Annual Report

Out of the Ordinary®

Investec

2014 | Investec Bank Limited group and company annual financial statements

About this report

Cross-referencing tools:

Audited information

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

Reporting standard

Denotes our consideration of a reporting standard

Website

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

Page references

Refers readers to information elsewhere in this report

Sustainability

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

Contents

One

Investec Bank Limited
in perspective

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

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

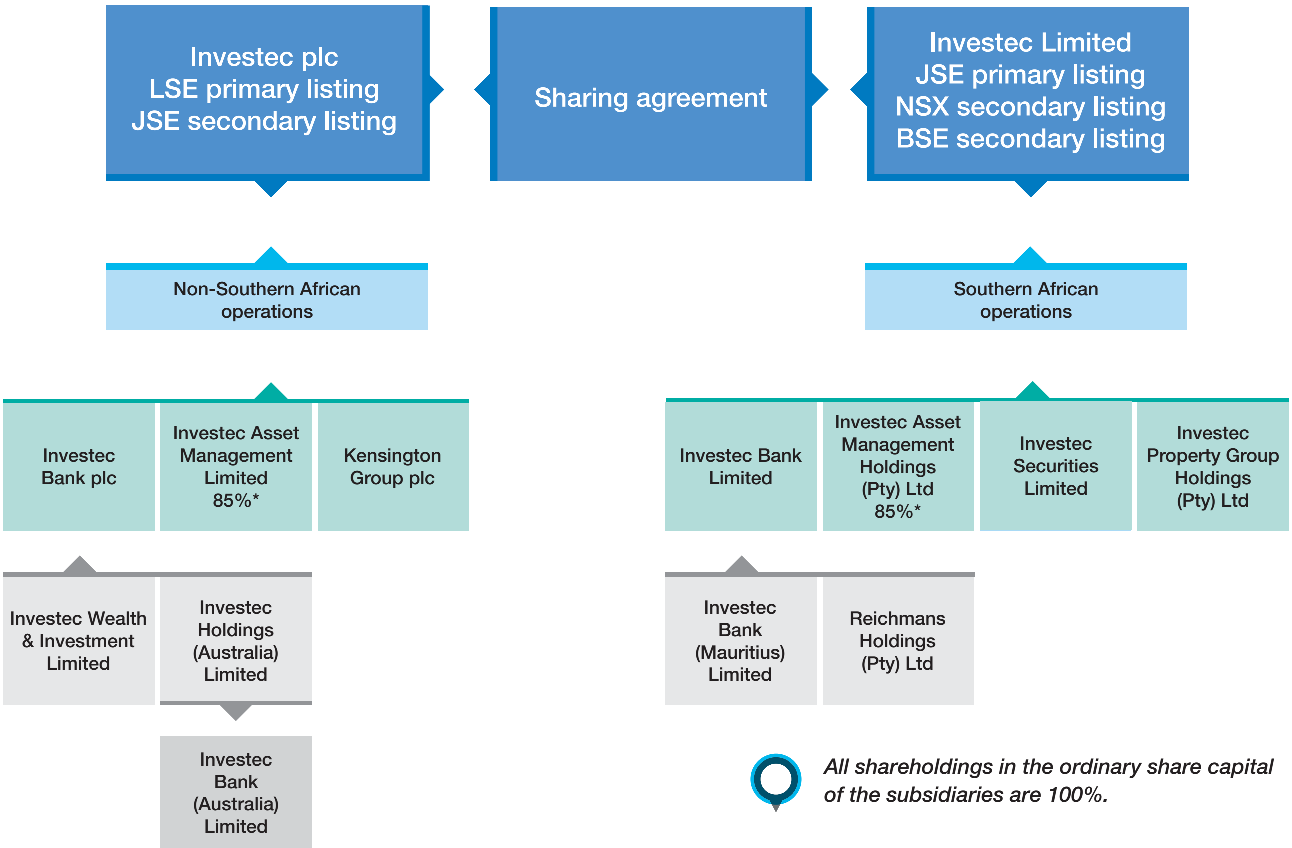
Operating structure

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

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

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

Our DLC structure and main operating subsidiaries at 31 March 2014



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

* *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.

Overview of the activities of Investec Bank Limited

What we do

Specialist banking...

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

Corporates/government/institutional clients

Corporate Advisory and Investment Activities

Advisory
Principal investments

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

Our activities include advisory and principal investments.

Our target market includes corporates, government and institutional clients.

Corporate and Institutional Banking Activities

Treasury and trading services
Specialised lending, funds and debt capital markets

Corporate and Institutional Banking Activities provides a wide range of specialist products, services and solutions to select corporate clients, public sector bodies and institutions. The division undertakes the bulk of Investec's wholesale debt, structuring, proprietary trading, capital markets and derivatives business.

Our institutional stockbroking activities are conducted outside of the bank in Investec Securities Limited.

High income and high net worth private clients

Private Banking Activities

Transactional banking and foreign exchange
Lending
Deposits
Investments

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

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

Integrated systems and infrastructure

Our operational footprint

Specialist expertise delivered with dedication and energy

Business leaders
Stephen Koseff
Bernard Kantor
Glynn Burger

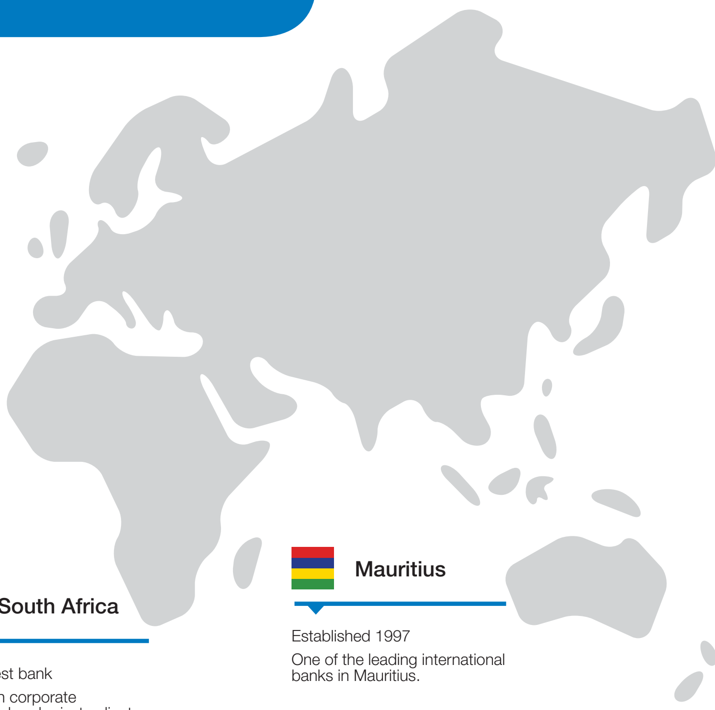
Further information on the Specialist Banking management structure is available on our website.

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

Our value proposition

- High quality specialist banking solution to corporate, institutional, government and private clients with leading positions in selected areas
- Provide high touch personalised service
- Ability to leverage international, cross-border platforms
- Well positioned to capture opportunities between the developed and the emerging world
- Balanced business model with good business depth and breadth
- Total corporate and other clients: *c.*6 300
- Total high income and high net worth clients: *c.*87 700.

Where we operate



South Africa

Fifth largest bank

Leading in corporate institutional and private client banking activities

Total corporate and private clients *c.*94 000.

Mauritius

Established 1997

One of the leading international banks in Mauritius.

Highlights

A diversified business model continues to support a large recurring revenue base, totalling 76.7% of operating income

We have a strong franchise that supports a solid revenue base

Total operating income increased 9.0% to R7 216 million
(2013: R6 620 million)

Our financial performance

Investec Bank Limited recorded a 16.1% increase in profit before taxation

2013	2014
R2 123mn	R2 465mn

Cost to income ratios

2013	2014
54.8%	57.0%

Improving credit loss ratio

2013	2014
0.65%	0.44%

Cash and near cash balances up 15.8%

2013	2014
R73.0bn	R84.5bn

Other financial features

R'million	31 March 2014	31 March 2013	% change
Profit before taxation	2 465	2 123	16.1%
Total capital resources (including subordinated liabilities)	36 099	36 005	0.3%
Total equity	25 601	23 509	8.9%
Total assets	303 218	279 274	8.6%

Core loans and advances increased 9.6%

2013	2014
R138.1bn	R151.4bn

Customer deposits increased 10.6%

2013	2014
R185.3bn	R204.9bn

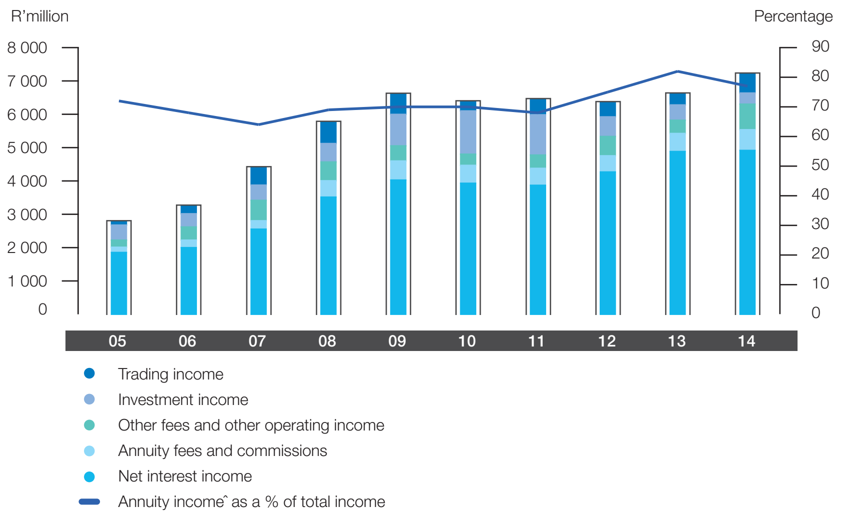
Ratio of loans and advances to deposits remains strong

2013	2014
73.2%	72.5%

Low gearing ratios

2013	2014
11.4 times	11.8 times

Total operating and annuity income^



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

Credit quality on core loans and advances has improved

Core loans and advances increased by 9.6% to R151.4 billion

Default loans (net of impairments) as a percentage of core loans and advances decreased from 1.93% to 1.50%

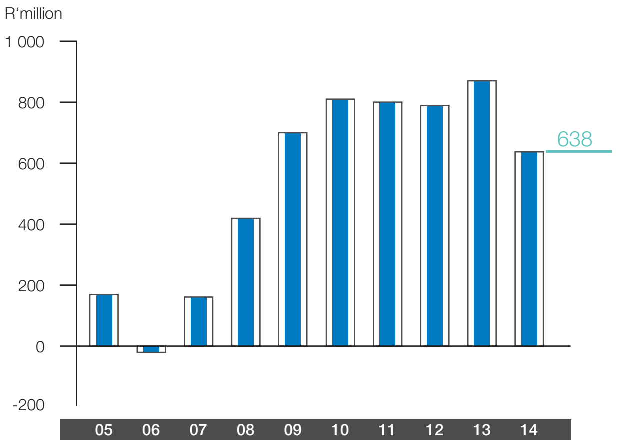
Default loans have decreased since 31 March 2013, with an improvement reported in both the lending collateralised by property and corporate portfolios

The credit loss ratio improved from 0.65% to 0.44%

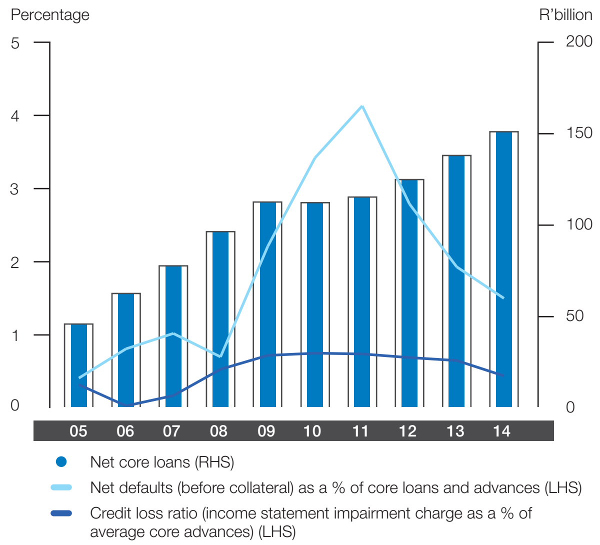
Net defaults (after impairments) remain adequately collateralised.

