – is removed from equity and recognised in the statement of comprehensive income. Impairment losses on equity investments are not reversed through the statement of comprehensive income; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost.

Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'Interest and similar income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

Renegotiated loans

Where possible, Investec Bank (Australia) Limited seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

2.20 Hedge accounting

Investec Bank (Australia) Limited makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions. In order to manage particular risks, we apply hedge accounting for transactions which meet the specified criteria.

At inception of the hedge relationship, we formally document the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

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. Hedges are formally assessed each quarter. A hedge is regarded as 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 situations where that hedged item is a forecast transaction, we assess whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the statement of comprehensive income.

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised directly in equity in the cash flow hedge reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the statement of comprehensive income in 'Gains less losses arising from trading securities and derivatives'.

When the hedged cash flow affects the statement of comprehensive income, the gain or loss on the hedging instrument is 'recycled' in the corresponding income or expense line of the statement of comprehensive income. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged forecast transaction is ultimately recognised in the statement of comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of comprehensive income in 'Gains less losses arising from trading securities and derivatives'.

Fair value hedges

For designated and qualifying fair value hedges, the change in the fair value of a hedge derivative is recognised in the statement of comprehensive income in 'Gains less losses arising from trading securities'. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of comprehensive income in 'Gains less losses arising from trading securities and derivatives'.

2. Summary of significant accounting policies (continued)

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortised cost, using the effective interest rate method, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the statement of comprehensive income.

Hedge of a net investment

Hedges of net investments in a foreign operation, including a hedge of monetary items that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges.

Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in the statement of comprehensive income in 'Gains less losses arising from trading securities and derivatives'. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to the statement of comprehensive income.

2.21 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting arrangements, and the related assets and liabilities are presented gross in the statement of financial position.

2.22 Leases

As a lessee

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to Investec Bank (Australia) Limited substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that we will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term. Lease incentives are recognised in the statement of comprehensive income as an integral part of the total lease expense.

As a lessor

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. The finance leases are recognised as assets in the statement of financial position at amounts equal to the present value of the minimum lease payments. The discount rate used to calculate the present value of the minimum lease payments is the interest rate implicit in the lease. Minimum lease payments are apportioned between the finance charge and the outstanding lease balance. Finance charges are allocated to each period during the lease term so as to produce a constant periodic rate of return.

2.23 Financial guarantees

Financial guarantees are initially recognised at fair value, being the premium received. Subsequent to initial recognition, the liability under each guarantee is measured at the higher of the amortised premium 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 balance sheet carrying value are recognised in the statement of comprehensive income.

2.24 Sale and repurchase agreements (including securities borrowing and lending)

Where securities are sold subject to a commitment to repurchase them, they remain on-balance sheet. Proceeds received are recorded as a liability on the balance sheet. Securities that are purchased under a commitment to resell the securities at a future date are not recognised on the balance sheet. The consideration paid is recognised as an asset.

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.

2.25 Investments accounted for using the equity method

Investec Bank (Australia) Limited's investments in its associates are accounted for using the equity method of accounting. An associate is an entity in which Investec Bank (Australia) Limited has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in associates is carried in the statement of financial position at cost plus post-acquisition changes in our share of net assets of associates. After application of the equity method, we determine whether it is necessary to recognise any additional impairment loss with respect to our net investment in associates.

The statement of comprehensive income reflects Investec Bank (Australia) Limited's share of the results of operations of its associates.

Where there has been a change recognised directly in an associate's equity, we recognise its share of any changes and disclose this in the statement of changes in equity.

The associate's accounting policies conform to those used by Investec Bank (Australia) Limited for like transactions and events in similar circumstances.

2.26 Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred.

Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

2. Summary of significant accounting policies (continued)

Depreciation is provided on a diminishing value basis on all property, plant and equipment and is based on their expected useful lives.

	2014	2013
Office furniture and equipment	5 to 10 years	5 to 10 years
Computer equipment	2 to 3 years	2 to 3 years
Leasehold improvements	5 to 10 years	5 to 10 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

2.27 Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over Investec Bank (Australia) Limited's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of our cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- Represents the lowest level at which the goodwill is monitored for internal management purposes; and
- Is not larger than a segment based on either the primary or the secondary reporting format determined in accordance with AASB 8 Operating Segments.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

When goodwill forms part of a cash-generating unit (group of cash-generating units) and an 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 manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

2.28 Intangible assets

Intangible assets include the value of computer software, wind farm and solar development assets and brand names acquired in a business combination. All intangible assets acquired separately are measured on initial recognition at cost.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible asset.

Amortisation is calculated on a straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

	2014	2013
Brand name	3 years	3 years
Computer software	7 years	7 years

2.29 Customer accounts

Customer accounts are brought to account at fair value plus directly attributable transaction costs at inception. Customer accounts are subsequently stated at amortised cost. Interest and yield related fees are taken to profit and loss based on the effective interest method when incurred.

Where we have hedged the deposits with derivative instruments, hedge accounting rules are applied (refer to note 2.20 Hedge accounting).

2.30 Debt issued, subordinated loans and other borrowed funds

Debt issued, subordinated loans and other borrowed funds are brought to account at fair value plus directly attributable transaction costs at inception. Deposits and other public borrowings are subsequently stated at amortised cost. Interest and yield related fees are taken to profit and loss based on the effective interest method when incurred.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the

2. Summary of significant accounting policies (continued)

effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised.

2.31 Other liabilities

Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided prior to the end of the financial year that are unpaid and arise when we become obliged to make future payments in respect of the purchase of these goods and services.

Provisions

Provisions are recognised when we have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When we expect some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

2.32 Employee benefits

Provision is made for employee entitlement benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include:

Wages, salaries, and annual leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in other liabilities in respect of employees' services up to the reporting date.

They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Superannuation

Contributions are made by Investec Bank (Australia) Limited to an employee superannuation fund and are recognised as an expense on an accrual basis.

Share-based payments

Investec Bank (Australia) Limited engages in cash-settled share-based payments and in certain circumstances equity-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 is recognised over the vesting period of the grant in the statement of comprehensive income on a straight-line basis, based on an estimate of the amount of instruments that will eventually vest.

A liability and expense in respect of cash-settled share-based payments is recognised over the vesting period of the grant in the statement of comprehensive income on a straight-line basis, based on the fair value of the liability that will eventually vest. The liability is recognised at the current fair value at each balance sheet date, based on an estimate of the amount of instruments that will eventually vest. Subsequent to vesting the liability is measured at fair value, with gains and losses recognised in the profit and loss account 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.

Other employee benefits

The provision for other employee entitlements also includes liabilities for employee incentives under employee share plans and bonus schemes.

The level of these provisions has been determined in accordance with the requirements of AASB 119.

2.33 Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

2. Summary of significant accounting policies (continued)

- When the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set-off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Details of Investec Bank (Australia) Limited's tax consolidation group and the taxation of financial arrangements are disclosed in note 10.

Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST, except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable
- Receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

2.34 Share capital

Ordinary share capital is the amount of paid-up capital from the issue of ordinary shares.

2.35 Fiduciary duties

The bank and designated controlled entities act as responsible entity, Trustee and/or manager and/or custodian for a number of managed investment schemes, wholesale investment funds, trusts and approved deposit funds. Further details are shown in note 37.

The assets and liabilities of these schemes, trusts and funds are not included in the consolidated annual financial statements as the bank does not have direct or indirect control of the schemes, trusts and funds as defined by AASB 127 Consolidated and Separate Financial Statements. Commissions and fees earned in respect of the activities are included in the consolidated profit of the designated controlled entity.

2.36 Rounding

The financial report is presented in Australian Dollars and all values have been rounded to the nearest hundred thousand dollars unless otherwise stated, under the option available to the company under ASIC Class Order 98/100.

2.37 Deferred consideration

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value at the effective date of acquisition. The discount rate used is the entity's incremental borrowing rate.

2.38 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in these annual financial statements.

2.39 Segment 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 in the form of business pillars, as this reflects the distinct lines of business of the bank. Asset finance and leasing is included in the corporate and institutional banking pillar as it aligns with the foundations and target market segments of the business.

For the year to 31 March A$'million	Consolidated 2014	Consolidated 2013	Investec Bank (Australia) Limited 2014	Investec Bank (Australia) Limited 2013
3. Interest income				
Cash and liquid assets	8.3	10.7	12.8	9.3
Available-for-sale investments	22.5	42.5	11.2	274.1
Loans and advances	273.8	276.2	277.2	223.5
Related entities	1.2	–	1.2	–
	305.3	329.4	302.4	325.9
4. Interest expense				
Customer accounts				
– On demand and short-term deposits	(33.6)	(35.1)	(33.6)	(35.1)
– Term deposits	(82.9)	(91.8)	(82.9)	(91.8)
Debt issued and other borrowed funds				
– Interest-bearing notes payable	(38.0)	(37.6)	(28.0)	(37.6)
– Debt issued	(15.0)	(42.2)	(15.0)	(42.2)
– Related entities – wholly owned group	(0.8)	(0.4)	–	–
Subordinated loans	(3.7)	(4.9)	(3.7)	(4.9)
Government guarantee costs	(4.8)	(11.3)	(4.8)	(11.3)
Other	(4.1)	(0.1)	(3.7)	(0.3)
	(182.9)	(223.4)	(181.7)	(223.2)
5. Fee and commission income				
Corporate finance fees	13.2	37.6	12.9	36.5
Structuring and arrangement fees	22.1	33.7	19.4	34.0
Asset management and related fees	11.9	8.8	12.0	8.0
Other fees	12.1	10.7	5.8	3.8
Management fees received from subsidiaries	–	–	4.4	5.1
	59.3	90.8	54.5	87.4
6. Fee and commission expense				
Brokerage fees paid	(4.2)	(5.3)	(2.6)	(3.0)
Credit card fees paid	(8.1)	(1.6)	(8.1)	(1.6)
	(12.3)	(6.9)	(10.7)	(4.6)
7. Investment and trading income				
Investment income				
– Dividend income – available-for-sale securities	2.0	0.4	0.1	0.4
– Dividend income – related entities – wholly owned group	–	–	–	20.4
– Fair value adjustments	(5.5)	1.3	(5.5)	1.3
– Gains less losses arising from available for sale investments	5.0	0.2	2.9	0.2
– Gain/(loss) on sale of debt securities	0.8	2.4	0.9	2.4
– Net income from trading properties	(3.3)	0.7	(1.4)	–
	(1.0)	5.0	(3.0)	24.7
Client flow trading income				
– Gains less losses from trading securities and derivatives	18.8	10.5	17.1	10.5
	18.8	10.5	17.1	10.5
Trading income arising from balance sheet management and other trading activities				
– Loss on cash flow hedges	(1.6)	(1.7)	(1.6)	(1.7)
– Gains/(losses) from other activities	(2.9)	0.8	(2.7)	(0.1)
	(4.5)	(0.9)	(4.3)	(1.8)

For the year to 31 March A$'million	Consolidated 2014	Consolidated 2013	Investec Bank (Australia) Limited 2014	Investec Bank (Australia) Limited 2013
8. Impairment losses on financial assets				
Specific impairment	(25.1)	(26.0)	(24.6)	(25.3)
Portfolio impairment	–	(0.1)	–	(0.1)
Investments written off	–	(4.0)	–	(4.0)
Bad debts recovered	3.7	8.8	3.2	8.1
Bad debts written off	(17.1)	(9.8)	(17.1)	(9.8)
	(38.5)	(31.1)	(38.5)	(31.1)
9. Other operating expenses				
Employee benefit expenses*	(115.2)	(115.0)	(115.2)	(112.6)
Occupancy expenses**	(10.9)	(11.8)	(10.8)	(11.7)
Asset expenses***	(7.3)	(9.2)	(7.2)	(9.1)
Advertising and marketing	(5.6)	(5.2)	(5.5)	(5.5)
Travel and accommodation	(5.7)	(4.0)	(5.5)	(3.7)
Legal, compliance, consultancy and audit	(11.9)	(13.3)	(12.2)	(13.1)
Insurance	(1.4)	(1.1)	(1.3)	(1.1)
Printing, postage and stationery	(0.9)	(1.0)	(0.9)	(0.9)
Communication and information technology	(3.9)	(4.3)	(3.8)	(4.3)
Other expenses	(5.6)	(6.0)	(3.0)	(6.3)
Employee benefit expenses*	(168.4)	(170.9)	(165.5)	(168.3)
Remuneration	(83.0)	(87.4)	(83.0)	(87.4)
Annual leave and long service leave	–	(1.6)	–	(2.1)
Superannuation	(5.7)	(5.5)	(5.7)	(5.5)
Workers' compensation costs	(0.9)	(1.0)	(0.9)	(1.0)
Termination benefits	(0.7)	(0.9)	(0.7)	(0.9)
Share-based payments expense	(12.6)	(10.8)	(12.6)	(10.8)
Payroll tax	(7.0)	(4.6)	(7.0)	(4.6)
Other	(5.3)	(3.2)	(5.3)	(0.3)
	(115.2)	(115.0)	(115.2)	(112.6)
Occupancy expenses**				
Maintenance and repairs	(0.7)	(0.7)	(0.6)	(0.6)
Rental on operating leases	(8.7)	(9.5)	(8.7)	(9.5)
Depreciation – leasehold improvements	(1.5)	(1.6)	(1.5)	(1.6)
	(10.9)	(11.8)	(10.8)	(11.7)
Asset expenses***				
Equipment	(4.4)	(6.2)	(4.3)	(6.2)
Depreciation	(2.1)	(2.5)	(2.1)	(2.5)
Amortisation	(0.8)	(0.5)	(0.8)	(0.4)
	(7.3)	(9.2)	(7.2)	(9.1)

For the year to 31 March A$'million	Consolidated 2014	Consolidated 2013	Investec Bank (Australia) Limited 2014	Investec Bank (Australia) Limited 2013
10. Income tax				
The major components of income tax expense are:				
Statement of comprehensive income				
Current income tax				
Current income tax charge	21.8	(2.7)	6.1	(1.2)
Adjustments in respect of current income tax of previous year	(2.6)	1.2	(1.6)	1.2
Deferred income tax	(11.3)	–	–	–
Relating to origination and reversal of temporary differences	(6.1)	2.6	(1.6)	1.5
Income tax benefit reported in the statement of comprehensive income	1.8	1.1	2.9	1.5
Statement of changes in equity				
Current income tax related to items charged/(credited) directly to equity	(0.4)	(1.0)	–	–
Deferred income tax related to items charged/(credited) directly to equity	–	–	–	–
Unrealised gain/(loss) on available-for-sale investments	1.1	1.9	(0.8)	1.9
Unrealised gain/(loss) on cash flow hedge reserve	0.2	(1.5)	–	–
Income tax expense/(benefit) reported in equity	0.9	(0.6)	(0.8)	1.9
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the applicable income tax rate is as follows:				
Accounting profit/(loss) before income tax	(71.9)	5.2	(75.9)	22.1
At the group's statutory income tax rate of 30%	21.6	(1.5)	22.7	(6.6)
Dividends received	–	–	–	6.1
Non-taxable income	(5.8)	1.5	(0.3)	0.6
Other non-deductible expenditure	(0.1)	(0.1)	(1.0)	–
Adjustments in respect of current income tax of previous year	(2.6)	1.2	(1.6)	1.2
Other	(11.3)	–	(16.9)	0.2
Income tax benefit reported in the statement of comprehensive income	1.8	1.1	2.9	1.5

Tax consolidation

Investec Bank (Australia) Limited and its 100% owned Australian resident subsidiaries have formed a tax consolidated group with effect from 1 April 2004. Investec Holdings Australia Limited, Investec Bank (Australia) Limited's parent, is the head entity of the tax consolidated group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned subsidiaries on a *pro rata* basis. The amount due to/(from) Investec Holdings Australia Limited in respect of the consolidated entity's notional tax liability is reflected under related entity disclosures (note 39).