Impairment levels have begun to normalise and the level of defaults has improved

Impairments/(recoveries)



Default and core loans



Sound capital and liquidity principles maintained

Continue to focus on:

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

The intimate involvement of senior management ensures stringent management of risk and liquidity

Our policy has always been to hold capital in excess of regulatory requirements and we intend to perpetuate this philosophy

Investec has maintained a stable capital base

A well-established liquidity management philosophy remains in place

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

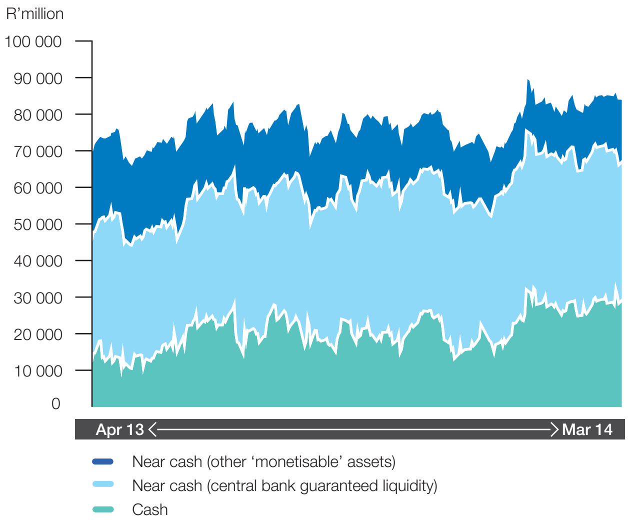
Advances as a percentage of customer deposits is at 72.5% (2013: 73.2%).

Capital adequacy and tier 1 ratios

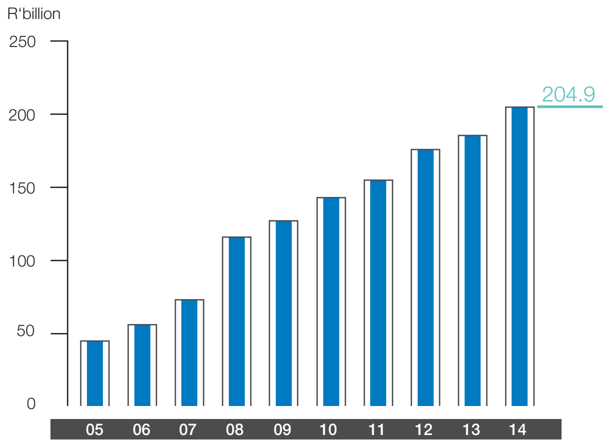
	31 March 2014 (Basel III)			31 March 2013 (Basel III)		
	Capital adequacy ratio	Tier 1 ratio	Common equity tier 1 ratio	Capital adequacy ratio	Tier 1 ratio	Common equity tier 1 ratio
Investec Bank Limited	15.3%	10.8%	10.3%	16.2%	10.9%	10.3%
Investec Limited	14.9%	11.0%	9.4%	15.5%	10.8%	8.9%

Benefiting from a growing retail deposit franchise

Cash and near cash trend



Customer accounts (deposits)



TWO

Financial
review

An overview of the operating environment impacting our business

South Africa

Our views

South Africa celebrates two decades of democratic freedom this year, and has made remarkable progress in the transition from apartheid to democracy. The transition has been peaceful, despite the country's history of dispossession and violence. Noticeable economic and social gains include a doubling of the size of the real economy and a substantial rollout of basic services and social welfare.

2.5%	1.9%
2012/13 Economic growth	**2013/14** Economic growth

GDP per capita has risen

2013	2014
R37 476	R37 700

Since 1994, living standards have improved, and interest rates and inflation have fallen materially, with both real economic growth and GDP per capita rising

Forty quarters of uninterrupted growth, from 1998 until the global financial market crisis, has translated into real after tax income per person rising to R25 048 per annum, from R17 320 in 1994. Indeed, the South African economy has increased from R1.1 trillion to R2 trillion on real growth of 3.2% per annum since 1994, double the 1.6% per annum of the prior period. South Africans have become more affluent on average as many more are included in the formal economic net, but inequality remains high. South Africa still ranks amongst the most unequal societies in the world, and a significant number of households live in poverty. However, free state provision of basic services, housing and social grants are making meaningful inroads into the social deficit. The budget deficit rose following the financial crisis. Fiscal policy has therefore sought to smooth the economic cycle via increased expenditure, with a focus on social services and government employment creation. While the budget is still in deficit, it has narrowed considerably since 2009 and is on track to fall below 3.0% of GDP in the next few years.

Economic growth is waning, and has been on a downward trend since 2011. Interest rates are running near 40-year lows, but the process of global monetary policy normalisation has started. South Africa increased its interest rates by 50bp in January 2014 and further hikes are expected. The international economy continues to strengthen, although South Africa's key trading partners, China and the Eurozone, have seen economic growth underperform. The current account remains in deficit, and will be so, as long as foreigners are substantial holders of domestic bonds and equities. South Africa is well positioned to take advantage of Africa's growth potential, particularly the provision of services from a regional hub. In particular, South Africa has a sound banking sector, ranked third in the world by the World Economic Forum's Global Competitiveness Survey, and retains first place for the regulation of the securities exchange (JSE) and strength of auditing and reporting standards. South Africa is also placed first on the efficacy of its corporate boards and has incubated a large number of companies to large scale, international level. State provision of certain services continues to rank amongst the worst in the world, while the level of cooperation between labour and corporates is ranked the lowest in the 148 World Economic Forum country survey. Labour flexibility still needs to improve to absorb the unskilled and unemployed, and increase the ability to capture economic opportunity. The successful completion of the 2014 national and provincial elections opens up the opportunity for the state to become centrist, with consequent improved service delivery and economic freedom resulting in faster, inclusive economic growth.

Operating environment

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

	Period ended 31 March 2014	Period ended 31 March 2013	% change	Average over the period 1 April 2013 to 31 March 2014
Market indicators				
FTSE All share	3 556	3 381	5.2%	3 496
JSE All share	47 771	39 861	19.8%	43 299
Australia All ords	5 403	4 980	8.5%	5 163
S&P	1 872	1 569	19.3%	1 722
Nikkei	14 828	12 336	20.2%	14 433
Dow Jones	16 458	14 579	12.9%	15 538
Rates				
UK overnight	0.33%	0.42%		0.43%
UK 10 year	2.74%	1.76%		2.56%
UK clearing banks base rate	0.50%	0.50%		0.50%
Libor – three month	0.52%	0.51%		0.52%
SA R157 (2015)	6.79%	5.48%		6.12%
Rand overnight	5.33%	4.76%		4.86%
SA prime overdraft rate	9.00%	8.50%		8.59%
Jibar – three month	5.73%	5.13%		5.25%
Reserve Bank of Australia cash target rate	2.50%	3.00%		2.60%
US 10 year	2.73%	1.85%		2.54%
Commodities				
Gold	U$1 289/oz	U$1 596/oz	(19.2%)	U$1 327/oz
Gas Oil	U$904/mt	U$928/mt	(2.6%)	U$915/mt
Platinum	U$1 418/oz	U$1 576/oz	(10.0%)	U$1 435/oz
Macro-economic				
South Africa GDP (% real growth over the calendar year in Rands)	1.9%	2.5%		
South Africa per capita GDP (real value in Rands)	37 700	37 476	0.6%	

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

Key income drivers

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

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

Key risks relating to our operations

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

These risks are summarised briefly in the table below with further detail provided in the risk management section of this report.

For additional information pertaining to the management and monitoring of these risks, see the references provided.

24 – 47

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

66 – 70

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

69 and 70

Legal and regulatory risks are substantial in our businesses.

60 – 65

Liquidity risk may impair our ability to fund our operations.

69

Reputational, strategic and **business risk.**

58 – 60

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

66 – 70

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

53 – 56

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

70 – 74

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

66 – 70

Employee misconduct could cause harm that is difficult to detect.

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

See the Investec group's 2014 integrated annual report on our website.

11 and 12

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

70

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

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

Overview

The bank posted an increase in headline earnings attributable to ordinary shareholders of 19.8% to R2 086 million (2013: R1 741 million). The balance sheet remains strong with a capital adequacy ratio of 15.3% as calculated in terms of Basel III (2013: 16.2%).

Unless the context indicates otherwise, all income statement comparatives in the review below relate to the results for the year ended 31 March 2013.

Income statement analysis

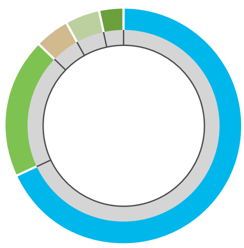
The overview that follows will highlight the main reasons for the variance in the major category line items on the face of the income statement during the year under review.

Total operating income

Total operating income before impairment losses on loans and advances increased by 9.0% to R7 216 million (2013: R6 620 million). The various components of total operating income are analysed below.

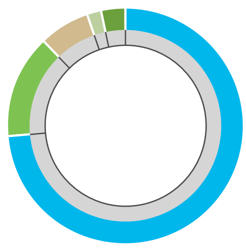
R'million	31 March 2014	% of total income	31 March 2013	% of total income	% change
Net interest income	4 916	68.1%	4 883	73.8%	0.7%
Net fee and commission income	1 393	19.3%	942	14.2%	47.9%
Investment income	334	4.6%	459	6.9%	(27.2%)
Trading income arising from					
– customer flow	343	4.8%	119	1.8%	>100.0%
– balance sheet management and other trading activities	235	3.2%	220	3.3%	6.8%
Other operating income	(5)	–	(3)	–	(66.7%)
Total operating income before impairment losses on loans and advances	7 216	100.0%	6 620	100.0%	9.0%

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



31 March 2014
R7 216 million total operating income before impairment losses on loans and advances

Net interest income	68.1%
Net fee and commission income	19.3%
Investment income	4.6%
Trading income arising from customer flow	4.8%
Trading income arising from balance sheet management and other trading activities	3.2%



31 March 2013
R6 620 million total operating income before impairment losses on loans and advances

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

Net interest income

Net interest income was marginally ahead of the prior year at R4 916 million (2013: R4 883 million) with the bank benefiting from an increase in its loan portfolio, offset by a lower return earned on the credit investment portfolio.

For a further analysis of interest received and interest paid refer to pages 118 and 119.

Net fee and commission income

Net fee and commission income increased 47.9% to R1 393 million (2013: R942 million) largely as a result of a good performance from the corporate business with strong growth in project finance renewable energy and structured finance fees. The professional finance business continued to perform well.

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

Investment income

Investment income decreased by 27.2% to R334 million (2013: R459 million) largely due to a lower return earned on the bank's fixed income portfolio. The bank's unlisted principal investments portfolio continued to perform well.

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

Trading income

Trading income arising from customer flow increased to R343 million (2013: R119 million) due to increased client activity, notably in foreign exchange transactions. Trading income arising from other trading activities increased 6.8% to R235 million (2013: R220 million) reflecting improved activity on the balance sheet.

Impairment losses on loans and advances

Impairments losses on loans and advances decreased from R868 million to R638 million. The credit loss charge as a percentage of average gross core loans and advances has improved from 0.65% at 31 March 2013 to 0.44%. The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounts to 1.50% (2013: 1.93%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.55 times (2013: 1.44 times).

For further information on asset quality refer to pages 39 to 47.

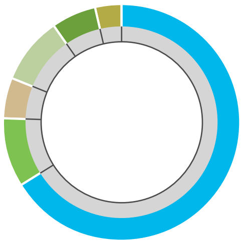
Operating costs

Total operating expenses grew by 13.3% to R4 113 million (2013: R3 629 million) largely as a result of increased variable remuneration given improved profitability with the ratio of total operating costs to total operating income amounting to 57.0% (2013: 54.8%).

The various components of total expenses are analysed below.

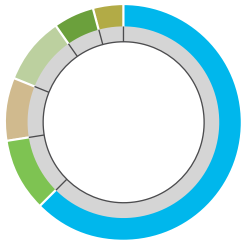
R'million	31 March 2014	% of total expenses	31 March 2013	% of total expenses	% change
Staff costs (including directors' remuneration)	2 724	66.2%	2 269	62.5%	20.1%
Business expenses	393	9.6%	364	10.0%	8.0%
Equipment (excluding depreciation)	222	5.4%	314	8.7%	(29.3%)
Premises (excluding depreciation)	380	9.2%	337	9.3%	12.8%
Marketing expenses	247	6.0%	202	5.6%	22.3%
Depreciation	147	3.6%	143	3.9%	2.8%
Total operating costs	4 113	100.0%	3 629	100.0%	13.3%

% of total operating costs



31 March 2014
R4 113 million total operating costs

Staff costs	66.2%
Business expenses	9.6%
Equipment expenses	5.4%
Premises expenses	9.2%
Marketing expenses	6.0%
Depreciation	3.6%



31 March 2013
R3 629 million total operating costs

Staff costs	62.5%
Business expenses	10.0%
Equipment expenses	8.7%
Premises expenses	9.3%
Marketing expenses	5.6%
Depreciation	3.9%

Balance sheet analysis

Since 31 March 2013:

- Total shareholders' equity (including non-controlling interests) increased by 8.9% to R25.6 billion largely as a result of retained earnings
- Total assets increased by 8.6% to R303.2 billion largely as a result of an increase in core loans and advances and cash and near cash balances.

Questions and answers

Stephen Koseff Bernard Kantor

Glynn Burger

Business leaders

Can you give us an overview of the environment in which you operate?

A The political economic environment has been challenging with a high degree of uncertainty and breakdown between business and labour resulting in weak macro-economic conditions. Our business activity has been supported by strong equity markets, an improving global environment and positive levels of activity amongst our core client base. We continue to see an increase in regulatory scrutiny as the world adjusts its regulatory model to ensure that financial institutions act in the interest of broader society and do not provide a threat to economic stability.

Now that the general election is behind us and government seems to be committed to the National Development Plan, we are hopeful the economic environment will improve supported by global growth as well as the development of infrastructure, improvement in labour relations and the creation of a more business-friendly environment.

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

A We have spent the last few years implementing the One Bank process which was designed to provide better solutions for our clients but at the same time create a more simple, efficient and effective operating structure. This process is now embedded within the organisation and how it conducts itself on a daily basis.

We have seen a lot of traction from the close cooperation between the Private Bank and Wealth & Investment businesses (which reside outside of the bank) in leveraging our private client platform. Our approach is to provide and integrate our offering across our client segments and build market share in those segments through further client penetration.

Lending activity levels continued to improve compared to previous years, with solid growth achieved in our professional banking, property lending and corporate portfolios. A dedicated Retail Funding business was created to focus on growing the deposit base in a highly competitive market in the quest for Basel III compliant funds. We continued to enhance our transactional banking offering, particularly with our online offering, which supported further momentum in our Professional Banking business.

Corporate activity was buoyant, resulting in a solid performance from our advisory, debt origination, treasury sales and structuring businesses. A number of businesses within our corporate division were integrated in an effort to provide a more holistic offering to our corporate client base, which also resulted in the introduction of a number of new product offerings.

Our unlisted investment portfolio continued to perform well.

What are your strategic objectives in the coming year?

A Over the past few years, we have continued to build our franchise in our core client segments. Building and developing our client franchises remains integral to the growth and development of our organisation and we endeavour to continue to enhance our client experience, ensuring our target clients do more with us as an organisation.

We will continue to focus on cross-selling our products across different client bases, providing services between Private Bank and the Wealth & Investment business and a more focused approach to servicing the corporate market so that our Specialist Bank maintains its agility in providing our clients, both private and corporate, with integrated solutions.

We continue to rollout our Africa strategy. The African continent has made great strides in its democratisation over the past couple of years and South Africa is well-positioned to provide a platform for global players wishing to take advantage of the African opportunity. These initiatives remain focused largely on advisory, corporate institutional banking and asset management opportunities.

What is your outlook for the coming year?

A We are hopeful that with the general election completed and government on a path to implement its plans, activity levels will remain satisfactory to improving.

Overall, we are well positioned and placed to benefit from an uptick in infrastructure investment and an improved global economic outlook.

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

A We continue to have a meaningful impact through a number of our environmental and social projects. Investec Limited maintained its inclusion in the JSE SRI Index and we were included in the Climate Disclosure Leadership Index 2013 (Top 11 in South Africa across all sectors). Our Project and Infrastructure team continue to play an active role in the renewable energy sector with R3.2 billion committed to renewable projects in the country. In line with our corporate social investment strategy, a total of 90% of our spend was allocated to education and entrepreneurial projects. Following on from the previous success of our Promaths programme, during the 2013 academic year we launched four new Promaths centres reaching a further 1 800 learners.

Three

Risk management and
corporate governance

Overview of disclosure requirements

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

On pages 21 to 75 with further disclosures provided within the annual financial statements section on pages 101 to 183.

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

The Risk disclosures comprise the majority of the bank's Pillar III risk disclosures as required in terms of Regulation 43 of the regulations relating to banks in South Africa.

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

Philosophy and approach to risk management

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

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

Group Risk Management monitors, manages and reports on our risks to ensure it is within the stated risk appetite as mandated by the board of directors through the board risk and capital committee. Business units are ultimately responsible for risks that arise.

We monitor and control risk exposure through Credit, Market, Liquidity, Operational and Legal Risk reporting teams. This approach is core to assuming a tolerable risk and reward profile, helping us to pursue controlled growth across our business.

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

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

Overall summary of the year in review from a risk perspective

This section should be read in conjunction with, and against the background provided in, the overview of the operating environment section on pages 11 to 19.

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

- Intimate involvement of executive management ensuring stringent management of risk, liquidity and capital
- Strong risk and capital management culture embedded into our day-to-day activities and values. We seek to achieve an appropriate balance between risk and reward in our business, taking cognisance of all stakeholders' interests
- Reward programmes that align directors' and employees' interests with those of stakeholders, ensuring that these programmes promote effective risk management. Annual bonuses are closely linked to business performance, determined largely by realised economic value-added profit performance against pre-determined targets above a risk and capital weighted return. This model has been consistently applied within the group in excess of 15 years
- Credit and counterparty exposures to a select target market; our risk appetite continues to favour lower risk, income-based lending, with credit risk taken over a short to medium term. Exposure is taken against defined target clients

Group Risk Management objectives are to:

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

displaying sound financial strength and integrity, a core competency and an established track record. Impairments on loans and advances decreased from R868 million to R638 million. Since 31 March 2013 gross defaults have improved from R4.0 billion to R3.5 billion. The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounted to 1.50% (2013: 1.93%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.55 times (2013: 1.44 times)

- Limited exposure to structured credit; representing approximately 1.6% of total assets
- No exposures to peripheral Europe
- A low gearing ratio of 11.8 times
- A low level of net assets and liabilities exposed to the volatility of IFRS fair value accounting; with level 3 assets amounting to 2.0% of total assets
- Low equity and investment risk exposure with total investments comprising 3.4% of total assets
- Modest proprietary market risk within our trading portfolio. Value at risk and stress testing scenarios remain at prudent levels
- Potential losses that could arise in our trading book portfolio when stress tested under extreme market conditions (i.e. per extreme value theory) amount to less than 0.2% of total operating income
- A high level of readily available, high quality liquid assets; cash and near cash of R84.5 billion, representing 33.0% of our liability base. We continue to maintain a low reliance on interbank wholesale funding to fund core lending asset growth
- Continued increase in retail customer deposits and a sound retail franchise
- Healthy capital and leverage ratios; we have always held capital in excess of regulatory requirements and we intend to perpetuate this philosophy
- A high level of recurring income which continues to support sustainability of operating profit.

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

Refer to pages 31, 56 and 63, with a high level summary of the most salient aspects provided below.

Credit risk

Core loans and advances grew by 9.6% to R151.4 billion with residential owner-occupied and corporate portfolios representing the majority of the growth for the financial year in review.

The level of default loans continued to decline with an improvement in both lending collateralised by property and the corporate client portfolio, partly as some transactions have been settled and some written off.

The credit loss ratio improved to 0.44% from 0.65% as we saw stability in the level of new loans entering into current and default categories.

Our legacy default portfolio which largely relates to lending collateralised by property, notably residential developments, continues to be managed down.

Traded market risk

Market moves in South Africa have been largely driven by events in international markets. Uncertain markets as well as the drop in volumes of trade has caused traders to reduce risks in their trading books. In particular Equity Index derivatives trade saw a substantial drop in volumes causing traders to drastically cut the amount of risk taken in these instruments.

Balance sheet risk

Total customer deposits increased by 10.6% from 1 April 2013 to R204.9 billion at 31 March 2014 (Private Bank deposits amounted to R76 billion and other external deposits amount to R129 billion). Cash and near cash balances increased by 15.8% from 1 April 2013 to R84.5 billion at 31 March 2014.

Salient features

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

Year to 31 March	2014 R	2013 R
Net core loans and advances (million)	151 384	138 105
Gross defaults as a % of gross core loans and advances	2.31%	2.88%
Defaults (net of impairments) as a % of net core loans and advances	1.50%	1.93%
Net defaults (after collateral and impairments) as a % of net core loans and advances	–	–
Credit loss ratio*	0.44%	0.65%
Structured credit as a % of total assets	1.60%	1.01%
Banking book investment and equity risk exposures as a % of total assets	3.41%	3.56%
Traded market risk: one-day value at risk (million)	2.1	7.2
Cash and near cash (million)	84 476	72 974
Customer accounts (deposits) (million)	204 903	185 311
Core loans to equity ratio	5.9x	5.9x
Total gearing ratio**	11.8x	11.4x
Loans and advances to customers to customer deposits	72.5%	73.2%
Capital adequacy ratio	15.3%	16.2%
Tier 1 ratio	10.8%	10.9%
Common equity tier 1 ratio	10.3%	10.3%
Leverage ratio	7.2%	n/a

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

An overview of key risks

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

These risks have been highlighted on page 14.

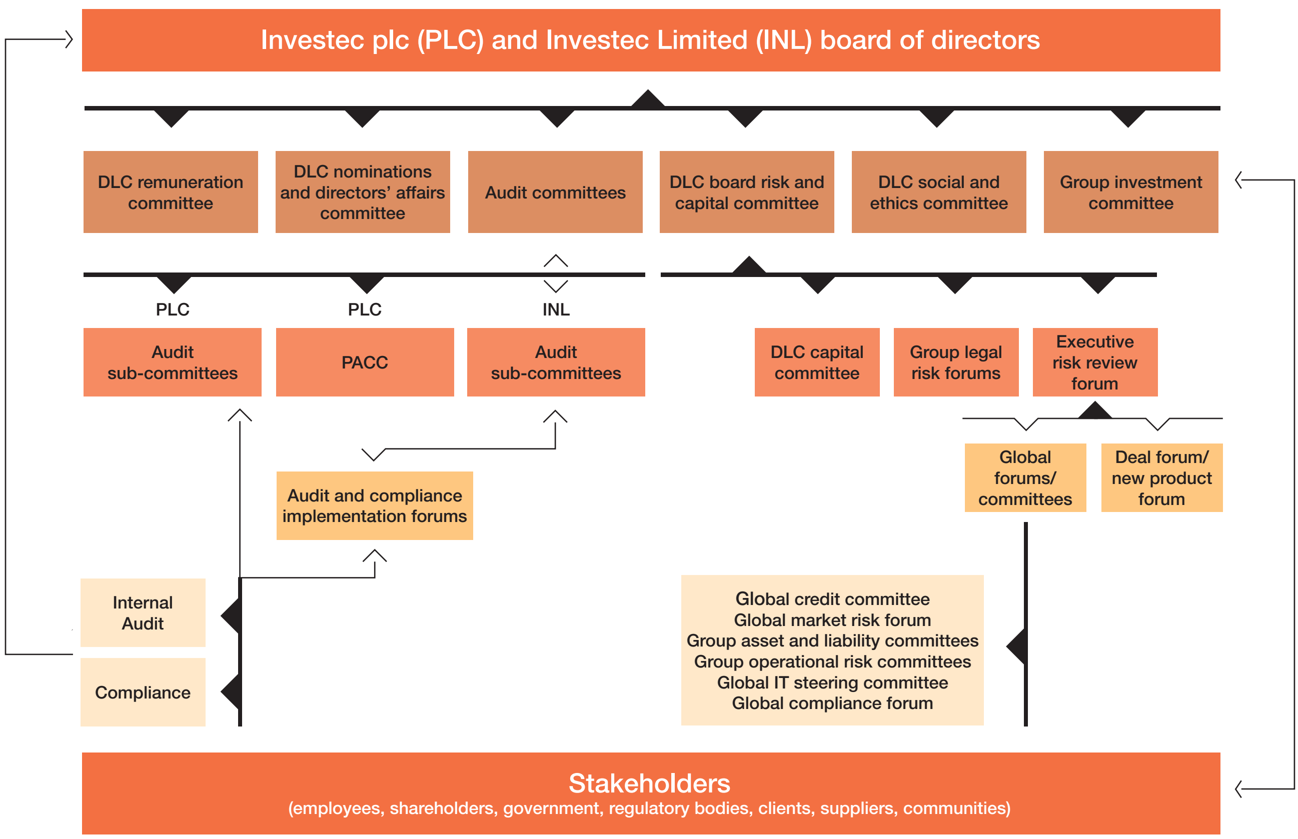
The sections that follow provide information on a number of these risk areas.