Taxation of Financial Arrangements (TOFA)

The tax regime for financial instruments TOFA applied to the tax consolidated group from 1 April 2010. The regime aims to align the tax and accounting recognition and measurement of financial arrangements and their related flows. Deferred tax balances at 1 April 2010 from financial instruments were moved to the head entity of the tax consolidated group (Investec Holdings Australia Limited) and are progressively reversed over a four-year period.

10. Income tax (continued)

Franking credit balance

On formation of the tax consolidated group, any surplus in the franking account balances was transferred to Investec Holdings Australia Limited's franking account. The franking account of the subsidiary members remains inoperative whilst they are members of the tax consolidated group.

Deferred income tax asset

Deferred income tax assets are recognised to the extent that realisation of the related tax benefit is probable. Changes in circumstances in future periods may adversely impact the assessment of recoverability. The uncertainty of the recoverability of the tax losses and tax credits is taken into account in establishing the deferred tax assets.

	Consolidated			
For the year to 31 March	Balance sheet		Income statement	
A$'million	2014	2013	2014	2013
Deferred income tax				
Deferred income tax at 31 March relates to the following:				
Deferred tax assets				
Revaluations of available-for-sale investments to fair value	1.4	0.4	(0.5)	(2.0)
Loans and receivables and leases	(18.2)	(10.4)	(7.8)	1.2
Employee entitlements	6.0	6.7	(0.7)	0.9
Fair value of derivative instruments and foreign exchange	4.1	5.8	–	–
Unearned income	–	–	–	–
Specific provisions	6.1	7.7	(1.6)	2.0
Equity accounted for investments	–	0.6	(0.6)	(0.8)
Other provisions and accrual	16.3	4.9	5.1	1.3
Net deferred tax asset	15.7	15.7		
Deferred tax benefit/(expense)			(6.1)	2.6

	Investec Bank (Australia) Limited			
	Balance sheet		Income statement	
	2014	2013	2014	2013
Deferred income tax				
Deferred income tax at 31 March relates to the following:				
Deferred tax assets				
Revaluations of available-for-sale investments to fair value	1.5	0.4	(0.4)	(1.6)
Loans and receivables and leases	(3.0)	(0.1)	(2.8)	(0.1)
Employee entitlements	6.0	6.6	(0.6)	0.9
Fair value of derivative instruments and foreign exchange	1.0	1.0	–	–
Unearned income	–	–	–	–
Specific provisions	6.1	7.5	(1.4)	2.4
Equity accounted for investments	–	0.6	(0.6)	(1.4)
Other provisions and accrual	16.2	6.0	4.2	1.3
Net deferred tax asset	27.8	22.0		
Deferred tax benefit/(expense)			(1.6)	1.5

11. Analysis of operating income by category of financial instrument

Consolidated For the year to 31 March A$'million	At fair value through profit and loss trading	Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Held to maturity	Other activities	Total
31 March 2014							
Net interest income	–	232.6	21.6	(132.2)	0.4	–	122.4
Fee and commission income	–	24.7	–	–	–	34.6	59.3
Fee and commission expense	–	(2.5)	–	–	–	(9.8)	(12.3)
Investment income	–	–	6.2	–	–	(7.2)	(1.0)
Client flow trading income	16.9	–	–	–	–	1.9	18.8
Trading income arising from balance sheet management activities	(4.5)	–	–	–	–	–	(4.5)
Share of profit of investments accounted for using the equity method	–	–	–	–	–	0.5	0.5
Total operating income	12.3	254.9	27.8	(132.2)	0.4	20.0	183.2
Impairment losses on financial assets	–	(38.5)	–	–	–	–	(38.5)
Net operating income	12.3	216.4	27.8	(125.7)	0.4	13.5	144.7
31 March 2013							
Net interest income	–	243.4	39.3	(176.7)	–	–	106.0
Fee and commission income	–	41.0	1.7	–	–	48.1	90.8
Fee and commission expense	–	(2.6)	(0.7)	–	–	(3.6)	(6.9)
Investment income	–	–	4.0	–	1.0	–	5.0
Client flow trading income	10.5	–	–	–	–	–	10.5
Trading income arising from balance sheet management activities	(0.9)	–	–	–	–	–	(0.9)
Share of profit of investments accounted for using the equity method	–	–	–	–	–	2.7	2.7
Total operating income	9.7	281.7	44.3	(176.7)	1.0	47.2	207.2
Impairment losses on financial assets	–	(27.1)	(4.0)	–	–	–	(31.1)
Net operating income	9.7	254.6	40.3	(176.7)	1.0	47.2	176.1

12. Analysis of financial assets and liabilities by measurement basis

The table below provides details of the categorisation of on-balance sheet assets and liabilities. For financial assets and financial liabilities carried at fair value the table provides further details of the basis used for determining fair value according to the following hierarchy:

- Level 1 – The use of quoted market prices for identical instruments in an active market
- Level 2 – The use of a valuation technique using observable inputs. This may include:
  - – using quoted prices in active markets for similar instruments;
  - – using quoted prices in inactive markets for identical or similar instruments; or
  - – using models where all significant inputs are observable.
- Level 3 – Using models where one or more significant inputs are not observable.

At 31 March 2014 Consolidated A$'million	At fair value through profit or loss									Valuation technique applied		
	Trading	Designated at inception	Loans and receivables	Available for sale	Financial liabilities at amortised cost	Held-to-maturity	Other	Total	Assets and liabilities carried at fair value	Level 1	Level 2	Level 3
Assets												
Cash and balances at central banks	–	–	65.1	–	–	–	–	65.1	–	–	–	–
Loans and advances to banks	–	–	291.0	–	–	–	–	291.0	–	–	–	–
Derivative financial instruments	65.6	25.4	–	–	–	–	–	91.0	91.0	0.2	90.8	–
Securities arising from trading activities	–	–	–	–	–	–	–	–	–	–	–	–
Sovereign debt securities	–	–	–	515.1	–	–	–	515.1	515.1	515.1	–	–
Bank debt securities	–	–	–	245.4	–	–	–	245.4	245.4	–	245.4	–
Other debt securities	–	–	–	14.7	–	–	–	14.7	14.7	–	14.7	–
Investment portfolio	–	–	–	11.6	–	–	–	11.6	11.6	3.0	0.4	8.2
Loans and advances to customers	–	18.7	2 287.6	–	–	–	–	2 306.3	18.7	–	8.8	9.9
Own originated loans and advances to customers securitised	–	–	805.1	–	–	–	–	805.1	–	–	–	–
Assets held for sale	–	–	–	–	–	–	–	–	–	–	–	–
Investments accounted for using the equity method	–	–	–	–	–	–	6.1	6.1	–	–	–	–
Other financial assets	–	–	54.7	–	–	–		54.7	–	–	–	–
Property, plant and equipment	–	–	–	–	–	–	11.8	11.8	–	–	–	–
Deferred tax assets	–	–	–	–	–	–	15.7	15.7	–	–	–	–
Other assets	–	–	1.6	–	–	–	70.2	71.8	–	–	–	–
Goodwill	–	–	–	–	–	–	73.5	73.5	–	–	–	–
Intangible assets	–	–	–	–	–	–	7.6	7.6	–	–	–	–
Total assets	65.6	44.1	3 505.1	786.8	–	–	184.9	4 586.5	896.5	518.3	360.1	18.1
Liabilities												
Customer accounts	–	–	–	–	2 755.2	–	–	2 755.2	–	–	–	–
Derivative financial instruments	52.9	26.8	–	–	–	–	–	79.7	79.7	0.1	79.6	–
Debt issued and other borrowed funds	–	–	–	–	190.0	–	–	190.0	–	–	–	–
Liabilities arising on securitisation of own originated assets	–	–	–	–	807.7	–	–	807.7	–	–	–	–
Repurchase agreements and cash collateral on securities lent	–	–	–	–	–	–	–	–	–	–	–	–
Other liabilities	–	–	–	–	10.6	–	52.8	63.4	–	–	–	–
Subordinated loans	–	–	–	–	131.2	–		131.2	–	–	–	–
Current tax liability	–	–	–	–	–	–	0.2	0.2		–	–	–
Total liabilities	52.9	26.8	–	–	3 894.7	–	53.0	4 027.4	79.7	0.1	79.6	–

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

At 31 March 2013 Consolidated A$'million	At fair value through profit or loss									Valuation technique applied		
	Trading	Designated at inception	Loans and receivables	Available for sale	Financial liabilities at amortised cost	Held-to-maturity	Other	Total	Assets and liabilities carried at fair value	Level 1	Level 2	Level 3
Assets												
Cash and balances at central banks	–	–	214.5	–	–	–	–	214.5	–	–	–	–
Loans and advances to banks	–	–	128.1	–	–	–	–	128.1	–	–	–	–
Derivative financial instruments	86.7	22.0	–	–	–	–	–	108.7	108.7	7.2	101.5	–
Securities arising from trading activities	12.0	–	–	–	–	–	–	12.0	12.0	–	12.0	–
Sovereign debt securities	–	–	–	429.5	–	–	–	429.5	429.5	–	429.5	–
Bank debt securities	–	–	–	262.2	–	–	–	262.2	262.2	–	262.2	–
Other debt securities	–	–	–	22.1	–	10.7	–	32.8	22.1	–	22.1	–
Investment portfolio	–	–	–	16.8	–	–	–	16.8	16.8	7.0	1.1	8.7
Loans and advances to customers	–	8.8	2 487.3	–	–	–	–	2 496.1	8.8	–	–	8.8
Own originated loans and advances to customers securitised	–	–	715.4	–	–	–	–	715.4	–	–	–	–
Assets held for sale	–	–	–	–	–	–	3.9	3.9	–	–	–	–
Investments accounted for using the equity method	–	–	–	–	–	–	5.6	5.6	–	–	–	–
Other financial assets	–	–	54.7	–	–	–	–	54.7	–	–	–	–
Property, plant and equipment	–	–	–	–	–	–	14.3	14.3	–	–	–	–
Deferred tax assets	–	–	–	–	–	–	15.7	15.7	–	–	–	–
Other assets	–	–	19.2	–	–	–	118.6	137.8	–	–	–	–
Goodwill	–	–	–	–	–	–	94.1	94.1	–	–	–	–
Intangible assets	–	–	–	–	–	–	11.4	11.4	–	–	–	–
Total assets	98.7	30.8	3 619.2	730.6	–	10.7	263.6	4 753.6	860.1	14.2	828.4	17.5
Liabilities												
Customer accounts	2.1	–	–	–	2 463.4	–	–	2 465.5	2.1	–	2.1	–
Derivative financial instruments	58.7	25.6	–	–	–	–	–	84.3	84.3	6.9	77.4	–
Debt issued and other borrowed funds	–	–	–	–	685.5	–	–	685.5	–	–	–	–
Liabilities arising on securitisation of own originated assets	–	–	–	–	696.0	–	–	696.0	–	–	–	–
Repurchase agreements and cash collateral on securities lent	–	–	–	–	–	–	–	–	–	–	–	–
Other liabilities	–	–	–	–	–	–	94.6	94.6	–	–	–	–
Subordinated loans	–	–	–	–	120.3	–	–	120.3	–	–	–	–
Total liabilities	60.8	25.6	–	–	3 965.2	–	94.6	4 146.2	86.4	6.9	79.5	–

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

Movements in level 3 financial instruments measured at fair value

The following tables show a reconciliation of the opening and closing amount of level 3 consolidated financial assets and liabilities which are recorded at fair value:

A$'million	At 31 March 2014	Total gains/(losses) recorded in profit or loss	Purchases	Sales	Settlements	Transfers from/(to) level 1 and level 2	At 31 March 2014
Financial assets							
Loans and receivables							
– Loans and advances to customers	8.8	1.1	–	–	–	–	9.9
Financial investments available-for-sale							
– Unlisted investments	8.7	–	–	(0.5)	–	–	8.2
Total level 3 financial assets	17.5	1.1	–	(0.5)	–	–	18.1
Total net level 3 financial assets/(liabilities)	17.5	1.1	–	(0.5)	–	–	18.1

A$'million	At 31 March 2013	Total gains/(losses) recorded in profit or loss	Purchases	Sales	Settlements	Transfers from/(to) level 1 and level 2	At 31 March 2013
Financial assets							
Loans and receivables							
– Loans and advances to customers	56.2	2.0	–	(49.4)	–	–	8.8
Financial investments available-for-sale							
– Unlisted investments	–	–	8.7	–	–	–	8.7
Total level 3 financial assets	56.2	2.0	8.7	(49.4)	–	–	17.5
Total net level 3 financial assets/(liabilities)	56.2	2.0	8.7	(49.4)	–	–	17.5

Sensitivity analysis for financial assets measured at fair value

Instrument	Valuation technique	Significant unobservable inputs	Range	Sensitivity of the input to fair value
Investment portfolio				
Property development trusts	NAV method	Net asset value per unit	0% to 43% increase in NAV	• Assets are carried at the most conservative net asset value • An increase of 43% to NAV would result in an increase of A$1.1 million.
Retail businesses	EBITDA multiple analysis	Change in price earnings multiple (%)	29% decrease to 52% increase in EBITDA	• A 29% decrease in EBITDA would result in a decrease of A$1.5 million in the EBITDA value • An increase of 52% in EBITDA would result in an increase of A$3 million in EBITDA value.
Loans and advances to customers				
Oil royalties	DCF method	Expected production and royalty receipts using forward prices performed	28% decrease to 20% increase in production	• A 28% decrease in production and royalty receipts would result in a decrease of A$3 000 000 in the DCF value • A 20% increase in production and royalty receipts would result in an increase of A$2 000 000 in the DCF value.