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

Risk management framework, committees and forums

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

Governance framework



Credit and counterparty risk management

Credit and counterparty risk description

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

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

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

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

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

Credit and counterparty risk governance structure

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

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

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

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

Credit and counterparty risk appetite

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

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

Furthermore we have very little appetite for unsecured debt and ensure that good quality collateral is provided in support of obligations (refer to page 47 for further information).

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

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

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

Concentration risk

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

Sustainability considerations

Overview

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

- Environmental considerations (including animal welfare)
- Social considerations
- Economic considerations.

Refer to our sustainability report on our website.

Management and measurement of credit and counterparty risk

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

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

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

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

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

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

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

Exposures are classified to reflect the bank's risk appetite and strategy. At a high level the exposures are classified according to the Basel asset classes which include sovereign, bank, corporate, retail, equity, securitisation and specialised lending, (which is further categorised into project finance; commodities finance; high volatility commercial real estate; and income-producing commercial real estate). Internal credit rating models are developed to cover all these asset classes. The internal ratings are incorporated in the risk management and decision-making process and are used in credit assessment, monitoring and approval as well as pricing.

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

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

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

Credit and counterparty risk – nature of lending activities

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

Lending collateralised by property

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

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

An analysis of the lending collateralised by property portfolio and asset quality information is provided on pages 45 and 46.

Private client activities

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

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

Credit risk arises from the following activities:

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

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

An analysis of the private client loan portfolio and asset quality information is provided on pages 45 and 46.

Corporate client activities

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

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

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

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

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

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

- Small Ticket Asset Finance: provides lending to corporates to support asset purchases and other business requirements
- Large Ticket Asset Finance: provides the finance and structuring expertise for aircraft and larger lease assets, the majority of which are senior loans with a combination of corporate and asset-backed collateral against the exposure
- Power and Infrastructure Finance (PIF): arranges and provides typically long-term financing for infrastructure assets, such as power, transport, social infrastructure (PIF/private-public partnerships) and telecommunications against projected future cash flows of an individual project (or multiple) as well as the balance sheet of a corporate. The borrower is typically a special purpose company set up and owned by one or more equity investors known as the 'sponsors'
- Resource Finance: debt arranging and underwriting, together with structured hedging solutions within the mining and oil and gas sectors. The underlying commodities are mainly precious and base metals, coal as well as oil and gas. The borrower in most cases is an established mining company or a subsidiary thereof. Any debt exposure is secured by the borrower's assets and repaid from mining cash flows which are subject to the volatility of the market prices for the underlying commodity as well as the successful extraction of resources
- Growth and Acquisition Finance: provides debt funding to proven management teams, running small to mid-cap sized companies. Credit risk is assessed against debt service coverage from the robustness of the cash generation of the business. This will be based on historic and forecast information
- Asset-based Lending: provides working capital and business loans secured on collateral or assets used in the conduct of the business, for example, accounts receivable, inventory, plant and machinery. We also provide advances against cash flow or other assets such as committed income or rights
- Credit Investments: makes credit investments in the primary and secondary markets for both investment (accrual) and arbitrage purposes, generating annuity margin income and investment income. All investment transactions are approved in advance and subject to rigorous stress testing
- Securitisation: structuring and sale of financial assets, mostly in the form of sale to special purpose entities which issue securities to investors.

An analysis of the corporate client loan portfolio and asset quality information is provided on pages 45 and 46.

Corporate Advisory and Investment Activities

Counterparty risk in this area is modest. The business also trades approved shares on an approved basis and makes markets in shares where we are appointed corporate broker under pre-agreed market risk limits.

Settlement trades are all on a delivery versus payment basis, through major stock exchanges. Credit risk only occurs in the event of counterparty failure and would be linked to any fair value losses on the underlying security.

Asset quality analysis – credit risk classification and provisioning policy

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 group guidelines and in conjunction with the watchlist committee process. In the annual financial statements, credit losses and impairments are reported in accordance with International Financial Reporting Standards (IFRS).

<table>
<tr><th>Regulatory and economic capital classification</th><th>IFRS impairment treatment</th><th>Arrears, default and recoveries classification category</th><th>Description</th></tr>
<tr><td rowspan="2">Performing assets</td><td rowspan="2">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.</td><td>Past due</td><td>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.</td></tr>
<tr><td>Special mention</td><td>The counterparty is placed in special mention when that counterparty is considered to be experiencing difficulties that may threaten the counterparty’s ability to fulfil its credit obligation to the group (i.e. watchlist committee is concerned) for the following reasons:
• Covenant breaches
• There is a slowdown in the counterparty’s business activity
• An adverse trend in operations that signals a potential weakness in the financial strength of the counterparty
• Any restructured credit exposures until appropriate watchlist committee decides otherwise.

Ultimate loss is not expected, but may occur if adverse conditions persist.

Supplementary reporting categories:
• Credit exposures overdue 1 – 60 days
• Credit exposures overdue 61 – 90 days.</td></tr>
</table>

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

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 47.

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 re-let and/or re-sold. Where the property is secured by lease agreements, the credit committee will attempt to lend for a maximum of the period of the lease.

The bulk of collateral provided by private clients is commercial and residential real estate. Commercial real estate generally takes the form of good quality property often underpinned by strong third party leases. Residential property is also generally of a high quality and based in desirable locations. Residential and commercial property valuations will continue to form part of our 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 56.

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.

For regulatory reporting purposes, exposures may be reduced by eligible collateral. Under the standardised approach credit risk mitigation can be achieved through either funded or unfunded credit protection. Where unfunded credit protection is relied upon for mitigation purposes, the exposure to the borrower will be substituted with an exposure to the protection provider, after applying a 'haircut' to the value of the collateral due to currency and/or maturity mismatches between the original exposure and the collateral provided. Unfunded credit protection includes eligible guarantees and credit derivatives. Where we rely on funded protection in the form of financial collateral, the value of collateral is adjusted using the financial collateral comprehensive method. This method applies supervisory volatility adjustments to the value of the collateral, and includes the currency and maturity haircuts discussed above.

Credit and counterparty risk year in review

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

Further information is provided in the economic section on pages 11 to 19.

Against this backdrop, core loans and advances grew by 9.6% to R151.4 billion with residential owner-occupied and corporate portfolios representing the majority of the growth for the financial year in review.

There has been continuing adherence to conservative lending, while still facing greater competitive pressure on margins.

Default loans (net of impairments) as a percentage of core loans and advances improved from 1.93% to 1.50% with an improvement in both lending collateralised by property and the corporate client portfolio, partly as some transactions have been settled and some written off.

The credit loss ratio improved to 0.44% from 0.65% as we saw stability in the level of new loans entering into current and default categories.

Our legacy default portfolio which largely relates to lending collateralised by property transactions, in certain areas, notably residential developments, continues to be managed down. However, this process does take time as we continue to focus on maximising recoveries.

Counterparty credit risk has been incorporated into the fair valuation of derivative financial instruments through the use of Credit Valuation Adjustments (CVA).

Credit risk regulatory considerations

The regulatory environment in South Africa witnessed few changes in 2014 with increased clarity being provided to the banking industry by the regulator in the form of third tier legislation.

Investec Bank Limited's capital holding in South Africa continues to comply with Basel III and the South African Banks Act, including the transitional arrangements in place as the full implementation of Basel III is phased in. While Basel III has had far-reaching impact in terms of liquidity and capital supply, the impact on credit risk capital is limited to relatively small, specific portfolios of assets, specifically over-the-counter (OTC) derivatives and securitisation exposure.

Investec, together with other major banks, continues to engage with SARB through the Banking Association of South Africa (BASA) and bilaterally on matters of interpretation, particularly in light of the delay in the implementation of Basel III in the US and Europe. We are also actively engaged in formulating our recovery and resolution plan in line with requirements being drafted under the proposed recovery and resolution regime (RRR). The market eagerly awaits the first iteration of the RRR in order to ascertain what potential impacts there could be as a result of this new legislation.

In addition, we continue to actively participate in the bi-annual Basel III implementation quantitative impact study. This assessment performed by the major banks in the country is then fed back to the BIS (Bank for International Settlements) in order for them to gauge the extent and success of the implementation of the Basel III regulations across the globe.

The regulatory landscape continues to evolve. The BIS has issued a number of consultative documents for comment during the past year, many revisiting various sections of the capital framework in an effort to eliminate opportunities for capital arbitrage. Examples include the fundamental review of the trading book, which closely examines the market risk framework and capital charge, proposed amendments to the securitisation framework and a revised standardised approach to calculating counterparty credit risk. In line with Investec's prudent risk management and governance frameworks, we will continue to engage with the regulator and industry bodies as we seek to adopt market best practice in accordance with these and any other regulatory amendments.

Credit and counterparty risk information

Pages 21 to 31 describe where and how credit risk is assumed in our operations.

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

An analysis of gross credit and counterparty exposures

Credit and counterparty exposures increased by 14.1% to R338.4 billion largely as a result of the increase in core loans and advances and cash and near cash balances. Cash and near cash balances increased by 15.8% to R84.5 billon and are largely reflected in the following line items in the table below: cash and balances at central banks, loans and advances to banks, non-sovereign and non-bank cash placements, and sovereign debt securities.

R'million	31 March 2014	31 March 2013	% change	Average*
Cash and balances at central banks	5 927	5 677	4.4%	5 802
Loans and advances to banks	32 672	23 278	40.4%	27 975
Non-sovereign and non-bank cash placements	9 045	5 875	54.0%	7 460
Reverse repurchase agreements and cash collateral on securities borrowed	6 442	7 668	(16.0%)	7 055
Sovereign debt securities	34 815	33 730	3.2%	34 273
Bank debt securities	21 538	20 969	2.7%	21 254
Other debt securities	11 933	6 258	90.7%	9 096
Derivative financial instruments	11 882	11 704	1.5%	11 793
Securities arising from trading activities	994	1 357	(26.8%)	1 176
Loans and advances to customers (gross)	149 810	137 075	9.3%	143 443
Own originated loans and advances to customers (gross)	2 824	2 381	18.6%	2 603
Other loans and advances (gross)	597	684	(12.7%)	641
Other securitised assets	231	–	>100%	116
Other assets	48	252	(81.0%)	150
On-balance sheet exposures	288 758	256 908	12.4%	272 833
Guarantees^	12 507	8 415	48.6%	10 461
Contingent liabilities, committed facilities and other	37 158	31 309	18.7%	34 234
Total off-balance sheet exposures	49 665	39 724	25.0%	44 695
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	338 423	296 632	14.1%	317 528

* *Where the average is based on a straight-line average for period 1 April 2013 to 31 March 2014.*

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

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

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

R'million	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note reference	Total balance sheet
At 31 March 2014				
Cash and balances at central banks	5 927	–		5 927
Loans and advances to banks	32 672	–		32 672
Non-sovereign and non-bank cash placements	9 045	–		9 045
Reverse repurchase agreements and cash collateral on securities borrowed	6 442	–		6 442
Sovereign debt securities	34 815	–		34 815
Bank debt securities	21 538	–		21 538
Other debt securities	11 933	–		11 933
Derivative financial instruments	11 882	417		12 299
Securities arising from trading activities	994	322		1 316
Investment portfolio	–	8 834	1	8 834
Loans and advances to customers	149 810	(1 248)	2	148 562
Own originated loans and advances to customers securitised	2 824	(2)	2	2 822
Other loans and advances	597	(45)	2	552
Other securitised assets	231	1 272	3	1 503
Interest in associated undertakings	–	52		52
Deferred taxation assets	–	75		75
Other assets	48	1 723	4	1 771
Property and equipment	–	219		219
Investment properties	–	84		84
Intangible assets	–	102		102
Loans to group companies	–	1 924		1 924
Non-current assets classified as held for sale	–	731		731
Total on-balance sheet exposures	288 758	14 460		303 218

1. *Largely relates to exposures that are classified as equity risk in the banking book. Further information is provided on pages 48 to 50.*
2. *Largely relates to impairments.*
3. *Whilst the group manages all risks (including credit risk) from a day-to-day operational perspective, certain of these assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicles that the group has reflected in the 'total credit and counterparty exposure' with the maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'.*
4. *Other assets include settlement debtors where we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