13. Cash and liquid assets and loans and advances to banks

For the year to 31 March	Consolidated		Investec Bank (Australia) Limited	
A$'million	2014	2013	2014	2013
Cash at bank*	262.0	87.6	223.8	57.2
Short-term deposits*	29.0	38.8	20.6	33.2
Reser ve Bank of Australia settlement account and other liquid assets	65.1	214.5	65.1	214.5
Included in cash and cash equivalents (note 32(b))	356.1	340.9	309.5	304.9
Term deposits not available for day-to-day operations*	–	1.7	–	–
	356.1	342.6	309.5	304.9
	291.0	128.1	244.4	90.4
* *Loans and advances to banks*				

14. Financial investments available-for-sale

	2014	2013	2014	2013
Sovereign debt securities				
Bonds	48.0	148.4	48.0	148.4
Commercial paper	–	29.8	–	29.8
Floating rate notes	87.9	251.3	87.9	251.3
Government securities	379.2	–	379.2	–
	515.1	429.5	515.1	429.5
Bank debt securities				
Bonds	16.6	29.3	16.6	29.3
Floating rate notes	228.8	218.0	228.8	218.0
Liquid asset bills	–	14.9	–	14.9
	245.4	262.2	245.4	262.2
Other debt securities				
Bonds	–	10.7	–	10.7
Floating rate notes	14.7	22.1	14.7	22.1
	14.7	32.8	14.7	32.8
Investment portfolio				
Listed equity securities	3.0	7.0	2.6	7.0
Unlisted equity securities (measured at cost)	8.6	9.8	8.1	8.7
	11.6	16.8	10.7	15.7
Securities arising from trading activities	–	12.0	–	12.0

15. Derivative financial instruments

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

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

At 31 March 2014	Consolidated			Investec Bank (Australia) Limited		
A$'million	Notional	Assets	Liabilities	Notional	Assets	Liabilities
Derivatives held for trading	9 050.8	77.0	(63.7)	9 050.8	77.0	(63.7)
Forward foreign exchange contracts	223.4	0.7	(0.7)	223.4	0.7	(0.7)
Currency swaps	201.6	7.9	(0.2)	201.6	7.9	(0.2)
Foreign OTC options bought and sold	–	–	–	–	–	–
Other foreign exchange contracts	25.8	–	–	25.8	–	–
Interest rate caps and floors	161.6	0.1	(0.1)	161.6	0.1	(0.1)
Interest rate swaps	7 349.9	63.6	(54.4)	7 349.9	63.6	(54.4)
Forward rate agreements	450.0	–	(0.1)	450.0	–	(0.1)
Interest rate exchange traded futures	51.5	0.2	(0.1)	51.5	0.2	(0.1)
Commodity OTC options bought and sold	105.3	0.2	–	105.3	0.2	–
Commodity swaps and forwards	481.7	4.3	(8.1)	481.7	4.3	(8.1)
Reverse repurchase agreement	–	–	–	–	–	–
Derivatives used as fair value hedges	152.6	8.8	(2.5)	152.6	8.8	(2.5)
Interest rate swaps	152.6	8.8	(2.5)	152.6	8.8	(2.5)
Currency swaps	–	–	–	–	–	–
Derivatives used as cash flow hedges	2 466.9	5.2	(13.5)	1 765.3	4.5	(6.7)
Interest rate swaps	2 261.9	5.1	(13.2)	1 560.3	4.4	(6.4)
Currency swaps	205.0	0.1	(0.3)	205.0	0.1	(0.3)
Total	11 670.3	91.0	(79.7)	10 968.7	90.3	(72.9)

15. Derivative financial instruments (continued)

At 31 March 2013	Consolidated			Investec Bank (Australia) Limited		
A$'million	Notional	Assets	Liabilities	Notional	Assets	Liabilities
Derivatives held for trading	4 208.8	88.5	(62.7)	4 208.8	88.5	(62.7)
Forward foreign exchange contracts	91.4	1.0	(0.8)	91.4	1.0	(0.8)
Currency swaps	73.6	0.9	(2.0)	73.6	0.9	(2.0)
Foreign OTC options bought and sold	15.6	0.1	(0.1)	15.6	0.1	(0.1)
Other foreign exchange contracts	25.0	–	–	25.0	–	–
Interest rate caps and floors	197.4	0.2	(0.2)	197.4	0.2	(0.2)
Interest rate swaps	3 415.5	79.4	(54.4)	3 415.5	79.4	(54.4)
Forward rate agreements	220.0	–	(0.1)	220.0	–	(0.1)
Interest rate exchange traded futures	70.9	–	(0.3)	70.9	–	(0.3)
Commodity OTC options bought and sold	37.3	3.8	(2.7)	37.3	3.8	(2.7)
Commodity swaps and forwards	62.1	3.1	(2.1)	62.1	3.1	(2.1)
Derivatives used as fair value hedges	677.7	19.5	(9.1)	677.7	19.5	(9.1)
Interest rate swaps	585.6	16.9	(5.5)	585.6	16.9	(5.5)
Currency swaps	92.1	2.6	(3.6)	92.1	2.6	(3.6)
Derivatives used as cash flow hedges	1 800.7	2.5	(16.5)	1 225.8	1.9	(6.1)
Interest rate swaps	1 500.7	2.5	(16.1)	925.8	1.9	(5.7)
Currency swaps	300.0	–	(0.4)	300.0	–	(0.4)
Total	6 687.2	110.5	(88.3)	6 112.3	109.9	(73.9)

Fair value hedges

Fair value hedges are used by Investec Bank (Australia) Limited to protect it against changes in fair value of financial assets and financial liabilities due to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include loans, available-for-sale debt securities, debt issued and other borrowed funds. We use forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks, and interest rate swaps to hedge interest rate risk.

At 31 March 2014 A$'million	Consolidated	Investec Bank (Australia) Limited
Fair value hedges		
Gains/(losses) on:		
Hedging instruments	(7.0)	(7.0)
Hedged items attributable to the hedged risk	7.0	7.0
Hedged ineffectiveness recognised immediately in income statement	0.0	0.0
Hedge ineffectiveness included in:		
Client flow trading income	–	–

At 31 March 2013 A$'million	Consolidated	Investec Bank (Australia) Limited
Fair value hedges		
Gains/(losses) on:		
Hedging instruments	6.7	6.7
Hedged items attributable to the hedged risk	(6.6)	(6.6)
Hedged ineffectiveness recognised immediately in income statement	0.1	0.1
Hedge ineffectiveness included in:		
Client flow trading income	(0.1)	(0.1)

15. Derivative financial instruments (continued)

Cash flow hedges

Investec Bank (Australia) Limited is exposed to variability in future interest cash flows on non-trading liabilities which bear interest at a variable rate.

Investec Bank (Australia) Limited uses interest rate swaps as cash flow hedges of these interest rate risks.

During the year Investec Bank (Australia) Limited designated foreign debt held into cash flow hedge relationships using cross currency swaps to hedge foreign exchange and interest rate risk. The amount recognised in the cash flow hedge reserve is the net of foreign currency translation on the hedged and hedging item.

The net loss on cash flow hedges reclassified from equity to the statement of comprehensive income during the year was as follows:

For the year to 31 March 2014 A$'million	Consolidated	Investec Bank (Australia) Limited
Cash flow hedging reclassified from reserves are included in the following line items in the statement of comprehensive income:		
Trading income/(expense) arising from balance sheet management and other trading activities	1.6	(0.3)
Income tax benefit	(0.5)	0.1
Net profit/(loss) on cash flows hedges reclassified to income statement	1.1	(0.2)

For the year to 31 March 2013 A$'million	Consolidated	Investec Bank (Australia) Limited
Cash flow hedging reclassified from reserves are included in the following line items in the statement of comprehensive income:		
Trading expense arising from balance sheet management and other trading activities	(1.7)	(1.7)
Income tax benefit	0.5	0.5
Net loss on cash flows hedges reclassified to income statement	(1.2)	(1.2)

16. Loans and advances to customers

At 31 March A$'million	Notes	Consolidated 2014	Consolidated 2013	Investec Holdings Australia Limited 2014	Investec Holdings Australia Limited 2013
Loans and advances to customers		2 306.3	2 496.1	2 290.6	2 482.4
Own originated loans and advances to customers securitised		805.1	715.4	805.1	715.4
		3 111.4	3 211.5	3 095.7	3 197.8
Term lending	i.	3 064.1	3 223.6	3 047.3	3 209.1
Loans – related parties	ii.	67.5	13.6	67.5	13.6
		3 131.6	3 237.2	3 114.8	3 222.7
Less: impairment		(20.2)	(25.7)	(19.1)	(24.9)
		3 111.4	3 211.5	3 095.7	3 197.8
Specific impairment allowance for losses on loans and advances					
Balance at the beginning of the reporting period		23.2	16.6	23.0	15.1
Increase in specific impairment		26.6	31.3	25.5	31.5
Amount written off during the year	iii.	(32.1)	(24.7)	(31.3)	(23.6)
Balance at the end of the reporting period		17.7	23.2	17.2	23.0
Portfolio impairment allowance for losses on loans and advances					
Balance at the beginning of the reporting period		2.5	2.3	1.9	1.8
Increase in portfolio impairment		0.1	0.2	0.1	0.1
Amount utilised/(written off) during the year		(0.1)	–	(0.1)	–
Balance at the end of the reporting period		2.5	2.5	1.9	1.9

i. *Term lending maturity analysis is contained in note 33.*

ii. *Details of the terms of conditions of related party receivables are set out in notes 39 and 40.*
Loans to related parties include loans to Surepark Investments (Pty) Ltd (A$24.6 million); Surepark (Pty) Ltd (A$4.7 million); DoubleOne 3 (Pty) Ltd (A$22.5 million); Trust Project No. 9 Unit Trust (A$15.7 million).

iii. *Includes write-down of loan to associate in 2013 only.*

At 31 March A$'million	Consolidated 2014	Consolidated 2013	Investec Bank (Australia) Limited 2014	Investec Bank (Australia) Limited 2013
Within loans and receivables we have the following finance lease receivables:				
Minimum lease payments receivable:				
No later than one year	65.3	58.4	7.3	34.8
Later than one year but not later than five years	322.6	275.6	202.5	128.9
Later than five years	23.3	11.9	22.0	16.3
	411.2	345.9	231.8	180.0
Unearned future finance income on finance leases	(97.1)	(74.6)	(45.9)	(38.7)
Net investment in finance leases	314.1	271.3	185.9	141.3

Investec is principally involved with structured entities through securitisation of financial assets, investments in structured entities and sponsoring structured entities that provide specialised investment opportunities to investors. The structured entities finance the purchase of assets by issuing debt securities that are collateralised by the assets held by the structured entities. The debt securities issued by structured entities may include tranches with varying levels of subordination. As IBAL owns only a portion of the senior notes and none of the junior notes of these entities is exposed to credit losses and margin gains on the underlying assets in the vehicles.

Assets originated by Investec Professional Finance (formerly known as Experien) have been securitised though various structures and these amount to A$805 million (2013: A$715 million). These securitisation structures have all been rated by S&P.

At the date of this report the structured entities to which IBAL has exposure are A$3.6 billion.

Interests in the securitised financial assets may be retained and are primarily classified as loans and receivables. Gains or losses on securitisations are based on the carrying amount of the financial assets based on their relative fair values.

17. Other financial assets

At 31 March A$'million	Consolidated 2014	Consolidated 2013	Investec Bank (Australia) Limited 2014	Investec Bank (Australia) Limited 2013
Investments in controlled entities	–	–	89.5	110.4
Notes issued by controlled entities	–	–	38.1	53.7
Loans to parent entity	54.7	54.7	55.4	59.0
Loans to controlled entities	–	–	23.0	28.6
	54.7	54.7	206.0	251.7

18. Goodwill

At 31 March A$'million	Consolidated 2014	Consolidated 2013	Investec Bank (Australia) Limited 2014	Investec Bank (Australia) Limited 2013
The carrying amount allocated to each of the cash-generating units is as follows:				
– Investment Banking	29.1	49.1	–	–
– Professional Finance (Investec Experien)	40.3	40.3	–	–
– Asset Finance Leasing (Alliance)	4.1	4.1	–	–
– Other	–	0.6	–	–
	73.5	94.1	–	–

Impairment testing of goodwill

Goodwill is subject to annual impairment testing (at 31 March) and when circumstances indicate that the carrying value may be impaired.

The recoverable amount of goodwill is determined by applying the price to earnings (P/E) method. The P/E method involves the capitalisation of the earnings of the business at an appropriate multiple and requires consideration of the following factors:

The estimation of future maintainable earnings (after outside equity interests and before abnormal items) having regard to historical and forecast operating results, including sensitivity to key industry risk factors, growth prospects, and the general economic outlook; the assessment of an appropriate capitalisation multiple that will reflect the risks inherent in the business, future growth possibilities and alternative investment opportunities; the assessment of surplus or unrelated assets and liabilities, being those items which are not essential to producing the estimated future maintainable earnings; and need, if any, for short-term capital investment to ensure the future maintainable earnings are achieved.