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

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

1. *Largely relates to exposures that are classified as equity risk in the banking book. Further information is provided on pages 48 to 50.*
2. *Largely relates to impairments.*
3. *Whilst the group manages all risks (including credit risk) from a day-to-day operational perspective, certain of these assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicles that the group has reflected in the 'total credit and counterparty exposure' with the maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'.*
4. *Other assets include settlement debtors where we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

Gross credit and counterparty exposures by residual contractual maturity at 31 March 2014

R'million	Up to three months	Three to six months	Six months to one year	One to five years	Five to ten years	>ten years	Total
Cash and balances at central banks	5 927	–	–	–	–	–	5 927
Loans and advances to banks	30 901	18	286	1 467	–	–	32 672
Non-sovereign and non-bank cash placements	9 045	–	–	–	–	–	9 045
Reverse repurchase agreements and cash collateral on securities borrowed	3 582	35	428	1 084	776	537	6 442
Sovereign debt securities	9 168	7 773	8 469	2 181	7 224	–	34 815
Bank debt securities	1 035	3 978	4 459	10 774	1 292	–	21 538
Other debt securities	831	–	–	5 397	5 236	469	11 933
Derivative financial instruments	1 697	668	1 203	4 752	2 012	1 550	11 882
Securities arising from trading activities	297	–	2	357	120	218	994
Loans and advances to customers (gross)	14 720	4 865	11 956	69 864	16 225	32 180	149 810
Own originated loans and advances to customers securitised (gross)	1	–	–	17	283	2 523	2 824
Other loans and advances (gross)	1	1	2	59	157	377	597
Other securitised assets	74	–	–	–	–	157	231
Other assets	47	1	–	–	–	–	48
Total on-balance sheet exposures	77 326	17 339	26 805	95 952	33 325	38 011	288 758
Guarantees^	1 582	703	757	6 131	732	2 602	12 507
Contingent liabilities, committed facilities and other	5 789	770	3 403	10 266	1 294	15 636	37 158
Total off-balance sheet exposures	7 371	1 473	4 160	16 397	2 026	18 238	49 665
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	84 697	18 812	30 965	112 349	35 351	56 249	338 423

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

Detailed analysis of gross credit and counterparty exposures by industry

At 31 March R'million	HNW and professional individuals	Lending collateralised by property largely to private clients	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services
2014						
Cash and balances at central banks	–	–	–	–	5 927	–
Loans and advances to banks	–	–	–	–	–	–
Non-sovereign and non-bank cash placements	–	–	–	24	17	484
Reverse repurchase agreements and cash collateral on securities borrowed	485	–	–	20	–	–
Sovereign debt securities	–	–	–	–	34 815	–
Bank debt securities	–	–	–	–	–	–
Other debt securities	–	–	–	304	–	–
Derivative financial instruments	61	–	9	85	–	52
Securities arising from trading activities	–	–	–	4	654	–
Loans and advances to customers (gross)	62 932	35 515	823	3 119	918	5 173
Own originated loans and advances to customers (gross)	2 824	–	–	–	–	–
Other loans and advances (gross)	–	–	–	–	–	–
Other securitised assets	–	–	–	–	157	–
Other assets	–	–	–	1	–	–
Total on-balance sheet exposures	66 302	35 515	832	3 557	42 488	5 709
Guarantees	2 354	1 518	–	158	843	33
Contingent liabilities, committed facilities and other	21 783	5 946	588	2 868	7	613
Total off-balance sheet exposures	24 137	7 464	588	3 026	850	646
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	90 439	42 979	1 420	6 583	43 338	6 355
2013						
Cash and balances at central banks	–	–	–	–	5 677	–
Loans and advances to banks	–	–	–	–	–	–
Non-sovereign and non-bank cash placements	–	–	100	–	–	337
Reverse repurchase agreements and cash collateral on securities borrowed	413	–	–	119	–	–
Sovereign debt securities	–	–	–	–	33 730	–
Bank debt securities	–	–	–	–	–	–
Other debt securities	583	–	–	148	–	–
Derivative financial instruments	98	–	1	24	–	53
Securities arising from trading activities	–	–	–	4	484	–
Loans and advances to customers (gross)	51 761	41 162	1 047	1 959	869	5 631
Own originated loans and advances to customers (gross)	2 381	–	–	–	–	–
Other loans and advances (gross)	–	–	–	–	–	–
Other assets	1	–	–	–	–	–
Total on-balance sheet exposures	55 237	41 162	1 148	2 254	40 760	6 021
Guarantees	2 030	1 643	–	164	1	11
Contingent liabilities, committed facilities and other	18 440	5 351	200	95	–	625
Total off-balance sheet exposures	20 470	6 994	200	259	1	636
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	75 707	48 156	1 348	2 513	40 761	6 657

Finance and insurance	Retailers and wholesalers	Manufacturing and commerce	Construction	Other residential mortgages	Corporate commercial real estate	Mining and resources	Leisure, entertainment and tourism	Transport	Communication	Total
–	–	–	–	–	–	–	–	–	–	5 927
32 672	–	–	–	–	–	–	–	–	–	32 672
2 000	1 682	2 063	240	–	–	541	–	1 803	191	9 045
4 850	–	1 008	–	–	–	–	–	79	–	6 442
–	–	–	–	–	–	–	–	–	–	34 815
21 538	–	–	–	–	–		–	–	–	21 538
6 662	–	–	–	–	–	2 226	–	1 547	1 194	11 933
10 114	247	469	5	–	607	138	11	84	–	11 882
148	–	149	–	–	–	–	–	39	–	994
4 977	2 921	8 468	2 443	–	6 756	5 123	799	4 801	5 042	149 810
–	–	–	–	–	–	–	–	–	–	2 824
–	–	–	–	597	–	–	–	–	–	597
74	–	–	–	–	–	–	–	–	–	231
47	–	–	–	–	–	–	–	–	–	48
83 082	4 850	12 157	2 688	597	7 363	8 028	810	8 353	6 427	288 758
4 226	1 325	110	–	–	1	1 713	197	20	9	12 507
548	772	628	31	–	112	1 816	685	634	127	37 158
4 774	2 097	738	31	–	113	3 529	882	654	136	49 665
87 856	6 947	12 895	2 719	597	7 476	11 557	1 692	9 007	6 563	338 423
–	–	–	–	–	–	–	–	–	–	5 677
23 278	–	–	–	–	–	–	–	–	–	23 278
1 840	1 259	1 322	33	–	–	579	–	264	141	5 875
6 508	–	559	–	–	–	–	–	69	–	7 668
–	–	–	–	–	–	–	–	–	–	33 730
20 969	–	–	–	–	–	–	–	–	–	20 969
4 534	175	–	–	–	–	597	–	221	–	6 258
10 083	108	89	–	–	1 112	67	–	68	1	11 704
570	96	–	–	–	–	119	–	84	–	1 357
6 205	2 690	7 234	903	–	5 175	3 787	1 398	3 479	3 775	137 075
–	–	–	–	–	–	–	–	–	–	2 381
684	–	–	–	–	–	–	–	–	–	684
250	–	–	–	–	–	1	–	–	–	252
74 921	4 328	9 204	936	–	6 287	5 150	1 398	4 185	3 917	256 908
1 198	493	192	1 110	–	–	1 379	178	16	–	8 415
839	242	399	9	–	523	2 332	257	978	1 019	31 309
2 037	735	591	1 119	–	523	3 711	435	994	1 019	39 724
76 958	5 063	9 795	2 055	–	6 810	8 861	1 833	5 179	4 936	296 632

Private client loans account for 43.7% of total net core loans and advances, as represented by the industry classification 'HNW and professional individuals'

Summary analysis of gross credit and counterparty exposures by industry

A description of the type of private client lending we undertake is provided on page 27, and a more detailed analysis of the private client loan portfolio is provided on pages 45 and 46.

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

Other credit and counterparty exposures are largely reflective of cash and near cash balances held with institutions and central banks, thus the large balance reflected in the 'public and non-business services' and 'finance and insurance' sectors. These exposures also include off-balance sheet items such as guarantees, committed facilities and contingent liabilities, largely to our HNW and professional individual clients.

A description of the type of corporate client lending we undertake, is provided on page 27 and a more detailed analysis of the corporate client loan portfolio is provided on pages 45 and 46.

At 31 March R'million	Gross core loans and advances		Other credit and counterparty exposures		Total	
	2014	2013	2014	2013	2014	2013
HNW and professional individuals	65 756	54 142	24 683	21 565	90 439	75 707
Lending collateralised by property largely to private clients	35 515	41 162	7 464	6 994	42 979	48 156
Agriculture	823	1 047	597	301	1 420	1 348
Electricity, gas and water (utility services)	3 119	1 959	3 464	554	6 583	2 513
Public and non-business services	918	869	42 420	39 892	43 338	40 761
Business services	5 173	5 631	1 182	1 026	6 355	6 657
Finance and insurance	4 977	6 205	82 879	70 753	87 856	76 958
Retailers and wholesalers	2 921	2 690	4 026	2 373	6 947	5 063
Manufacturing and commerce	8 468	7 234	4 427	2 561	12 895	9 795
Construction	2 443	903	276	1 152	2 719	2 055
Other residential mortgages	–	–	597	–	597	–
Corporate commercial real estate	6 756	5 175	720	1 635	7 476	6 810
Mining and resources	5 123	3 787	6 434	5 074	11 557	8 861
Leisure, entertainment and tourism	799	1 398	893	435	1 692	1 833
Transport	4 801	3 479	4 206	1 700	9 007	5 179
Communication	5 042	3 775	1 521	1 161	6 563	4 936
Total	152 634	139 456	185 789	157 176	338 423	296 632

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

Core loans and advances comprise

- Loans and advances to customers as per the balance sheet
- Own originated loans and advances to customers securitised as per the balance sheet.

At 31 March R'million	2014	2013
Loans and advances to customers as per the balance sheet	148 562	135 726
Add: own originated loans and advances to customers securitised as per the balance sheet	2 822	2 379
Net core loans and advances to customers	151 384	138 105

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

An overview of developments during the financial year is provided on page 31.

R'million	31 March 2014	31 March 2013
Gross core loans and advances to customers	152 634	139 456
Total impairments	(1 250)	(1 351)
Portfolio impairments	(173)	(123)
Specific impairments	(1 077)	(1 228)
Net core loans and advances to customers	151 384	138 105
Average gross core loans and advances to customers	146 047	132 841
Current loans and advances to customers	147 724	133 943
Past due loans and advances to customers (1 – 60 days)	729	649
Special mention loans and advances to customers	658	852
Default loans and advances to customers	3 523	4 012
Gross core loans and advances to customers	152 634	139 456
Current loans and advances to customers	147 724	133 943
Default loans that are current and not impaired	162	60
Gross core loans and advances to customers that are past due but not impaired	2 171	2 513
Gross core loans and advances to customers that are impaired	2 577	2 940
Gross core loans and advances to customers	152 634	139 456
Total income statement charge for impairments on core loans and advances	(638)	(868)
Gross default loans and advances to customers	3 523	4 012
Specific impairments	(1 077)	(1 228)
Portfolio impairments	(173)	(123)
Defaults net of impairments	2 273	2 661
Collateral and other credit enhancements	3 520	3 841
Net default loans and advances to customers (limited to zero)	–	–
Ratios		
Total impairments as a % of gross core loans and advances to customers	0.82%	0.97%
Total impairments as a % of gross default loans	35.48%	33.67%
Gross defaults as a % of gross core loans and advances to customers	2.31%	2.88%
Defaults (net of impairments) as a % of net core loans and advances to customers	1.50%	1.93%
Net default as a % of gross core loans and advances to customers	–	–
Credit loss ratio (i.e. income statement impairment charge as a % of average gross core loans and advances)	0.44%	0.65%

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

At 31 March R'million	2014	2013
Default loans that are current	785	621
1 – 60 days	1 140	1 410
61 – 90 days	235	285
91 – 180 days	453	274
181 – 365 days	584	382
>365 days	1 713	2 541
Past due and default core loans and advances to customers (actual capital exposure)	4 910	5 513
1 – 60 days	231	722
61 – 90 days	29	61
91 – 180 days	106	70
181 – 365 days	470	170
>365 days	1 425	2 147
Past due and default core loans and advances to customers (actual amount in arrears)	2 261	3 170

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

R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
At 31 March 2014							
Watchlist loans neither past due nor impaired							
Total capital exposure	162	–	–	–	–	–	162
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	993	168	275	326	409	2 171
Amount in arrears	–	188	18	39	246	296	787
Gross core loans and advances to customers that are impaired							
Total capital exposure	623	147	67	178	258	1 304	2 577
Amount in arrears	–	43	11	67	224	1 129	1 474
At 31 March 2013							
Watchlist loans neither past due nor impaired							
Total capital exposure	60	–	–	–	–	–	60
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	1 315	283	170	151	594	2 513
Amount in arrears	–	687	60	55	93	447	1 342
Gross core loans and advances to customers that are impaired							
Total capital exposure	561	95	2	104	231	1 947	2 940
Amount in arrears	–	35	1	15	77	1 700	1 828

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

R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	729	–	–	–	–	729
Special mention	–	241	145	3	214	55	658
Special mention (1 – 90 days)	–	241	23	3*	214*	55*	536
Special mention (61 – 90 days and item well secured)	–	–	122	–	–	–	122
Default	785	170	90	450	370	1 658	3 523
Sub-standard	162	26	25	272	112	355	952
Doubtful	623	144	65	178	258	1 303	2 571
Total	785	1 140	235	453	584	1 713	4 910

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

R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	77	–	–	–	–	77
Special mention	–	111	17	1	187	10	326
Special mention (1 – 90 days)	–	111	3	1*	187*	10*	312
Special mention (61 – 90 days and item well secured)	–	–	14	–	–	–	14
Default	–	43	12	105	283	1 415	1 858
Sub-standard	–	1	1	38	59	286	385
Doubtful	–	42	11	67	224	1 129	1 473
Total	–	231	29	106	470	1 425	2 261

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

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

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

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

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

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

An analysis of core loans and advances to customers

R'million	Gross core loans and advances that are neither past due nor impaired	Gross core loans and advances that are past due but not impaired	Gross core loans and advances that are impaired	Total gross core loans and advances (actual capital exposure)	Specific impairments	Portfolio impairments	Total net core loans and advances (actual capital exposure)	Actual amount in arrears
At 31 March 2014								
Current core loans and advances	147 724	–	–	147 724	–	(159)	147 565	–
Past due (1 – 60 days)	–	729	–	729	–	(4)	725	77
Special mention	–	658	–	658	–	(10)	648	326
Special mention (1 – 90 days)	–	536	–	536	–	(9)	527	312
Special mention (61 – 90 days and item well secured)	–	122	–	122	–	(1)	121	14
Default	162	784	2 577	3 523	(1 077)	–	2 446	1 858
Sub-standard	162	784	6	952	–	–	952	385
Doubtful	–	–	2 571	2 571	(1 077)	–	1 494	1 473
Total	147 886	2 171	2 577	152 634	(1 077)	(173)	151 384	2 261
At 31 March 2013								
Current core loans and advances	133 943	–	–	133 943	–	(112)	133 831	–
Past due (1 – 60 days)	–	649	–	649	–	(1)	648	174
Special mention	–	852	–	852	–	(10)	842	609
Special mention (1 – 90 days)	–	738	–	738	–	(9)	729	589
Special mention (61 – 90 days and item well secured)	–	114	–	114	–	(1)	113	20
Default	60	1 012	2 940	4 012	(1 228)	–	2 784	2 387
Sub-standard	60	1 012	3	1 075	–	–	1 075	561
Doubtful	–	–	2 937	2 937	(1 228)	–	1 709	1 826
Total	134 003	2 513	2 940	139 456	(1 228)	(123)	138 105	3 170

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

R'million	Private banking professional and HNW individuals	Corporate sector	Banking, insurance, financial services (excluding sovereign)	Public and government sector (including central banks)	Trade finance	Total gross core loans and advances to customers
At 31 March 2014						
Current core loans and advances	97 307	41 825	4 794	918	2 880	147 724
Past due (1 – 60 days)	468	200	–	–	61	729
Special mention	652	–	–	–	6	658
Special mention (1 – 90 days)	535	–	–	–	1	536
Special mention (61 – 90 days and item well secured)	117	–	–	–	5	122
Default	2 844	390	183	–	106	3 523
Sub-standard	761	3	183	–	5	952
Doubtful	2 083	387	–	–	101	2 571
Total gross core loans and advances to customers	101 271	42 415	4 977	918	3 053	152 634
Total impairments	(987)	(180)	(2)	(1)	(80)	(1 250)
Specific impairments	(869)	(128)	–	–	(80)	(1 077)
Portfolio impairments	(118)	(52)	(2)	(1)	–	(173)
Net core loans and advances to customers	100 284	42 235	4 975	917	2 973	151 384
At 31 March 2013						
Current core loans and advances	89 267	35 745	5 928	869	2 134	133 943
Past due (1 – 60 days)	428	117	–	–	104	649
Special mention	803	40	–	–	9	852
Special mention (1 – 90 days)	698	40	–	–	–	738
Special mention (61 – 90 days and item well secured)	105	–	–	–	9	114
Default	3 210	420	281	–	101	4 012
Sub-standard	969	103	–	–	3	1 075
Doubtful	2 241	317	281	–	98	2 937
Total gross core loans and advances to customers	93 708	36 322	6 209	869	2 348	139 456
Total impairments	(1 145)	(134)	(4)	–	(68)	(1 351)
Specific impairments	(1 049)	(111)	–	–	(68)	(1 228)
Portfolio impairments	(96)	(23)	(4)	–	–	(123)
Net core loans and advances to customers	92 563	36 188	6 205	869	2 280	138 105

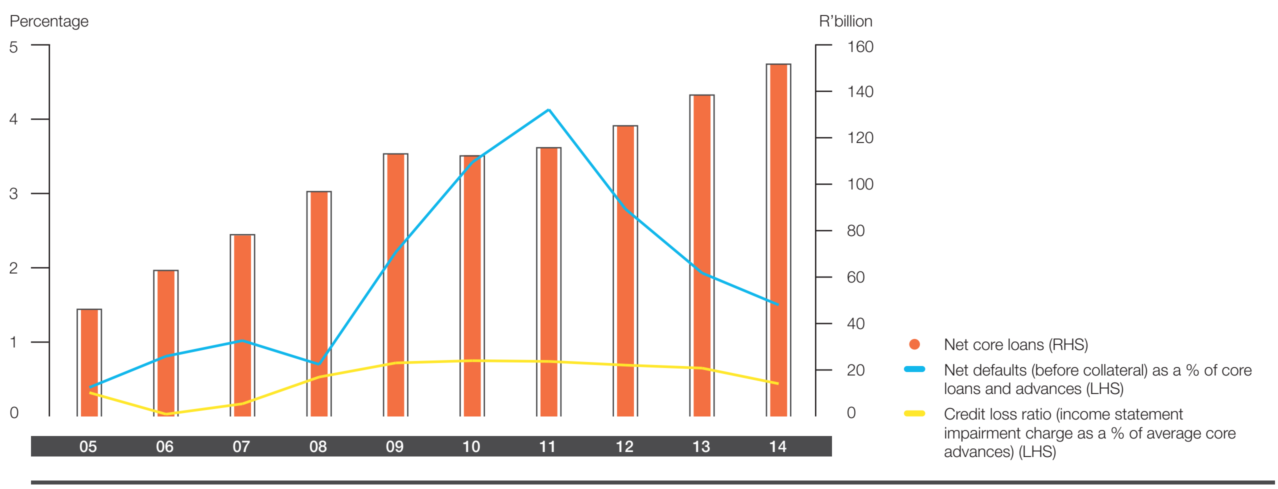
An analysis of core loans and advances by risk category at 31 March 2014

R'million	Gross core loans	Gross defaults	Collateral	Balance sheet impairments	Income statement impairments
Lending collateralised by property	35 515	1 844	1 716	(695)	(197)
Commercial real estate	32 571	749	899	(237)	(67)
Commercial real estate – investment	28 949	516	636	(168)	(32)
Commercial real estate – development	1 846	–	–	(3)	(16)
Commercial vacant land and planning	1 776	233	263	(66)	(19)
Residential real estate	2 944	1 095	817	(458)	(130)
Residential development	1 231	328	324	(50)	(46)
Residential vacant land and planning	1 713	767	493	(408)	(84)
High net worth and other private client lending	65 756	1 000	1 179	(292)	(357)
Mortgages	38 412	601	789	(116)	(92)
High net worth and specialised lending	27 344	399	390	(176)	(265)
Corporate and other lending	51 363	679	625	(263)	(84)
Leveraged finance and corporate loans	12 188	527	557	(100)	8
Asset-based lending	3 050	106	55	(80)	(35)
Other corporates and financial institutions and governments	28 738	46	13	(75)	38
Asset finance	3 519	–	–	(8)	(9)
Small ticket asset finance	1 007	–	–	–	–
Large ticket asset finance	2 512	–	–	(8)	(9)
Project finance	3 220	–	–	–	(86)
Resource finance	648	–	–	–	–
Total	152 634	3 523	3 520	(1 250)	(638)

An analysis of core loans and advances by risk category at 31 March 2013

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

Asset quality trends



Risk management and corporate governance
03

Collateral

A summary of total collateral

R'million	Collateral held against: Gross core loans and advances	Collateral held against: Other credit and counterparty exposures*	Total
At 31 March 2014			
Eligible financial collateral	22 118	6 922	29 040
Listed shares	20 894	6 920	27 814
Cash	1 224	2	1 226
Mortgage bonds	211 125	631	211 756
Residential mortgages	105 588	552	106 140
Commercial property development	6 323	79	6 402
Commercial property investments	99 214	–	99 214
Other collateral	75 252	1 497	76 749
Unlisted shares	29 784	782	30 566
Bonds other than mortgage bonds	8 622	–	8 622
Debtors, stock and other corporate assets	9 922	–	9 922
Guarantees	12 136	157	12 293
Other	14 788	558	15 346
Total collateral	308 495	9 050	317 545
At 31 March 2013			
Eligible financial collateral	29 465	2 896	32 361
Listed shares	27 564	2 866	30 430
Cash	1 901	30	1 931
Mortgage bonds	169 083	24	169 107
Residential mortgages	79 784	–	79 784
Commercial property development	9 665	24	9 689
Commercial property investments	79 634	–	79 634
Other collateral	51 237	1 446	52 683
Unlisted shares	14 454	–	14 454
Bonds other than mortgage bonds	6 735	471	7 206
Asset-backed lending	4 977	–	4 977
Guarantees	10 616	717	11 333
Other	14 455	258	14 713
Total collateral	249 785	4 366	254 151

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

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

Equity and investment risk in the banking book

Equity and investment risk description

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

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

Management of equity and investment risk

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

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

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

Valuation and accounting methodologies

For a description of our valuation principles and methodologies refer to pages 138 to 146 for factors taken into consideration in determining fair value.

We have a low level of assets exposed to the volatility of IFRS fair value accounting with level 3 assets amounting to 2.0% of total assets.

Refer to page 138 for further information.

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

For the year to 31 March R'million	Income (pre-funding costs) Unrealised	Realised	Dividends	Total	Fair value through equity
2014					
Unlisted investments	(245)	93	629	477	–
Listed equities	26	(6)	17	37	(210)
Investment and trading properties	59	14	–	73	–
Warrants, profit shares and other embedded derivatives	(21)	129	–	108	–
Total	(181)	230	646	695	(210)
2013					
Unlisted investments	92	473	159	724	–
Listed equities	(238)	1	–	(237)	35
Investments and trading properties	–	31	–	31	–
Warrants, profit shares and other embedded derivatives	43	38	–	81	–
Total	(103)	543	159	599	35

Unrealised revaluation gains through profit and loss are included in tier 1 capital. The bank excludes revaluation gains posted directly to equity from its capital position.

Summary of investments held and stress testing analyses

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

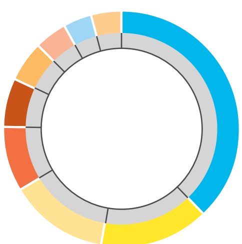
R'million	On-balance sheet value of investments 2014	Valuation change stress test 2014*	On-balance sheet value of investments 2013	Valuation change stress test 2013*
Unlisted investments^	7 184	1 078	6 489	973
Listed equities^	2 381	595	2 613	653
Investment and trading properties	348	61	391	78
Warrants, profit shares and other embedded derivatives	417	146	459	160
Total	10 330	1 880	9 952	1 864

^ *Includes the investment portfolio and non-current assets classified as held for sale as per the balance sheet.*
* *In order to assess our earnings sensitivity to a movement in the valuation of these investments the following stress testing parameters are applied:*

Stress test values applied	
Unlisted investments	15%
Listed equities	25%
Trading properties	20%
Investment properties	10%
Warrants, profit shares and other embedded derivatives	35%

Additional information

An analysis of the principal investment portfolio by industry of exposure



31 March 2014 (R10.0 billion)

Manufacturing and commerce	37.9%
Finance and insurance	15.0%
Mining and resources	13.6%
Retailer and wholesalers	8.9%
Communication	6.7%
Real estate	5.5%
Agriculture	4.4%
Business services	4.1%
Other	3.9%

Stress testing summary

Based on the information at 31 March 2014, as reflected above we could have a R1.9 billion reversal in revenue (which assumes a year in which there is a 'severe stress scenario'). This would not cause the group to report a loss but could have a significantly negative impact on earnings for that period.