The impairment of goodwill relates to Wentworth Associates, a corporate finance boutique which Investec acquired in 2001. The acquisition provided a platform to expand activities into the investment banking arena in Australia. Due to the decreased level of deal activity within the Corporate Finance area, the level of goodwill carried in relation to this line of business could not be justified. As a result, an impairment of A$20 million was raised. The other A$0.6 million of goodwill impairment relates to the deregistration of Williamson Wentworth Limited.

19. Assets held for sale

At 31 March A$'million	Consolidated 2014	Consolidated 2013	Investec Bank (Australia) Limited 2014	Investec Bank (Australia) Limited 2013
Tungkillo Power Station	–	–	–	–
Hornsdale Wind Farm	–	3.9	–	3.9
	–	3.9	–	3.9

20. Intangible assets

At 31 March A$'million	Consolidated Brand name	Consolidated Wind farms	Consolidated Computer software	Consolidated Total	Investec Bank (Australia) Limited Brand name	Investec Bank (Australia) Limited Wind farms	Investec Bank (Australia) Limited Computer software	Investec Bank (Australia) Limited Total
Balance at 1 April 2012	0.4	2.7	15.6	18.7	–	2.7	15.6	18.3
Additions	–	2.5	2.3	4.8	–	2.4	2.3	4.7
Reclassification to assets held for sale	–	(2.2)	–	(2.2)	–	(3.9)	–	(3.9)
Disposals	–	–	(0.1)	(0.1)	–	–	(0.1)	(0.1)
Balance at 31 March 2013/1 April 2013	0.4	3.0	17.8	21.2	–	1.2	17.8	19.0
Additions	–	–	0.2	0.2	–	–	0.2	0.2
Reclassification from assets held for sale	–	–	1.4	1.4	–	–	1.4	1.4
Disposals	–	(3.0)	(0.1)	(3.1)	–	(1.2)	(0.1)	(1.3)
Balance at 31 March 2014	0.4	–	19.3	19.7	–	–	19.3	19.3
Amortisation:								
Balance at 1 April 2012	(0.4)	–	(7.2)	(7.6)	–	–	(7.2)	(7.2)
Amortisation and impairment	–	–	(2.2)	(2.2)	–	–	(2.2)	(2.2)
Balance at 31 March 2013/1 April 2013	(0.4)	–	(9.4)	(9.8)	–	–	(9.4)	(9.4)
Amortisation and impairment	–	–	(2.3)	(2.3)	–	–	(2.3)	(2.3)
Balance at 31 March 2014	(0.4)	–	(11.7)	(12.1)	–	–	(11.7)	(11.7)
Net balance 1 April 2013	–	3.0	8.4	11.4	–	1.2	8.4	9.6
Net balance 31 March 2014	–	–	7.6	7.6	–	–	7.6	7.6

21. Investments accounted for using the equity method

At 31 March A$'million	Consolidated 2014	Consolidated 2013	Investec Bank (Australia) Limited 2014	Investec Bank (Australia) Limited 2013
Investment in associates	6.1	5.6	0.5	–

Details of associate and joint ventures	Balance date		Place of incorporation	Principal activity
Trust Project No. 9 Unit Trust	30 June	50%	Australia	Development of a residential property
DoubleOne 3 (Pty) Ltd	30 June	50%	Australia	Development of a commercial property

There are no significant restrictions on the ability of the associates to transfer funds to the bank in the form of cash dividends, repayment of loans or advances.

A$'million	Rozelle Bay Unit Trust	Canberra Estates Consortium No. 19	Trust Project No. 9 Unit Trust	DoubleOne 3 (Pty) Ltd*	Consolidated
Balance at 1 April 2012	1.8	0.1	6.1	–	8.0
New investments	–	–	–	–	–
Share of profits/(losses)	–	–	–	–	–
Share of income tax	–	–	–	–	–
Disposals	–	(0.1)	(0.5)	–	(0.6)
Transfer to investment portfolio	(1.8)	–	–	–	(1.8)
Balance at 31 March 2013	–	–	5.6	–	5.6
New investments	–	–	–	0.5	0.5
Share of profits/(losses)	–	–	–	–	–
Share of income tax	–	–	–	–	–
Disposal	–	–	–	–	–
Transfer to investment portfolio	–	–	–	–	–
Balance at 31 March 2014	–	–	5.6	0.5	6.1
Group's proportionate share of assets and liabilities:					
Current assets	–	–	18.4	–	18.4
Non-current assets	–	–	–	–	–
Current liabilities	–	–	(12.7)	–	(12.7)
Non-current liabilities	–	–	–	–	–
Net assets at 31 March 2013	–	–	5.7	–	5.7
Current assets	–	–	20.1	13.4	33.5
Non-current assets	–	–	–	–	–
Current liabilities	–	–	(14.3)	(13.1)	(27.4)
Non-current liabilities	–	–	–	–	–
Net assets at 31 March 2014	–	–	5.8	0.3	6.1

* *DoubleOne 3 (Pty) Ltd is the only associate investment at the IBAL level.*

22. Property, plant and equipment

	Consolidated					Investec Holdings Australia Limited				
A$'million	Property	Leasehold improvements	Office equipment and furniture and fittings	Computer equipment	Total	Property	Leasehold improvements	Office equipment and furniture and fittings	Computer equipment	Total
At 1 April 2012, net of accumulated depreciation and impairment	–	12.8	1.3	0.7	14.8	–	12.8	1.3	0.7	14.8
Additions	0.2	2.5	0.5	0.4	3.6	0.2	2.5	0.5	0.4	3.6
Disposals	–	(1.8)	–	0.1	(1.7)	–	(1.8)	–	0.1	(1.7)
Depreciation charge for the year	–	(1.7)	(0.4)	(0.4)	(2.5)	–	(1.7)	(0.4)	(0.4)	(2.5)
At 31 March 2013/1 April 2013, net of accumulated depreciation and impairment	0.2	11.9	1.4	0.8	14.3	0.2	11.9	1.4	0.8	14.3
Additions	–	–	0.1	0.2	0.3	–	–	0.1	0.2	0.3
Disposals	–	(0.3)	(0.3)	(0.1)	(0.7)	–	(0.3)	(0.3)	(0.1)	(0.7)
Depreciation charge for the year	–	(1.5)	(0.3)	(0.3)	(2.1)	–	(1.5)	(0.3)	(0.3)	(2.1)
At 31 March 2014, net of accumulated depreciation and impairment	0.2	10.1	0.9	0.6	11.8	0.2	10.1	0.9	0.6	11.8
At 31 March 2013										
Cost or fair value	0.2	14.4	3.3	2.3	20.2	0.2	14.4	3.3	2.3	20.2
Accumulated depreciation and impairment	–	(2.5)	(1.9)	(1.5)	(5.9)	–	(2.5)	(1.9)	(1.5)	(5.9)
Net carrying amount	**0.2**	**11.9**	**1.4**	**0.8**	**14.3**	**0.2**	**11.9**	**1.4**	**0.8**	**14.3**
At 31 March 2014										
Cost or fair value	0.2	13.7	3.1	1.6	18.6	0.2	13.7	3.1	1.6	18.6
Accumulated depreciation and impairment	–	(3.6)	(2.2)	–	(6.8)	–	(3.6)	(2.2)	–	(6.8)
Net carrying amount	**0.2**	**10.1**	**0.9**	**1.6**	**11.8**	**0.2**	**10.1**	**0.9**	**1.6**	**11.8**

At 31 March A$'million	Notes	Consolidated 2014	Consolidated 2013	Investec Bank (Australia) Limited 2014	Investec Bank (Australia) Limited 2013
23. Other assets					
Trade debtors		1.6	15.8	0.2	12.9
Sundry debtors		26.9	14.3	33.7	15.8
Property assets	a	40.5	104.3	13.6	23.7
Prepayments		2.8	2.3	1.3	1.0
Receivables from related entities		–	1.1	–	1.2
		71.8	137.8	48.8	54.6
24. Customer accounts					
On demand and short-term deposits*		341.8	293.4	341.8	293.4
Term deposits*		2 413.4	2 172.1	2 413.4	2 172.1
	b	2 755.2	2 465.5	2 755.2	2 465.5
25. Debt issued and other borrowed funds					
Interest bearing notes payable*		807.7	696.0	807.7	696.0
Debt issued*		190.0	685.5	190.0	685.5
	b	997.7	1 381.5	997.7	1 381.5
Details of the terms and conditions of related party loans are set out in note 39.					
26. Subordinated debt					
Fixed rate subordinated notes (CHF 3.87%)		60.9	50.0	60.9	50.0
Floating rate subordinated notes (7.65%)		20.2	20.2	20.2	20.2
Floating rate subordinated notes (8.14%)		50.1	50.1	50.1	50.1
	c	131.2	120.3	131.2	120.3

a *Property assets are carried at the lower of cost or net realisable value.*
b *The maturity analysis is contained in note 33.*
c *Subordinated notes are subordinated in right of payment to the claims of depositors and all other creditors of Investec Bank (Australia) Limited. Subordinated notes with an original maturity of at least five years constitute tier 2 capital as defined by the Australian Prudential Regulation Authority for capital adequacy purposes. In addition the amount of subordinated notes eligible for tier 2 is less per Basel III rules.*
* *Items flagged are included in the concentration of risk disclosure in the risk management section of this report on pages 15 to 47.*

At 31 March A$'million	Consolidated 2014	Consolidated 2013	Investec Bank (Australia) Limited 2014	Investec Bank (Australia) Limited 2013
27. Concentration of risk				
Private client	2 755.2	2 465.5	2 755.2	2 465.5
Corporate and institutional	997.7	1 381.5	997.7	685.5
	3 752.9	3 847.0	3 752.9	3 151.0
28. Other liabilities				
Trade payables	0.9	2.6	2.2	2.6
Other payables	41.3	69.9	44.5	42.1
Employee benefits	21.4	22.1	21.4	22.1
	63.6	94.6	68.1	66.8
29. Share capital				
311 697 616 ordinary shares fully paid	311.7	291.7	311.7	291.7
	311.7	291.7	311.7	291.7

Ordinary shares have the right to receive dividends as declared and, in the event of winding up Investec Bank (Australia) Limited, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid-up to shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of Investec Bank (Australia) Limited.

30. Retained earnings

Movements in retained earnings were as follows:	Consolidated 2014	Consolidated 2013	Investec Bank (Australia) Limited 2014	Investec Bank (Australia) Limited 2013
Balance at the beginning of the reporting period	304.6	297.0	299.9	275.0
Net profit/(loss) for the year	(70.1)	6.3	(73.0)	23.6
Net income recognised directly to equity	0.0	0.0	0.0	0.0
Transfer to/(from) general reserve for credit losses	(1.8)	1.3	(1.8)	1.3
Balance at the end of the reporting period	232.7	304.6	225.1	299.9

31. Other reserves

	Consolidated		
A$'million	Net unrealised gains reserve	FCTR	Cash flow hedge reserve
Balance at 1 April 2012	(2.4)	(0.1)	(14.3)
Net unrealised gains/(losses) on available-for-sale investments net of tax effect	2.3	–	–
Impairment of available-for-sale investments net of tax effect	2.3	–	–
Net unrealised gains/(losses) on foreign exchange net of tax effect	–	–	–
Fair value movement on cash flow hedges net of tax effect	–	–	(1.5)
Transfer to retained earnings	–	–	
Balance at 31 March 2013	2.2	(0.1)	(15.8)
Balance at 1 April 2013	2.2	(0.1)	(15.8)
Net unrealised gains/(losses) on available-for-sale investments net of tax effect	(2.1)	–	–
Impairment of available-for-sale investments net of tax effect	–	–	–
Net unrealised gains/(losses) on foreign exchange net of tax effect	–	–	–
Fair value movement on cash flow hedges net of tax effect	–	–	4.1
Transfer to retained earnings	–	–	–
Balance at 31 March 2014	0.1	(0.1)	(11.7)

Available-for-sale reserve

This reserve records fair value changes on available-for-sale investments.

General reserve for credit losses

The general reserve for credit losses represents transfers from retained earnings to meet requirements under relevant banking regulations. We make an appropriation to the general reserve for credit losses for unforeseeable risks and future losses.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the net investment in foreign operations, net of the effects of hedging.

Cash flow hedge reserve

This reserve comprises the portion of gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

Consolidated		Investec Bank (Australia) Limited				
General reserve for credit losses	Total	Net unrealised gains reserve	FCTR	Cash flow hedge reserve	General reserve for credit losses	Total
26.2	9.4	(2.4)	(0.1)	(2.9)	25.9	20.5
–	2.3	2.3	–	–	–	2.3
–	2.3	2.3	–	–	–	2.3
–	–	–	–	–	–	–
–	(1.5)	–	–	(4.5)	–	(4.5)
(1.4)	(1.4)	–	–	–	(1.3)	(1.3)
24.8	11.1	2.2	(0.1)	(7.4)	24.6	19.3
24.8	11.1	2.2	(0.1)	(7.4)	24.6	19.3
–	(2.1)	(1.9)	–	–	–	(1.9)
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	4.1	–	–	2.8	–	2.8
1.8	1.8	–	–	–	1.8	1.8
26.6	14.7	0.3	(0.1)	(4.6)	26.4	22.0

32. Notes to the statement of cash flow

For the year to 31 March	Consolidated		Investec Bank (Australia) Limited	
A$'million	2014	2013	2014	2013
(a) Reconciliation of profit for the year to net cash flows from operating activities				
Net profit/(loss) before income tax	(71.9)	5.2	(75.9)	22.1
Net decrease/(increase) in assets at fair value through the income statement	5.5	(4.6)	5.5	(3.9)
Amortisation of leasehold improvements	1.5	1.6	1.5	1.6
Amortisation of intangibles	0.9	2.2	0.9	2.2
Depreciation	0.6	0.7	0.6	0.7
Loss on sale property, plant and equipment	0.7	1.8	0.7	1.8
Net loss/(gain) on disposal of available-for-sale investments	(5.3)	(4.9)	(4.4)	(4.7)
Net loss/(gain) on disposal of intangible assets	3.1	(0.1)	1.3	(0.1)
Impairment of available-for-sale investments	–	4.0	–	4.0
Write-off of goodwill/investment in controlled entity	20.6	–	20.9	–
Bad debts written off/(recovered)	38.5	27.1	36.5	27.1
Management fees received from subsidiaries	0.1	–	(4.4)	–
Dividends received	(2.0)	(0.4)	(0.1)	(20.8)
Share of net (gain)/loss of associate accounted for using the equity method	(0.5)	(2.7)	(0.3)	(2.6)
Increase/(decrease) in capitalisation of net fees and interest relating to an integral part of a loan	6.1	(9.1)	6.1	(11.7)
Decrease/(increase) in net receivables	1.7	11.4	(3.5)	2.6
Decrease/(increase) in prepayments	0.6	(1.9)	0.9	(0.7)
(Decrease)/increase in trade and other creditors	(8.3)	37.1	20.3	(4.0)
	(8.1)	67.4	6.7	13.5
(b) Reconciliation of cash				
For the purpose of the statement of cash flows, cash includes money at short call, bills, at call deposits with other financial institutions and settlement account balances with other banks				
Cash at bank	181.4	87.6	223.8	57.2
Short-term deposits	109.6	38.8	20.6	33.2
Due from other financial institutions – at call	65.1	214.5	65.1	214.5
	356.1	340.9	309.5	304.9

32. Notes to the statement of cash flow (continued)

For the year to 31 March	Consolidated		Investec Bank (Australia) Limited	
A$'million	2014	2013	2014	2013
(c) Financing facilities				
At reporting date, the following financing facilities had been negotiated and were available:				
Total facilities				
– Bank overdraft	–	–	–	–
– Standby facilities	–	–	–	–
– Bill acceptance/discount facilities	–	–	–	–
– Securitisation warehouse	1 097	1 363	–	–
Facilities used at reporting date				
– Bank overdraft	–	–	–	–
– Standby facilities	–	–	–	–
– Bill acceptance/discount facilities	–	–	–	–
– Securitisation warehouse	846	751	–	–
Facilities unused at reporting date				
– Bank overdraft	–	–	–	–
– Standby facilities	–	–	–	–
– Bill acceptance/discount facilities	–	–	–	–
– Securitisation warehouse	251	612	–	–

33. Maturity analysis of assets and liabilities

The following tables analyse the assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. Refer to the risk management section of this report for the contractual undiscounted repayment obligations. This is based on contractual maturity unless otherwise stated.

	Consolidated						
Maturity period at 31 March 2014 A$'million	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	> 5 years	Not specified	Total
Assets							
Cash and liquid assets[4]	230.6	–	125.5	–	–	–	356.1
Derivative financial instruments	1.9	12.0	23.5	31.6	22.0	–	91.0
Available-for-sale investments[3]	752.5	13.6	3.5	5.0	12.2	–	786.8
Trading securities	–	–	–	–	–	–	–
Loans and receivables[1]	148.3	248.2	727.8	1 870.4	116.7	–	3 111.4
Investments accounted for using the equity method	–	–	–	–	–	6.1	6.1
Other assets	–	–	–	–	–	235.1	235.1
Total assets	1 133.3	273.8	880.3	1 907.0	150.9	241.2	4 586.5
Liabilities							
Customer accounts[2]	726.6	1 094.2	699.9	222.6	11.9	–	2 755.2
Derivative financial instruments	5.5	10.4	20.4	28.4	15.0	–	79.7
Debt issued and other borrowed funds	1.1	6.1	182.8	–	–	–	190.0
Liabilities arising on securitisation of other assets	27.1	67.2	355.1	357.4	0.9	–	807.7
Other liabilities	–	–	–	–	–	63.6	63.6
Subordinated loans	–	–	20.0	111.2	–	–	131.2
Total liabilities	760.3	1 177.9	1 278.2	719.6	27.8	63.6	4 027.4

(1) *Includes past maturity loans that have been behaviourally spread to reflect the unlikelihood that those loans will be repaid within a month.*
(2) *Includes substantial 'core' deposits that are contractually at call and are presented as such in this disclosure, but history demonstrates such accounts provide a stable source of long-term funding.*
(3) *Includes assets that are eligible for repurchase with the Reserve Bank of Australia and as such are treated as contractually short term.*
(4) *Includes a Repo between IBAL and Investec Bank Limited in 3 to 12 months.*

The above maturity analysis reflects Investec Bank (Australia) Limited's financial assets and liabilities.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of Investec Bank (Australia) Limited. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity and its exposure to changes in interest rates and exchange rates.

33. Maturity analysis of assets and liabilities (continued)

	Consolidated						
Maturity period at 31 March 2013 A$'million	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	> 5 years	Not specified	Total
Assets							
Cash and liquid assets	342.6	–	–	–	–	–	342.6
Derivative financial instruments	3.0	0.5	30.2	54.2	20.8	–	108.7
Available-for-sale investments[3]	664.5	1.4	25.1	30.2	3.3	16.8	741.3
Trading securities	–	5.0	–	7.0	–	–	12.0
Loans and receivables[1]	104.6	283.9	985.4	1 693.7	143.9	–	3 211.5
Investments accounted for using the equity method	–	–	–	–	–	5.6	5.6
Other assets	–	–	–	–	–	331.9	331.9
Total assets	1 114.7	290.8	1 040.7	1 785.1	168.0	354.3	4 753.6
Liabilities							
Customer accounts[2]	718.9	917.9	603.0	214.3	11.4	–	2 465.5
Derivative financial instruments	7.0	3.5	20.0	36.1	17.7	–	84.3
Debt issued and other borrowed funds	27.8	76.2	470.7	804.3	2.5	–	1 381.5
Other liabilities	–	–	–	–	–	94.6	94.6
Subordinated loans	–	–	–	120.3	–	–	120.3
Total liabilities	753.7	997.6	1 093.7	1 175.0	31.6	94.6	4 146.2

(1) Includes past maturity loans that have been behaviourally spread to reflect the unlikelihood that those loans will be repaid within a month.
(2) Includes substantial 'core' deposits that are contractually at call and are represented as such in this disclosure, but history demonstrates such accounts provide a stable source of long-term funding.
(3) Includes assets that are eligible for repurchase with the Reserve Bank of Australia and as such are treated as contractually short term.

34. Fair value of financial instruments

Set out below is a comparison by class of the carrying amounts and fair values of the financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

At 31 March A$'million	Consolidated CV 2014	FV 2014	Unrecognised gain/(loss) 2014	CV 2013	FV 2013	Unrecognised gain/(loss) 2013
Financial assets						
Cash and balances at central banks	65.1	65.1	–	214.5	214.5	–
Loans and advances to banks	291.0	291.0	–	128.1	128.1	–
Derivative financial instruments	91.0	91.0	–	108.7	108.7	–
Sovereign debt securities	515.1	515.1	–	429.5	429.5	–
Bank debt securities	245.4	245.4	–	262.2	262.2	–
Other debt securities	14.7	14.7	–	32.8	32.8	–
Investment portfolio	11.6	11.6	–	16.8	16.8	–
Trading book securities	–	–	–	12.0	12.0	–
Loans and advances to customers	2 306.3	2 276.7	(29.6)	2 496.1	2 479.4	(16.7)
Own originated loans and advance to customers securitised	805.1	836.8	31.7	715.4	730.5	15.1
Other financial assets	54.7	54.7	–	54.7	54.7	–
Financial liabilities						
Customer accounts	2 755.2	2 755.2	–	2 465.5	2 465.5	–
Derivative financial instruments	79.7	79.7	–	84.3	84.3	–
Debt issued and other borrowed funds	190.0	190.0	–	685.5	685.5	–
Liabilities arising on securitisation of other assets	807.7	807.7	–	696.0	696.0	–
Subordinated debt	131.2	131.2	–	120.3	120.3	–

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

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short-term maturity (less than 12 months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to all private client deposits without a specific maturity, government guaranteed exposures and variable rate financial instruments.

Fixed rate financial instruments

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

35. Commitments and contingencies

At 31 March A$'million	Consolidated 2014	Consolidated 2013	Investec Bank (Australia) Limited 2014	Investec Bank (Australia) Limited 2013
Operating lease commitments – as lessee				
– not later than one year	9.7	8.9	9.7	8.9
– later than one year and not later than five years	48.8	37.0	48.8	37.0
– longer than five years	16.7	35.0	16.7	35.0
	75.2	80.9	75.2	80.9
Operating lease commitments – as lessor				
– not later than one year	0.1	–	0.1	–
– later than one year and not later than five years	0.1	–	0.1	–
– longer than five years	–	–	–	–
	0.20	–	0.20	–
Capital commitments				
– not later than one year	–	0.4	–	0.3
– later than one year and not later than five years	–	–	–	–
	–	0.4	–	0.3

There are no restrictions imposed on the lease of space other than those forming part of the negotiated lease arrangements for each specific premise.

(a) *The commitment is mainly in respect of an operating lease arrangement entered into for the rental of office space in The Chifley Tower, Sydney.*

At 31 March A$'million	Consolidated			
	Carrying amount 2014	Carrying amount 2013	Credit equivalent 2014	Credit equivalent 2013
Guarantees entered into in the normal course of business	57.5	56.9	57.7	56.9
Commitments to provide credit:				
– one year or less	270.8	65.3	270.8	65.3
– over one year	129.6	171.7	129.6	171.7
	457.9	293.9	458.1	293.9

Guarantees represent unconditional undertakings by Investec Bank (Australia) Limited to support the obligations of its customers to third parties.

Commitments to provide credit include all obligations on the part of Investec Bank (Australia) Limited to provide credit facilities.

The transactions are categorised and credit equivalents calculated under APRA guidelines for the risk-based measurement of capital adequacy.

The credit equivalent exposure from direct credit substitutes (guarantees) is the face value of the transaction. The exposure to commitments to provide credit is calculated by applying given credit conversion factors to the face value to reflect the duration, the nature and the certainty of the contractual undertaking to provide the facility.

Where the potential loss depends on the performance of a counterparty, Investec Bank (Australia) Limited utilises the same credit policies and assessment criteria for off-balance sheet business as it does for on-balance sheet business and if it is deemed necessary, collateral is obtained based on management's credit evaluation of the counterparty. If a probable loss is identified, suitable provisions are raised.

Legal claims

There are no outstanding material legal claims at 31 March 2014.

36. Events after the balance sheet date

Subsequent to the balance sheet date, Investec Holdings Australia Limited announced on 11 April 2014 that it had entered into an agreement with Bank of Queensland (BOQ) to sell its Professional Finance business, Asset Finance and Leasing business and its deposit book. The transaction is structured as a sale of IBAL and is subject to approval from the Australian Prudential Regulation Authority which is expected to be received by 31 July 2014.

36. Events after the balance sheet date (continued)

The consideration includes a premium of A$210 million over the net book value of the assets and liabilities sold. Approximately A$2.4 billion of loans and A$2.7 billion of deposits are being sold, with over 300 people transferring to BoQ.

Investec will retain significant presence in Australia following the sale, focusing on our core strengths across Corporate and Institutional Banking, Investment Banking and Property Funds Management.

The transaction is structured as a sale of the Investec Bank (Australia) Limited entity. As a result, the Investec Group in Australia will cease to hold an ADI licence, and will not be regulated by the Australian Prudential Regulation Authority. The assets, liabilities and any other contractual arrangements relevant to the businesses that will remain in the Investec group will be transferred to the balance sheets of either a wholly owned Australian subsidiary, Investec Bank plc in the UK or Investec Bank Limited in South Africa prior to the completion of the transaction.

At the date of signing the annual financial report, we cannot accurately or reliably measure the impact of this transaction on the future financial statements of Investec Bank (Australia) Limited.

37. Fiduciary activities

At 31 March	Consolidated		Investec Bank (Australia) Limited	
A$'million	2014	2013	2014	2013
Funds under management	438.7	469.3	–	–
Funds managed and committed	438.7	469.3	0.0	0.0

38. Audit remuneration

For the year to 31 March	Consolidated		Investec Bank (Australia) Limited	
A$'000	2014	2013	2014	2013
The auditor of Investec Bank (Australia) Limited is Ernst & Young.				
The following amounts were paid to the auditors:				
• Audit fees	1 027.9	1 235.2	1 027.9	1 235.2
• Audit-related fees	184.5	349.0	184.5	349.0
• Tax fees	399.9	327.0	399.9	327.0
• Other services	–	26.5	–	26.5
	1 612.3	1 937.7	1 612.3	1 937.7
Fees by audit firm:				
Ernst & Young	1 612.3	1 937.7	1 612.3	1 937.7
	1 612.3	1 937.7	1 612.3	1 937.7

The audit and compliance committee has considered the non-audit services provided by the auditors and is satisfied that the services and the level of fees are compatible with maintaining the auditor's independence.

Audit fees consist of fees for the audit of the annual consolidated financial statements of Investec Bank (Australia) Limited, the audit of the annual financial statements of Investec Bank (Australia) Limited and each of its controlled entities that are required to prepare financial statements and review and audit opinions to the head office auditor of the ultimate controlling entity.

Audit-related fees consist of: (i) fees for services required by statute or regulation that are reasonably related to the performance of the audit or review of the financial statements and which are traditionally performed by the external auditor; and (ii) fees for other assurance services reasonably related to the audit or review of the financial statements, including accounting and regulatory consultations.

Tax fees consist of fees for tax advisory and tax compliance services.

Ernst & Young are also auditors of a number of funds and trusts which Investec Bank (Australia) Limited conducts investment management and other fiduciary activities. These funds and trusts are not consolidated into the consolidated entity's balance sheet. The audit and other fees for these funds and trusts in the year were A$204 000 (2013: A$449 896).

39. Related party disclosure

The consolidated annual financial statements include the annual financial statements of Investec Bank (Australia) Limited and the subsidiaries listed in the following table. All subsidiaries have the same reporting year end as the parent entity.