Capital requirements

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

Refer to page 74 for further detail.

Securitisation/credit investment and trading activities exposures

Overview

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

Refer to page 73 for the balance sheet and credit risk classification.

The bank applies the standardised approach in the assessment of regulatory capital for securitisation exposures within its banking book and trading book. The trading book exposures at 31 March 2014 are not regarded as material, and therefore no further information is disclosed for these exposures.

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

In South Africa, our securitisation business was established over 10 years ago. Over this time, we have arranged a number of residential and commercial mortgage-backed programmes, asset-backed commercial paper conduits (ABCP), and third party securitisations.

Historically, we have also assisted in the development of select securitisation platforms with external third party originating intermediaries. Our exposure to these platforms has reduced and been sold down over the last few years and at present we have a single limited warehouse funding line to one platform.

Furthermore, we are sponsor to and provide a standby liquidity facility to Grayston Conduit 1 (RF) Limited Series 1, Series 2 and Private Mortgages 1. These facilities, which totalled R1.3 billion at 31 March 2014 (31 March 2013: R1.1 billion), have not been drawn on and are thus reflected as off-balance sheet contingent exposures in terms of our credit analysis.

Refer to page 51.

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

We have also sought out select opportunities in the credit/debt markets and traded and invested in structured credit. These have largely been investments in rated instruments within the UK and Europe, totalling R4.8 billion at 31 March 2014 (31 March 2013: R2.7 billion). These investments are risk-weighted for regulatory capital purposes.

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

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

Total assets that have been originated and securitised by the private client division amount to R2.8 billion at 31 March 2014 (31 March 2013: R2.4 billion) and consist of residential mortgages. Within these securitisation vehicles, there were no loans greater than 90 days in arrears. Private Residential Mortgages (PRF) Limited – Series 1 (PRM1) was refinanced internally for R2 billion in February 2014.

During the year we arranged one new Investec private client originated residential mortgage securitisation transaction, namely, Fox Street 2 (RF) Limited (FS2) amounting to R1.5 billion. This RMBS transaction was structured as an amortising transaction. We wound down series 4 of our ABCP Grayston Conduit 1 (RF) Limited (GC4).

FS2 is rated by Fitch. The bank has acted as sole originator and sponsor in this securitisation transaction, which is considered to be traditional securitisation and in which a complete transfer of risk has deemed to have occurred for regulatory capital purposes. The group has retained an investment in all of these transactions. In terms of current securitisation rules, the group cannot act as liquidity provider to these transactions, and thus the liquidity provider role is fulfilled by other local banks, or as is the case with FS1 and FS2, the Special purpose entity has an internal liquidity reserve that has been funded. Credit mitigants have not been used in these transactions. An exemption notice in terms of securitisation rules has been applied for in relation to all the transactions.

For regulatory capital purposes, the majority of these transactions are treated as deductions against capital. The group has no resecuritisation exposures in South Africa.

Accounting policies

Refer to page 112.

Risk management

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

In addition, securitisations of Investec own-originated assets are assessed in terms of the credit risk management philosophies and principles as set out on page 21.

Credit analysis

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

At 31 March Nature of exposure/activity	Exposure 2014 R'million	Exposure 2013 R'million	Internal balance sheet and credit risk classification	Asset quality – relevant comments
Structured credit*	4 852	2 819	Other debt securities	
Rated	4 758	2 674		
Unrated	94	145		
Loans and advances to customers and investment in third party intermediary originating platforms (mortgage and auto loans) (with the potential to be securitised)	552	672	Other loans and advances	
Private client division assets which have been securitised	2 822	2 379	Own originated loans and advances to customers securitised	Analysed as part of the bank's overall asset quality on core loans and advances as reflected on page 39.
Liquidity facilities provided to third party corporate securitisation vehicles	1 305	1 122	Off-balance sheet credit exposure as these facilities have remained undrawn and reflect a contingent liability of the bank	

* *Analysed further on page 52.*

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

At 31 March R'million	2014 Rated**	 Unrated	 Total	2013 Rated	 Unrated	 Total
US corporate loans	32	11	43	28	30	58
UK and European RMBS	2 892	–	2 892	2 178	11	2 189
UK and European CMBS	1	–	1	83		83
UK and European corporate loans	–	83	83	–	104	104
Australian RMBS	365	–	365	385	–	385
South African CMBS	157	–	157	–	–	–
South African RMBS	1 311^	–	1 311^	–	–	–
Total	4 758	94	4 852	2 674	145	2 819

****Further analysis of rated structured credit investments at 31 March 2014**

R'million	AAA	AA	A	BBB	BB	B	C and below	Total
US corporate loans	–	–	–	–	32	–	–	32
UK and European RMBS	–	537	869	1 250	236	–	–	2 892
UK and European CMBS	–	–	–	1	–	–	–	1
Australian RMBS	–	221	–	144	–	–	–	365
South African CMBS	–	157	–	–	–	–	–	157
South African RMBS	871	210	130	65	35	–	–	1 311^
Total at 31 March 2014	871	1 125	999	1 460	303	–	–	4 758
Total at 31 March 2013	–	617	1 175	491	372	19	–	2 674

^ *Investments held in own-originated securitisation vehicles as explained above.*

Market risk in the trading book

Traded market risk description

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

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

Traded market risk governance structure

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

Management and measurement of traded market risk

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

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

The Market Risk 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.

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

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

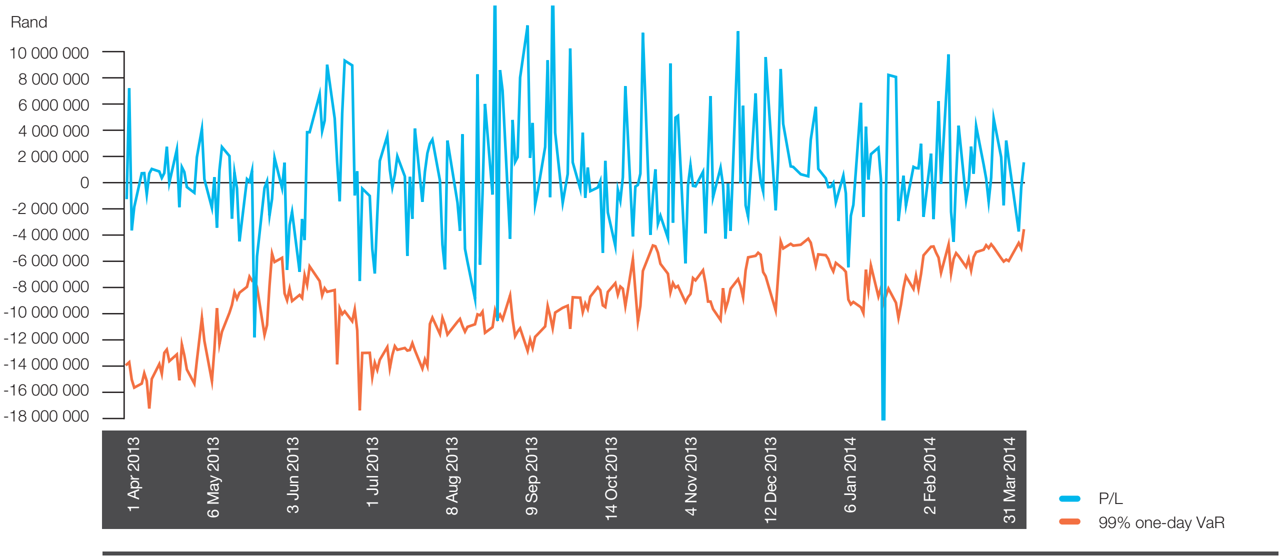
VaR

R'million	31 March 2014 Year end	Average	High	Low	31 March 2013 Year end	Average	High	Low
95% (one-day)								
Commodities	0.5	0.1	0.5	–	–	0.1	0.6	–
Equities	1.6	4.5	9.0	0.9	6.1	2.9	8.6	0.9
Foreign exchange	1.9	2.5	7.2	1.1	3.4	2.1	6.0	0.4
Interest rates	1.3	2.2	6.0	0.7	1.1	2.4	7.2	0.9
Consolidated*	2.1	5.5	9.9	2.0	7.2	4.3	8.8	1.9

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

VaR for 2014 in the South African trading book was lower than for 2013; this was due to reducing the risk profile in uncertain markets. Using hypothetical (clean) profit and loss data for backtesting resulted in three exceptions (as shown in the graph below), which is in line with the number of exceptions that a 99% VaR implies. The exceptions were due to normal trading losses. Using actual profit and loss resulted in two exceptions which is in line with expectations.

99% one-day VaR backtesting



ETL 95% (one-day)

For the year to 31 March R'million	2014	2013
Commodities	0.5	–
Equities	2.5	9.3
Foreign exchange	2.7	4.6
Interest rates	1.9	2.6
Consolidated*	3.1	10.5

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

Stress testing

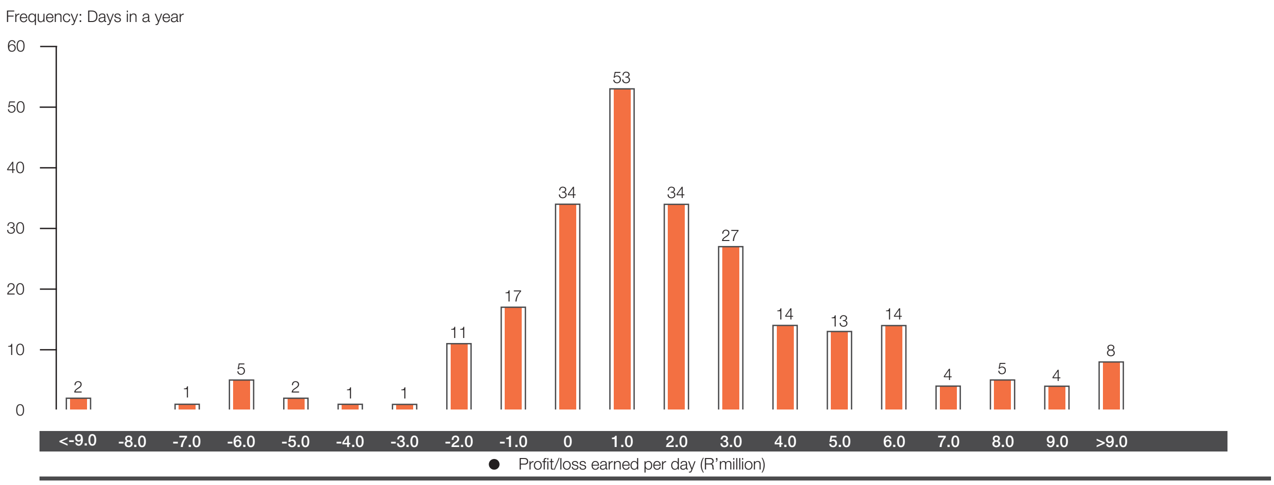
The table below indicates the potential losses that could arise if the portfolio is stress tested under extreme market conditions. The method used is known as extreme value theory (EVT), the reported stress scenario below calculates the 99% EVT which is a 1-in-8 year possible loss event. These numbers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

	31 March 2014				31 March 2013
R'million	Year end	Average	High	Low	Year end
99% (using 99% EVT)					
Commodities	1.6	0.6	2.9	–	–
Equities	6.4	21.1	46.5	6.4	41.2
Foreign exchange	12.9	10.7	22.6	5.3	13.7
Interest rates	6.6	27.7	74.1	5.4	23.9
Consolidated	12.1	30.8	69.1	10.9	45.4

Profit and loss histograms

The histogram below illustrates the distribution of daily revenue during the financial year for our trading businesses. The distribution is skewed to the profit side and the graph shows that positive trading revenue was realised on 176 days out of a total of 250 days in the trading business. The average daily trading revenue generated for the year to 31 March 2014 was R1.4 million (2013: R1.3 million).