		% Beneficial interest		Investment (A$)	
Name	Country of incorporation	2014	2013	2014	2013
Wentworth Associates (Pty) Ltd	Australia	100%	100%	44 176 015	64 176 015
Investec Wentworth (Pty) Ltd	Australia	100%	100%	10	–
Investec Wentworth Private Equity Limited	Australia	100%	100%	12	5
IWPE Nominees (Pty) Ltd	Australia	100%	100%	12	12
Investec Australia Direct Investments (Pty) Ltd	Australia	100%	100%	12	12
Investec Property Limited	Australia	100%	100%	5 000 000	5 000 000
Investec Propco (Pty) Ltd	Australia	100%	0%	100	–
Investec Property Management (Pty) Ltd	Australia	100%	0%	100	–
Investec Australia Funds Management Limited	Australia	100%	100%	100	100
Investec (Australia) Investment Management (Pty) Ltd	Australia	100%	100%	100	100
Investec Professional Finance (Pty) Ltd (formerly Investec Experien (Pty) Ltd)	Australia	100%	100%	31 679 609	31 679 609
Impala Trust No. 1 Australia	Australia	100%	100%	–	–
Nyala Trust Australia	Australia	100%	100%	–	–
MSN 1438 (Pty) Ltd Australia	Australia	100%	100%	2 500 002	2 500 002
Investec Power Holdings (Pty) Ltd Australia	Australia	100%	100%	100	100
Mannum PowerCo (Pty) Ltd Australia	Australia	100%	100%	100	100
Tungkillo PowerCo (Pty) Ltd Australia	Australia	100%	100%	100	100
Investec Securities Australia Limited	Australia	100%	100%	2 000 000	2 000 000
Investec Equity Investments Limited (formerly Williamson Wentworth Limited Australia)	Australia	0%	100%	–	850 000
Alliance E Finance (Pty) Ltd	Australia	100%	100%	11 000	11 000
Investec Asset Finance and Leasing (Pty) Ltd	Australia	100%	100%	4 117 800	4 117 800
Collgar Wind Farm Investment Holding (Pty) Ltd	Australia	100%	100%	2	2
Collgar Wind Farm Services (Pty) Ltd	Australia	100%	100%	1	1
Hornsdale Wind Farm HoldCo (Pty) Ltd	Australia	100%	100%	100	100
Hornsdale Wind Farm Management (Pty) Ltd	Australia	100%	100%	100	100
Hornsdale Wind Farm OpCo (Pty) Ltd	Australia	100%	100%	100	100
LUPE Management (Pty) Ltd	Australia	100%	100%	100	100
The Trustee for IBAL Point Cook Trust	Australia	100%	100%	100	100
The Trustee for Investec Wylde St Trust	Australia	100%	100%	100	100
The Trustee for IBAL Croydon Trust	Australia	100%	100%	100	100
The Trustee for Hornsdale Wind Farm Trust	Australia	100%	100%	100	100
Total investments in controlled entities				89 485 975	110 335 758
Notes issued*					
Impala Trust No. 1				22 540 106	24 619 717
Nyala Trust				15 565 841	29 124 976
				38 105 947	53 744 693

Investec Bank (Australia) Limited's ultimate Australian parent entity is Investec Holdings Australia Limited. Its ultimate parent is Investec plc, incorporated in the United Kingdom.

* *This represents the notes held in securitisation structures, in addition Investec Bank (Australia) Limited holds six out of six units issued at A$10/unit.*

39. Related party disclosure (continued)

The following provides the total amount of transactions that were entered into with related parties for the relevant financial year:

Wholly owned group transactions

Loans

1. Interest free loans were made between Investec Bank (Australia) Limited to wholly owned subsidiaries with no fixed repayment date.
2. On entering into tax consolidation, interest free loans were made between Investec Holdings Australia Limited (parent entity) and its subsidiaries (Investec Bank (Australia) Limited) with no fixed repayment date.

Management fees

Investec Bank (Australia) Limited receives management fees from wholly owned subsidiaries in respect of services provided by personnel employed by the chief entity.

Other related party transactions

Related party	Balance				Interest expense/(income)	
A$	March 2014	March 2013	Interest rate*	Term	March 2014	March 2013
Investec Asset Management UK Limited (current account)	203 236	179 773	–	No fixed repayment date	–	–
Investec Bank Mauritius	–	4 137 924	3.14%	Deposit	–	(59 070)
Investec Bank plc Limited	(16 557)	(31 193)	0.15%	7 year pay fixed 3.8% and receive Libor 1 month	39 647	17 823
Investec Bank plc Limited	(10 010)	(46 200)	0.15%	7 year pay fixed 3.32% and receive Libor 1 month	28 040	54 583
Investec Bank plc Limited	50 200 466	–	5.42%	Fixed rate loan	(392 952)	–
Investec Bank plc Limited	–	(14 538 546)	8.70%	Loan matured June 2013	807 315	254 234
Investec Bank plc Limited (current account)	(5 033 546)	(382 475)	–	No fixed repayment date	–	–
Investec Bank Switzerland	(61 079 221)	(50 807 463)	3.87%	Subordinated debt	2 046 879	1 701 308
Investec Capital Asia Limited (current account)	–	(35 716)	–	No fixed repayment date	–	–
Investec Limited	(50 133 754)	(50 140 384)	8.14%	Subordinated debt	3 726 540	1 065 532
Investec Limited	75 313 920	–	4.39%	Reverse repo	(1 234 208)	–
Investec Limited	1 642 866	–	–	ZAR Nostro	–	–
Investec Limited	5 323 978	–	2.50%	24-hour funds	(43 978)	–
Investec Limited	1 419 606	–	3.00%	24-hour funds	(10 968)	–
Investec Limited	682 193	–	2.67%	5 year pay fixed 3.2% and receive Libor 1 month	(511 433)	–
Investec Limited	49 806 957	–	–	Short-term receivable	–	–
Investec Limited (current account)	(303 497)	1 358 578	–	No fixed repayment date	–	–
Surepark Investments (Pty) Ltd	24 578 009	–	9.18%	Unsecured senior debt maturing December 2022	2 266 428	–
Surepark Private (Pty) Ltd	1 713 162	–	6.18%	25 year receive fixed 6.18% and pay BBSW 90	–	–
Surepark Private (Pty) Ltd	6 697 147	–	5.01%	Long-term receivable	–	–
Surepark (Pty) Ltd	4 743 494	–	5.75%	Term loan maturing December 2016	277 997	–
Surepark (Pty) Ltd	10 628 653	–	2.75%	26 year receive fixed 6.18% and pay BBSW 90	(1 875 421)	–

Interest rates stated are the applicable rate at the end of the reporting period.

39. Related party disclosure (continued)

Loans to associates and joint ventures

A$	Balance March 2014	Balance March 2013	Interest rate	Original term
DoubleOne 3 (Pty) Ltd	22 501 764	–	5.50%	Loan facility
Trust Project No. 9 Unit Trust	15 671 554	5 193 507	11.01%	Loan facility

Yorker Trust

In the year ended 31 March 2012 Investec Bank (Australia) Limited sold the majority of its default property loan book to a special purpose vehicle, Yorker Trust, of which Investec Bank (Australia) Limited was assigned as the trust manager. Investec Bank (Australia) Limited continues to be the trust manager of the Yorker Trust at 31 March 2014.

Other

Investec Bank (Australia) Limited at time enters into co-investments with group entities, including Investec Bank Mauritius, Investec Bank plc and Investec Bank Limited.

Services provided by and to group entities, including insurance, licencing and management services, are charged to and from Investec Bank (Australia) Limited on an arm's length basis, and the unsettled balance at 31 March is disclosed in note 23.

Investec Bank (Australia) Limited has during the year ended 31 March 2014, and subsequent to year end, entered into a number of transactions to transfer assets and liabilities within the Investec group; including Investec Bank Mauritius, Investec Bank plc and Investec Bank Limited. These transactions have occurred on an arm's length basis, and have primarily occurred to prepare Investec Bank (Australia) Limited for sale as detailed in note 36.

40. Director and relevant executive disclosure

Details of directors and relevant executives

Directors	
Ciaran Whelan	Acting chief executive officer (CEO)
Alan Chonowitz	Deputy CEO and chief financial officer
Richard Longes	Chairman, non-executive director
Peter Thomas	Non-executive director
John Murphy	Non-executive director
Stephen Koseff	Non-executive director
Anthony Rubin	Company secretary

Resigned during the reporting period	
David Gonski (31 March 2014)	Chairman, Non-executive director
Geoff Levy (31 March 2014)	Deputy chairman, Non-executive director
Robert Mansfield (31 March 2014)	Non-executive director
Kate Spargo (24 February 2014)	Non-executive director
David Clarke (12 August 2013)	Non-executive director

Paul Lam-Po-Tang was appointed as joint company secretary on 1 April 2014. Consequently compensation made to Paul Lam-Po-Tang is not included in this note.

Compensation of directors and relevant executives

For the year to 31 March	Consolidated		Investec Bank (Australia) Limited	
A$'million	2014	2013	2014	2013
Short-term employee benefits	2.9	3.1	2.9	3.1
Post-employment benefits	0.1	0.1	0.1	0.1
Other long-term benefits	–	–	–	–
Termination benefits	1.2	–	1.2	–
Share-based payments	1.0	1.3	1.0	1.3
	5.2	4.5	5.2	4.5

Loans and guarantees to directors and relevant executives

Guarantees

No guarantees were provided to directors or relevant executives during the current or comparative period.

40. Director and relevant executive disclosure (continued)

Loans and guarantees to directors and relevant executives (continued)

Loans

Related party	Balance March 2014	Balance March 2013	Average interest rate	Facility limit	Term
Alan Chonowitz	–	0.7	5.82%	1.0	Normal commercial terms
APM Enterprises (Pty) Ltd[(1)]	–	0.2	6.19%	0.2	Normal commercial terms
APM Enterprises (Pty) Ltd	–	0.5	0.00%	0.5	Non-recourse loan
Eminence Grise (Pty) Ltd[(2)]	–	0.3	7.28%	0.2	Normal commercial terms
Tuwele (Pty) Ltd[(3)]	–	1.9	0.00%	1.9	Non-recourse loan
Liquid T (Pty) Ltd[(4)]	–	0.2	6.00%	0.2	Normal commercial terms

(1) *John Murphy is a director of APM Enterprises (Pty) Ltd.*
(2) *Kate Spargo is a director of Eminence Grise (Pty) Ltd.*
(3) *John Murphy is a director of Tuwele (Pty) Ltd.*
(4) *Anthony Rubin is a director of Liquid T (Pty) Ltd.*

41. Financial risk management

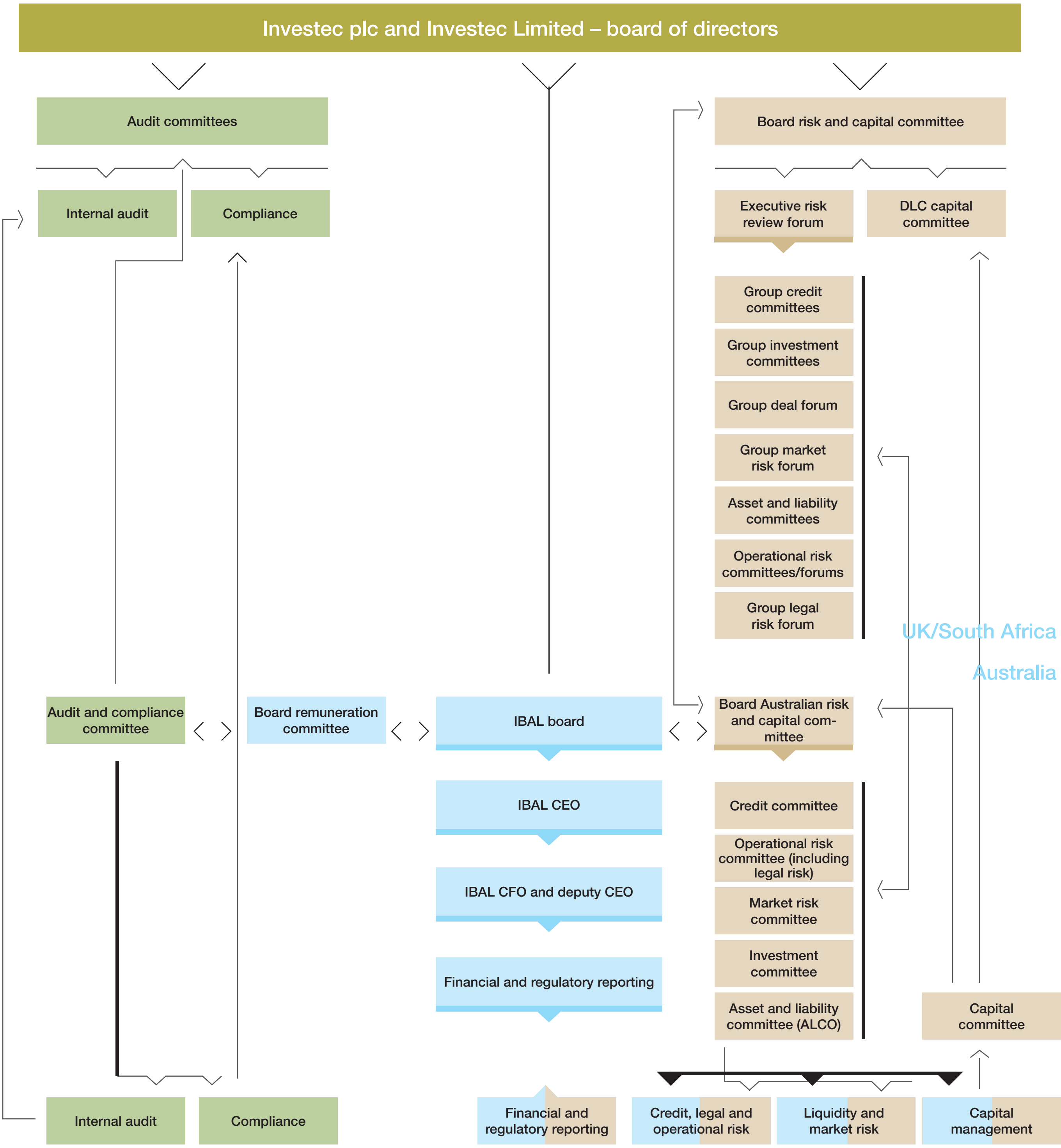
Risk and compliance structure

A number of committees and forums identify and manage risk at a business unit level. These committees and forums operate together with Group Risk Management and are mandated by the boards of Investec plc and Investec Limited and they cover all entities within Investec Bank (Australia) Limited.

A diagram of Investec Bank (Australia) Limited's governance and risk framework is provided below at 31 March 2014.

41. Financial risk management (continued)

Investec Bank (Australia) Limited risk and compliance framework



41. Financial risk management (continued)

Key risks

- Credit and counterparty risk exposes us to losses caused by financial or other problems experienced by our clients
- Liquidity risk may impair our ability to fund our operations
- Our net interest earnings and net asset value may be adversely affected by interest rate risk
- Market, business and general economic conditions and fluctuations could adversely affect our businesses in a number of ways, although Investec Bank (Australia) Limited has limited exposure to movements interest rate and foreign exchange markets
- Employee misconduct could cause harm that is difficult to detect
- Operational risk may disrupt our business or result in regulatory action
- We may be vulnerable to the failure of our systems and breaches of our security systems
- We may have insufficient capital in the future and may be unable to secure additional financing when it is required
- The financial services industry in which we operate is intensely competitive.

The sections that follow provide information on the main risks the entity faces – credit, liquidity and market risk.

For further information pertaining to the management and monitoring of financial risks, refer to the unaudited risk management section of this report set out on pages 15 to 47.

Credit risk

Credit risk is assumed through transacting with target private and corporate clients, project and resource finance and the placement of surplus liquidity with highly rated domestic banks and financial institutions.

To manage, measure and mitigate credit risk, we have an independent credit function and committee, which operate under board-approved delegated limits, policies and procedures. These are consistent with those of the Investec group and comply with the prudential standards issued by the Australian Prudential Regulation Authority.

The credit function has significant interaction with Group Credit, which includes the requirement for Group Credit approval for all transactions outside of local delegated limits. Regular credit reporting to Group Risk Management and periodic on-site credit reviews by members of Group Credit. There is a high level of executive and non-executive involvement in credit decision-making forums. All decisions to enter a transaction are based on unanimous consent.

We use the following fundamental principles to manage credit risk:

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

41. Financial risk management (continued)

Credit risk – maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

At 31 March A$'million	2014	2013
Cash and balances at central banks	52.3	210.5
Loans and advances to banks	114.2	124.1
Sovereign debt securities	515.1	429.5
Bank debt securities	245.4	262.2
Other debt securities	14.7	32.8
Derivative financial instruments	90.3	108.1
Securities arising from trading activitites	–	12.0
Loans and advances to customers (gross)	2 325.4	2 521.0
Own originated loans and advances to customers securitised (gross)	806.2	716.2
Total on-balance sheet exposures	4 163.6	4 416.3
Guarantees	57.5	56.9
Contingent liabilities, committed facilities and other	400.4	237.0
Total off-balance sheet exposures	457.9	293.9
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	4 621.5	4 710.3

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values. Investec Bank (Australia) Limited's credit risk is predominantly focused on the Australian market with in excess of 95% of committed exposures to this geography.

Risk concentration of the maximum exposure to credit risk

At 31 March A$'million	2014	2013
HNW and professional individuals	2 611.1	2 120.0
Lending collateralised by property	233.7	–
Agriculture	23.2	0.2
Electricity, gas and water (utility services)	3.1	71.4
Public and non-business services	628.3	757.9
Business service	107.8	192.9
Finance and insurance	452.3	556.4
Retailers and wholesalers	51.9	95.9
Manufacturing and commerce	34.9	73.4
Construction	88.1	92.4
Real estate	63.3	396.1
Mining and resource	204.6	170.7
Leisure, entertainment and tourism	25.0	65.0
Transport and communication	94.2	118.1
Total	4 621.5	4 710.3

41. Financial risk management (continued)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty and the requirements of the relevant credit committee. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The bulk of collateral taken is within the Private Bank division which makes up a substantial portion of our on-balance sheet assets. This tends to be residential and commercial real estate. Other forms of security are cash, motor vehicles, cash and shares. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during the adequacy of the allowance for impairment losses. It is Investec Bank (Australia) Limited's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, we do not occupy repossessed properties for business use.

Collateral given

The carrying amount of securities sold under agreements to repurchase at 31 March 2014 was A$nil (31 March 2013: A$nil) which were classified available-for-sale. The counterparty is allowed to sell or repledge those securities in the absence of default by the bank.

Asset quality of non-impaired banking assets

The table below provides details of the categorisation of on-balance sheet banking assets for which Investec Bank (Australia) Limited rates individual exposures. The basis used for determining grading of non-impaired banking assets are:

Performing – graded 1 to 7: Facilities graded 1 – 7 inclusive of all Investec Professional Finance group facilities (equivalent to S&P AAA -> B-) Performing – graded 8 and above: Facilities graded 8 and above (equivalent to S&P CCC -> C)

Un-graded – Grading not yet determined

	Neither past due nor impaired			
	Performing – graded 1 to 7	Performing – graded 8	Ungraded	Total
At 31 March 2014				
Financial investments – available-for-sale	775.2	–	11.6	786.8
Loans and advances to customers	3 022.6	22.2	–	3 044.8
Investments accounted for using the equity method	–	–	6.1	6.1
At 31 March 2013				
Financial investments – available-for-sale	724.5	–	16.8	741.3
Loans and advances to customers	3 094.7	21.1	–	3 115.8
Investments accounted for using the equity method	–	–	5.6	5.6

Ageing analysis of past due but not impaired assets

	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
At 31 March 2014						
Professional and HNW individuals	23.5	0.6	5.8	2.0	1.3	33.2
Corporate sector	8.9	0.4	1.0	–	–	10.3
Real estate	–	–	3.0	–	–	3.0
	32.4	1.0	9.8	2.0	1.3	46.5
At 31 March 2013						
Professional and HNW individuals	15.3	0.7	2.2	3.6	0.2	22.1
Corporate sector	4.3	–	10.2	–	–	14.6
Real estate	6.4	0.4	–	3.1	–	9.8
	26.0	1.1	12.4	6.7	0.2	46.5

41. Financial risk management (continued)

Impairment assessment

Impaired facilities include any facility (on-balance sheet or off-balance sheet) where there is doubt over the timely collection of the full amounts of cash flows contracted to be received by Investec Bank (Australia) Limited.

As a minimum, the following events constitute doubt and require a facility to be regarded as impaired:

- A facility 90 days past due unless otherwise well secured;
- An entity to which facilities have been provided is subject to administration or bankruptcy proceedings, unless the facilities are otherwise well secured;
- A write-off has been taken on the facility even if the facility is not in breach of contractual requirements. This does not apply in the case of some restructured facilities and assets acquired through enforcement of security; and
- With respect to off-balance sheet facilities Investec Bank (Australia) Limited is unlikely to receive timely payment of the full amounts which it has exchanged or is contracted to advance.

At 31 March A$'million	2014	2013
Gross core loans and advances to customers that are impaired	55.2	74.9
Collateral and other credit enhancements	(61.6)	(51.9)
Specific impairments	(17.7)	(23.2)
Net impaired loans and advances to customers (limited to zero)	–	–

Liquidity risk

Liquidity risk is the risk that we have insufficient capacity to fund contracted increases in assets, or are unable to meet our payment obligations as they fall due, including 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.

Risk management has become more sophisticated with liquidity risk being no exception and we consider both funding liquidity risk and market liquidity risk.

Sources of liquidity risk include unforeseen withdrawals of demand deposits, restricted access to new funding with appropriate maturity and interest rate characteristics, inability to liquidate a marketable asset timeously with minimal risk of capital loss, unpredicted customer non-payment of a loan obligation and a sudden increased demand for loans.

A key component of our liquidity management framework is assumptions-based planning and scenario modelling to estimate the funding requirement to meet expected growth. Anticipated on- and off-balance sheet cash flows are subjected to a variety of scenarios in order to evaluate the impact of both likely outcomes and unlikely but plausible events on liquidity positions. Scenarios and liquidity stress tests are designed to measure and manage the liquidity position such that payment obligations can be met under both normal and stressed conditions. Operationally the preparation of cash flow projections (for assets and liabilities) and funding requirements corresponding to the forecasted cash flow mismatch are translated into short- and long-term funding strategies. This ensures the smooth management of the day-to-day liquidity position within conservative parameters and further validates that, in the event of either a firm-specific or general market event, we are able to generate sufficient liquidity to withstand short-term liquidity stress.

We maintain liquidity contingency plans and the identification of alternative sources of funds in the market. In addition, Investec Bank (Australia) Limited utilises securitisation vehicles as a key source of long-term funding. This is to ensure that cash flow estimates and commitments can be met in the event of general market disruption or adverse business and economic scenarios, while minimising detrimental long-term implications for the business.

Our liquidity management processes encompass principles set out by the regulatory authority, namely APRA.

41. Financial risk management (continued)

Analysis of financial liabilities by remaining undiscounted contractual flows

The following tables analyse contractual undiscounted repayment obligations into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. This analysis includes all future forecast principal and interest cash flows.

At 31 March 2014 A$'million	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Liabilities						
Customer accounts	783.4	1 102.7	720.2	246.7	17.2	2 870.2
Deriviative financial instruments	9.2	17.9	41.6	38.7	23.2	130.6
Debt issued and other borrowed funds	29.4	82.4	569.6	414.6	6.0	1 102.0
Subordinated loans	0.4	1.6	26.0	124.9	–	152.9
Total liabilities	822.4	1 204.6	1 357.4	824.9	46.4	4 255.7

At 31 March 2013 A$'million	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Liabilities						
Customer accounts	746.6	922.7	625.4	241.7	17.2	2 553.6
Deriviative financial instruments	3.2	12.7	33.9	45.4	25.7	120.9
Debt issued and other borrowed funds	30.8	99.9	538.0	855.7	15.9	1 540.3
Subordinated loans	0.9	1.1	6.3	142.0	–	150.3
Total liabilities	781.5	1 036.4	1 203.6	1 284.8	58.8	4 365.1

41. Financial risk management (continued)

Market risk

Market risk is a measure of potential change in the value of a portfolio of instruments as a result of changes in the financial environment (resulting in changes in underlying market risk factors such as interest rates, equity markets, bond markets, commodity markets, exchange rates and volatilities) between now and a future point in time.

The Market Risk Management team identifies. quantifies and manages the effects of these potential changes in accordance with Basel III and policies determined by the board.

Traded market risk

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 to our clients, arbitrage, and investments in the commodity, foreign exchange, equity, capital and money markets. The focus of these businesses is on supporting client activity. Our philosophy is that trading should be conducted largely to facilitate clients in deal execution.

Measurement techniques used to quantify the market risk arising from our trading activities include sensitivity analysis and value at risk (VaR). Stress testing is also used to simulate extreme conditions to supplement these core measures.

VaR numbers are monitored at the 95% confidence interval. 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 actual 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 exceeds the one-day VaR, a 'back testing breach' is considered to have occurred. There have been five exceptions, i.e. where the loss is greater than the VaR. This is more than the expected number of exceptions at the 99% level as a result of high levels of market volatility, specifically in interest rate and foreign exchange markets where the Australian trading activity was most active.

VaR is calculated using a historical simulation model based on the latest 510 business days of unweighted historical rates data.

Consolidated A$'000	31 March 2014	31 March 2013
VaR 95% (one-day)		
Position	6.8	21.4
Option	–	–
Interest rates	46.8	90.4
Consolidated	45.6	96.9
High	277.1	149.3
Low	16.5	12.2
Average	83.5	52.6

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the investment portfolio.

The effect on equity due to a reasonably possible change in equity indices held over a one-year time horizon with all other variables held constant, is as follows:

	Change in equity price % March 2014	Effect on equity A$m March 2014	Change in equity price % March 2013	Effect on equity A$m March 2013
Market indices				
ASX small cap	+/- 36.1	1.1/(1.1)	+/- 53.2	3.7/(3.7)

41. Financial risk management (continued)

Non-traded 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.

The table below shows the stress sensitivity to interest rates in the banking book utilising EVaR:

	High for the year March 2014	Low for the year March 2014	Average for the year March 2014	At March 2014	High for the year March 2013	Low for the year March 2013	Average for the year March 2013	At March 2013
Economic value at risk	0.06	(4.51)	(1.65)	(2.15)	3.29	(0.23)	1.78	2.47

The banking book constitutes all assets on the Investec Bank (Australia) Limited balance sheet including (but not limited to) loans, investments, deposits, debt securities issued, etc. but excluding those exposures that arise specifically within the trading book.

Investec Bank (Australia) Limited's interest sensitivity to earnings risk (EAR) and in relation to the Professional Finance Trusts arises in relation to various note holdings that we have in these trusts. These notes are liabilities of the relevant trusts and treated as assets in the balance sheet. As the notes form part of the assets in the balance sheet they are treated in the same manner and using the same methodologies as are used for all assets in the banking book the calculation of the EAR and EVaR.

We also measure, on a monthly basis, the stress sensitivity of earnings to interest rate movements, utilising an earnings at risk sensitivity. The calculation involves the measuring of the static interest rate repricing gaps arising as a result of the varying interest rate repricing characteristics of assets, liabilities and capital and the impact, over a 12-month period, of a 2% interest rate movement on earnings arising from the static gap position.

The table below shows the stress sensitivity to interest rates in the banking book utilising the EAR methodology as described above:

	High for the year March 2014	Low for the year March 2014	Average for the year March 2014	At March 2014	High for the year March 2013	Low for the year March 2013	Average for the year March 2013	At March 2013
Earnings at risk	1.58	(3.68)	(0.30)	(0.21)	5.30	(1.08)	2.87	2.53

42. Capital management

The management of the capital at our disposal is paramount to our success. Strategically, we focus on ensuring that we only enter business activities that are expected to earn appropriate returns on our capital and satisfy the demands of our shareholders. Our objective is to increase shareholder value through a discipline that links capital allocation and structuring, performance measurement, investment decisions, risk management and capital-based incentive compensation into one integrated framework. The board of directors is ultimately responsible for capital management. At the highest level, the board has, through the Investec board risk and capital committee, delegated direct responsibility for capital management to the Investec Bank (Australia) Limited capital committee to oversee the components contributing to effective control and use of capital.

Investec Bank (Australia) Limited has also implemented (in line with the wider Investec group) a three-year capital planning framework as a mechanism to achieve effective forecasting and management of capital demands over the medium term, under both expected conditions and positive and negative stress scenarios.

Investec Bank (Australia) Limited is well capitalised and capital adequacy ratios exceed the minimum regulatory requirements.

43. Share-based payment plans

The Investec group operates internationally through a dual listed companies structure (DLC). Investec plc, the group's ultimate parent company, is listed on the London Stock Exchange. Investec Limited is listed on the Johannesburg Securities Exchange. Investec plc and Investec Limited are linked by the DLC.

The employees of the group in Australia are eligible to participate in the employee share schemes operated by Investec plc and Investec Limited. These schemes operate on an equity-settled basis and were created to promote an *esprit de corps* within the organisation, create an awareness of Investec's performance, and to provide an incentive to maximise individual and group performance by allowing all staff to share in the risks and rewards of the group. From the perspective of Investec Bank (Australia) Limited and its consolidated group, share-based payments are reimbursed through cash settlement back to the issuing entity.

There are two types of plans in which employees may participate:

Security purchase and options plans

Investec plc or Investec Limited grant share options to selected group employees. The exercise price of the options is equal to the market price of the shares on the date of grant. The options vest in tranches of 25% on each of the second, third, fourth and fifth anniversaries of grant. The portion of options granted under these plans that have not been exercised lapse as follows:

- Investec plc Share Option Plan 2002 (unapproved plan) – on expiry of 90 days after each vesting date
- Investec Limited Security Purchase and Option Scheme 2002 Trust – on expiry of 90 days after each vesting date
- Investec Limited Security Purchase and Option Scheme Trust – on the 10th anniversary of the grant.

Long-term share incentive plans

Investec plc or Investec Limited grant share options to selected group employees. There is a zero exercise price of the options and they vest in tranches of 75% in year 4 and 25% in year 5.

The expense recognised in the statement of comprehensive income in relation to share-based payments is disclosed in note 9(a).
The exercise price range and weighted average remaining contractual life for options outstanding at 31 March 2014, were as follows:

Exercise price range	£0 – £0
Weighted average remaining contractual life	2.65 years

The fair value of options granted were calculated using a Black-Scholes option pricing model. For options granted during the year, the inputs were as follows:

	31 March 2014	31 March 2013
Share price at date of grant	£4.31 – £4.59	£3.29 – £3.95
Exercise price	£0	£0
Expected volatility	30%	30%
Option life	4.5 – 5 years	4.5 – 5 years
Expected dividend yield	4.42% – 5.61%	5.94% – 7.67%
Risk-free rate	0.98% – 1.42%	0.84% – 1.34%

43. Share-based payment plans (continued)

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of and movements in share options issued during the year:

Investec plc Share Option Plan 2002 (unapproved plan)	2014 No.	2014 WAEP	2013 No.	2013 WAEP
Outstanding at the beginning of the year	–	£0.00	360	£4.98
Granted during the year	–	£0.00	–	£0.00
Reallocation of employees during the year	–	£0.00	–	£0.00
Exercised during the year	–	£0.00	–	£0.00
Lapsed during the year	–	£0.00	(360)	£4.98
Outstanding at the end of the year	–	£0.00	–	£0.00
Exercisable at the end of the year	–	£0.00	–	£0.00

Investec Limited Share Incentive Plan – Nil cost option	2014 No.	2014 WAEP	2013 No.	2013 WAEP
Outstanding at the beginning of the year	90 659	R0.00	159 847	R0.00
Granted during the year	–	R0.00	–	R0.00
Reallocation of employees during the year	7 500	R0.00	–	R0.00
Exercised during the year	(80 659)	R0.00	(69 188)	R0.00
Lapsed during the year	–	R0.00	–	R0.00
Outstanding at the end of the year	17 500	R0.00	90 659	R0.00
Exercisable at the end of the year	–	R0.00	17 750	R0.00

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of and movements in share options issued during the year.

Investec Group Limited Share Option Plan	2014 No.	2014 WAEP	2013 No.	2013 WAEP
Outstanding at the beginning of the year	–	£0.00	–	£0.00
Granted during the year	–	£0.00	–	£0.00
Reallocation of employees during the year	–	£0.00	–	£0.00
Exercised during the year	–	£0.00	–	£0.00
Lapsed during the year	–	£0.00	–	£0.00
Outstanding at the end of the year	–	£0.00	–	£0.00
Exercisable at the end of the year	–	£0.00	–	£0.00

Investec 1 Limited Share Incentive Plan – Nil Cost Option	2014 No.	2014 WAEP	2013 No.	2013 WAEP
Outstanding at the beginning of the year	10 030 177	£0.00	8 398 743	£0.00
Granted during the year	2 282 000	£0.00	2 308 174	£0.00
Reallocation of employees during the year	2 000	£0.00	(9 750)	£0.00
Exercised during the year	(2 455 066)	£0.00	(484 302)	£0.00
Lapsed during the year	(626 017)	£0.00	(182 688)	£0.00
Outstanding at the end of the year	9 233 094	£0.00	10 030 177	£0.00
Exercisable at the end of the year	526 500	£0.00	101 106	£0.00

44. Segmental information

31 March 2014

	Private Client Activities							
	Private banking activities	Non-core property deve-lopment	Total private banking	Corporate and institutional banking	Investment banking	Property activities	Group services and other activities	Total
Net operating income	46.8	(16.1)	30.7	66.4	3.5	12.7	31.4	144.7
Operating expenses	(59.8)	(2.2)	(62.0)	(53.2)	(14.7)	(6.0)	(32.5)	(168.4)
Restructure and reshaping costs	–	–	–	–	–	–	(48.2)	(48.2)
Income tax expense	(1.4)	–	(1.4)	(0.9)	–	–	4.1	1.8
Profit after tax	(14.4)	(18.3)	(32.7)	12.3	(11.2)	6.7	(45.2)	(70.1)
Total assets	2 226.8	(16.8)	2 210.0	134.0	(7.6)	19.5	2 230.6	4 586.5
Total liabilities	(829.7)	(0.2)	(829.9)	(123.6)	(1.1)	(4.3)	(3 068.5)	(4 027.4)

As indicated in note 36, Investec Bank (Australia) Limited has entered into an agreement to sell its Professional Finance business, Asset Finance and Leasing business and its deposit book. Refer to note 36 for further details on the sale.

In the above table, Professional Finance contributes A$18.2 million of profit before taxation in the Private Banking Activities division. Asset Finance and Leasing contributes A$1.8 million of loss before taxation in the Corporate and Institutional Banking division. Of the A$4.6 billion assets, the Professional Finance loan book is A$2.2 billion, and the Asset Finance and Leasing loan book is A$173 million. The deposit book makes up A$2.7 billion of the total liabilities of A$4.0 billion, which is in the Group Services and Other Activities division.

31 March 2013

	Private Client Activities							
	Private banking activities	Non-core property deve-lopment	Total private banking	Corporate and institutional banking*	Investment banking	Property activities	Group services and other activities	Total
Net operating income	55.6	(28.2)	27.4	92.7	35.0	9.0	12.0	176.1
Operating expenses	(48.0)	(3.2)	(51.2)	(68.2)	(25.4)	(5.5)	(20.6)	(170.9)
Restructure and reshaping costs	–	–	–	–	–	–	–	–
Income tax expense	–	–	–	–	–	–	1.1	1.1
Profit after tax	7.6	(31.4)	(23.8)	24.5	9.6	3.5	(7.5)	6.3
Total assets	2 006.1	75.7	2 081.8	2 099.8	18.3	166.2	387.6	4 753.6
Total liabilities	(618.3)	(105.8)	(724.1)	(3 348.6)	(1.5)	(30.1)	(41.9)	(4 146.2)

**Treasury activities were moved from Corporate and Institutional Banking for the year ended 31 March 2013 to Group Services and Other Activities for the year ended 31 March 2014.*

45. Potential effects on the balance sheet of offsetting assets and liabilities*

A$'million	Effects of offsetting on-balance sheet				Related amounts not offset		
	Gross amounts	Amounts offset	Net amounts reported on the balance sheet		Financial instruments	Financial collateral	Net amount
At 31 March 2014							
Assets							
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	–	–	–	–	–	–	–
Other debt securities	–	–	–	–	–	–	–
Derivative financial instruments	91.01	–	91.01	–	49.06	7.62	34.32
Securities arising from trading activities	–	–	–	–	–	–	–
Investment portfolio	–	–	–	–	–	–	–
Loans and advances to customers	–	–	–	–	–	–	–
Own originated loans and advances to customers securitised	–	–	–	–	–	–	–
Other loans and advances	–	–	–	–	–	–	–
Other securitised assets	–	–	–	–	–	–	–
Other assets							
	91.01	–	91.01	–	49.06	7.62	34.32
Liabilities							
Deposits by banks	–	–	–	–	–	–	–
Derivative financial instruments	(72.93)	–	(72.93)	–	(49.06)	(6.48)	(17.38)
Other trading liabilities	–	–	–	–	–	–	–
Repurchase agreements and cash collateral on securities lent	–	–	–	–	–	–	–
Customer accounts (deposits)	–	–	–	–	–	–	–
Debt securities in issue	–	–	–	–	–	–	–
Liabilities arising on securitisation of own originated loans and advances	–	–	–	–	–	–	–
Liabilities arising on securitisation of other assets	–	–	–	–	–	–	–
Other liabilities	–	–	–	–	–	–	–
Subordinated liabilities	–	–	–	–	–	–	–
	(72.93)	–	(72.93)	–	(49.06)	(6.48)	(17.38)

The disclosure relates to both Investec Bank (Australia) Limited and consolidated.

45. Potential effects on the balance sheet of offsetting assets and liabilities (continued)

A$'million	Effects of offsetting on-balance sheet Gross amounts	Amounts offset	Net amounts reported on the balance sheet		Related amounts not offset Financial instruments	Financial collateral	Net amount
At 31 March 2013							
Assets							
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	–	–	–	–	–	–	–
Other debt securities	–	–	–	–	–	–	–
Derivative financial instruments	108.75	–	108.75	–	55.38	25.83	27.54
Securities arising from trading activities	–	–	–	–	–	–	–
Investment portfolio	–	–	–	–	–	–	–
Loans and advances to customers	–	–	–	–	–	–	–
Own originated loans and advances to customers securitised	–	–	–	–	–	–	–
Other loans and advances	–	–	–	–	–	–	–
Other securitised assets	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	–	–
	108.75	–	108.75	–	55.38	25.83	27.54
Liabilities			–				–
Deposits by banks	–	–	–	–	–	–	–
Derivative financial instruments	(84.77)	–	(84.77)	–	(55.38)	(22.53)	(6.85)
Other trading liabilities	–	–	–	–	–	–	–
Repurchase agreements and cash collateral on securities lent	–	–	–	–	–	–	–
Customer accounts (deposits)	–	–	–	–	–	–	–
Debt securities in issue	–	–	–	–	–	–	–
Liabilities arising on securitisation of own originated loans and advances	–	–	–	–	–	–	–
Liabilities arising on securitisation of other assets	–	–	–	–	–	–	–
Other liabilities	–	–	–	–	–	–	–
Subordinated liabilities	–	–	–	–	–	–	–
	(84.77)	–	(84.77)	–	(55.38)	(22.53)	(6.85)

46. Restructure and reshaping costs

For the year to 31 March	Consolidated		Investec Bank (Australia) Limited	
A$'million	2014	2013	2014	2013
Restructure costs	23.5	–	21.7	–
Reshaping costs	4.1	–	4.1	–
Goodwill impairment	20.6	–	–	–
Impairment of loans to subsidiaries	–	–	20.6	–
	48.2	–	46.4	–

Investec Australia conducted a mid-year strategic review of its business model with a focus on improving profitability and returns and enhancing operational efficiencies. Following the review, a number of businesses were identified which, given the current economic environment, were unlikely to make suitable profits or returns. As a result certain businesses have been closed; other businesses have changed their operating model. A number of staff have been made redundant. The costs of this restructure (A$21.7 million) were incurred in the year to 31 March 2014.

Retention payments relating to the sale of the Professional Finance business, Asset Finance and Leasing business and deposit book have been accrued (A$4.1 million). Refer to note 44 for further details relating to the sale. Potential future payments of this nature are likely to be incurred and are contingent on a number of factors including the sale being completed and the period of future staff retention. As these amounts are contingent, had not been committed to at 31 March 2014 and the final value of these amounts cannot be reliably measured, they have not be recognised for accounting purposes at this time.

Due to the decreased level of deal activity within the Corporate Finance area, the level of goodwill carried in relation to this line of business could not be justified. As a result, an impairment was raised. Refer to note 18 for further details.

Directors' declaration

In accordance with a resolution of the directors of Investec Bank (Australia) Limited, we state that:

1. In the opinion of the directors:

   (a) the annual financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the company's and consolidated entity's financial position at 31 March 2014 and of their performance for the year ended on that date; and

      (ii) complying with Accounting Standards and Corporations Regulations 2001;

   (b) the annual financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(3); and

   (c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the board

Alan Chonowitz
Director
Sydney

27 June 2014

John Murphy
Director
Sydney

27 June 2014

Auditor's independence declaration to the directors of Investec Bank (Australia) Limited

In relation to our audit of the financial report of Investec Bank (Australia) Limited for the financial year ended 31 March 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Richard Balfour
Partner

27 June 2014

Corporate information

Investec Bank (Australia) Limited
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Secretary and registered office

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Auditors

Ernst & Young Inc.

Directorate

Refer to pages 49 and 50.