Profit and loss



The size, materiality, complexity, maturity and depth of the market as well as access to stable funds are all inputs considered when establishing the liquidity and non-trading interest rate risk appetite for each geographic region

Traded market risk mitigation

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

Risk limits are set according to guidelines set out in our risk appetite policy and are calculated on a statistical and non-statistical basis. Statistical limits include VaR and ETL analyses at various confidence intervals. Historical VaR is used (over 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.

It is risk policy that any significant open position in a foreign currency is held in the trading book. These positions are managed within approved limits and monitored within VaR models.

Traded market risk year in review

Market moves in South Africa have been largely driven by events in international markets. Uncertain markets as well as the drop in volumes of trade has caused traders to reduce risks in their trading books. In particular Equity Index derivatives trade saw a substantial drop in volumes causing traders to drastically cut the amount of risk taken in these instruments.

Market risk – derivatives

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

Information showing our derivative trading portfolio over the reporting period on the basis of the notional principal and the fair value of all derivatives can be found on pages 154 to 155.

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

Balance sheet risk management

Balance sheet risk description

Balance sheet risk management encompasses the independent monitoring and prudential management of the financial risks relating to our asset and liability portfolios, comprising market liquidity, funding, concentration, non-trading interest rate and foreign exchange 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 with 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 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 treasurer is required to exercise tight control of funding, liquidity, concentration and non-trading interest rate risk within parameters defined by the board-approved risk appetite policy. Non-trading interest rate risk and asset funding requirements are transferred from the originating business to the treasury function.

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

We maintain an internal funds transfer pricing system based on prevailing market rates. Our funds transfer pricing system charges the businesses the price of short-term and long-term liquidity 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 changes to the bank's risk management and governance framework, where relevant.

Scenario modelling and daily rigorous liquidity stress tests are designed to measure and manage the liquidity position such that payment obligations can be met under a wide range of normal, company-specific and market-driven stress scenarios. These assume the rate and timing of deposit withdrawals and drawdowns on lending facilities are varied, and the ability to access funding and to generate funds from asset portfolios is restricted. The parameters used in the scenarios are reviewed regularly, taking into account changes in the business environments and input from business units. The objective is to 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 they propose to both strengthen and harmonise global liquidity standards and plan to introduce two new liquidity standards. The Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are due to be implemented by 2015 and 2018, respectively. The BCBS published the final calibration of the LCR in January 2013 to be phased in from 2015, and a second consultation paper, the NSFR, was published in January 2014.

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.

Non-trading interest rate risk description

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

Sources of interest rate risk include:

- Repricing risk: arises from the timing differences in the fixed rate maturity and floating rate repricing of bank assets, liabilities and off-balance sheet derivative positions. This affects the interest rate margin realised between lending income and borrowing costs, when applied to our rate sensitive portfolios
- Yield curve risk: repricing mismatches also expose the bank to changes in the slope and shape of the yield curve
- Basis risk: arises from imperfect correlation in the adjustments of the rates earned and paid on different instruments with otherwise similar repricing characteristics
- Embedded option risk: we are not materially exposed to embedded option 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
- Endowment risk: refers to the interest rate risk exposure arising from the net differential between interest rate insensitive assets, interest rate insensitive liabilities and capital.

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

Management and measurement of non-trading interest rate risk

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

- The group complies with the BCBS framework for assessing banking book (non-trading) interest rate risk
- The management of interest rate risk in the banking book is centralised within the central treasury function and treasury is mandated by the board to actively manage the liquidity mismatch and non-trading interest rate risk arising from our asset and liability portfolios
- The treasurer is required to exercise tight control of funding, liquidity, concentration and non-trading interest rate risk within parameters defined by the risk appetite policy
- The non-trading interest rate risk appetite has been set based on the loss under a worst-case 200bp parallel shock as a percentage of capital. This level applies to both earnings risk and economic value risk
- Internal capital is allocated for non-trading interest rate risk
- The policy dictates that long-term non-trading interest rate risk is materially eliminated. In accordance with the policy the bank swaps its fixed deposits and loans into variable rate in the wholesale market via interest rate swaps, where there is no offset
- It is the responsibility of the liability product and pricing forum, 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 to 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
- Central treasury is the primary interface to the wholesale market
- We carry out technical interest rate analysis and economic review of fundamental developments by geography and global trends.

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

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

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

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

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

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

Our risk appetite policy requires that interest rate risk arising from fixed interest loans risk is transferred from the originating business to the central treasury function by match-funding. In turn, central 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, central treasury also hedges all fixed rate deposits with a term of more than one year to variable rate. These derivative hedging trades are executed with the bank's interest rate trading desk. Limits exist to ensure there is no undesired risk retained within any business or product area.

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

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

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

Interest rate sensitivity gap

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

R'million	Not >three months	>three months but <six months	>six months but <one year	>one year but <five years	>five years	Non-rate	Total non-trading
Cash and short-term funds – banks	30 872	–	–	29	–	5 273	36 174
Cash and short-term funds – non-banks	9 016	–	–	–	–	2	9 018
Investment/trading assets and statutory liquids	31 767	10 034	9 427	9 274	9 418	8 379	78 299
Securitised assets	3 798	–	–	–	–	527	4 325
Advances	131 213	1 533	1 499	8 244	4 499	2 126	149 114
Other assets	–	–	–	–	–	1 894	1 894
Assets	206 666	11 567	10 926	17 547	13 917	18 201	278 824
Deposits – banks	(21 837)	(224)	(181)	(80)	–	(84)	(22 406)
Deposits – non-banks	(169 751)	(12 686)	(10 877)	(7 415)	(1 714)	(997)	(203 440)
Negotiable paper	(1 343)	(200)	(200)	(3 623)	–	–	(5 366)
Securitised liabilities	(1 098)	–	–	–	–	(427)	(1 525)
Investment/trading liabilities	(11 956)	(2 494)	–	–	–	(204)	(14 654)
Subordinated liabilities	(7 452)	–	–	(325)	(2 684)	(37)	(10 498)
Other liabilities	(119)	–	–	–	–	(3 759)	(3 878)
Liabilities	(213 556)	(15 604)	(11 258)	(11 443)	(4 398)	(5 508)	(261 767)
Intercompany loans	6 543	1 633	(310)	2 062	363	3 703	13 994
Shareholders' funds	(1 159)	–	–	–	(11)	(24 431)	(25 601)
Balance sheet	(1 506)	(2 404)	(642)	8 166	9 871	(8 035)	5 450
Off-balance sheet	16 711	1 959	(3 815)	(11 957)	(8 297)	(51)	(5 450)
Repricing gap	15 205	(445)	(4 457)	(3 791)	1 574	(8 086)	–
Cumulative repricing gap	15 205	14 760	10 303	6 512	8 086	–	–

Economic value sensitivity at 31 March 2014

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

South Africa

	Sensitivity to the following interest rates (expressed in original currencies)					
’million	ZAR	GBP	USD	EUR	AUD	All (ZAR)
200bps down	(186.7)	4.9	1.1	(0.9)	(2.1)	(123.4)
200bps up	160.3	(4.2)	(0.5)	0.7	1.6	108.3

Liquidity risk

Liquidity risk description

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

Liquidity risk is further broken down into:

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

Sources of liquidity risk include:

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

Management and measurement of liquidity risk

Maturity transformation performed by banks is a crucial part of financial intermediation that contributes to efficient resource allocation and credit creation.

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 robust and comprehensive set of policies and procedures for accessing, measuring and controlling the liquidity risk:

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

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

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

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

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

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

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

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

We acknowledge the importance of our private client base as the principal source of stable and well diversified funding for Investec's risk assets. We continue to develop products to attract and service the investment needs of our private bank client base. Although the contractual repayments of many private bank customer accounts are on demand or at short notice, in practice such accounts remain a stable source of funds. We continued to successfully raise private client deposits despite competitive pressures with total deposits increasing by 10.6% to R204.9 billion at 31 March 2014. The growth in retail deposits benefited from the wider macro-economic trend of expanded money supply, customer deleveraging and below trend loan growth. We also have a number of innovative retail deposit initiatives within our Private Banking division and these continued to experience strong inflows during the financial year. On average our fixed and notice customer deposits have amounted to approximately 70% of total deposits since April 2006 thereby displaying a strong 'stickiness' and willingness to reinvest by our retail customers.

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

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

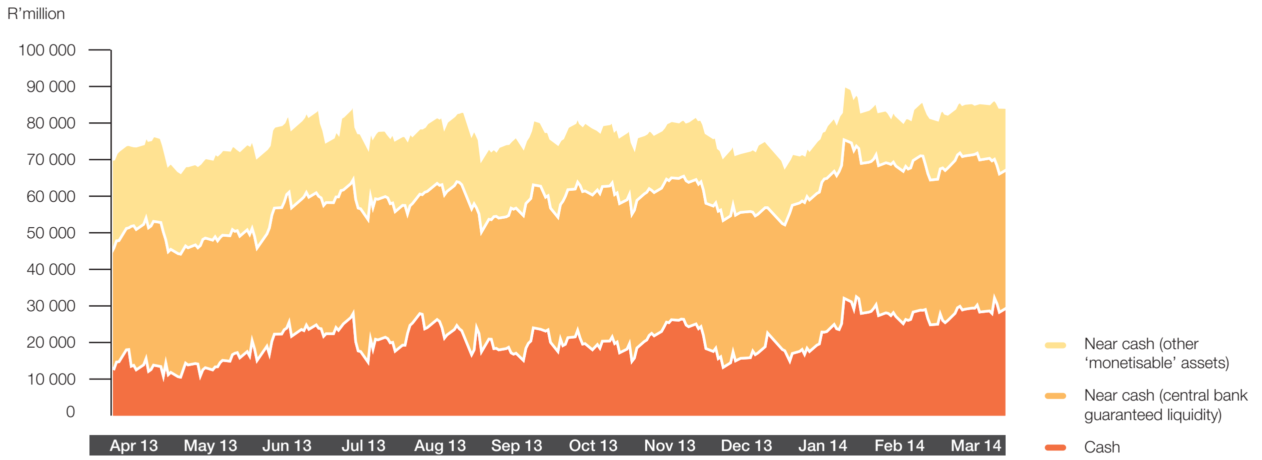
We engage in transactions that involve the use of both special purpose entities and asset securitisation structures. Securitisation represents a relatively modest proportion of our current funding profile, but provides additional flexibility and source of term liquidity. These entities form part of the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

As mentioned above, we hold a liquidity buffer in the form of unencumbered readily available, high quality liquid assets, typically in the form of government or rated securities eligible for repurchase with the central bank, and near cash well in excess of the statutory requirements as protection against unexpected disruptions in cash flows, this puts us in a favourable position to meet the Basel III liquidity requirements. These portfolios are managed within board-approved targets, and apart from acting as a buffer under going concern conditions, also form an integral part of the broader liquidity generation strategy. Investec remains a net liquidity provider to the interbank market, placing significantly more funds with other banks than our short-term interbank borrowings. We do not rely on interbank deposits to fund term lending. From 1 April 2013 to 31 March 2014 average cash and near cash balances over the period amounted to R78.0 billion.

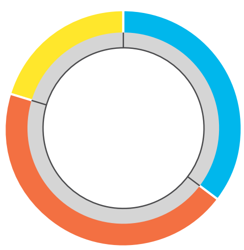
The group does not rely on committed funding lines for protection against unforeseen interruptions to cash flow. We are currently unaware of any circumstances that could significantly detract from our ability to raise funding appropriate to our needs.

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

Cash and near cash trend



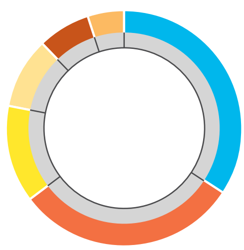
An analysis of cash and near cash



31 March 2014
R84 476 million

Cash	35.3%
Near cash (central bank guaranteed liquidity)	44.6%
Near cash (other 'monetisable' assets)	20.1%

Bank and non-bank depositor concentration by type



31 March 2014
R227 310 million

Private client	34.4%
Fund managers	30.5%
Corporate	13.2%
Banks	9.9%
Financial institutions	7.0%
Public sector	5.0%

communications including public relations, sources of liquidity, avenues available to access additional liquidity, as well as supplementary information requirements required to manage liquidity during such an event. This plan helps to ensure that cash flow estimates and commitments can be met in the event of general market disruption or adverse bank-specific events, while minimising detrimental long-term implications for the business.

Liquidity mismatch

The table that follows show our contractual liquidity mismatch across our core geographies.

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

The liquidity position of the bank remained sound with total cash and near cash balances amounting to R84.5 billion. We continued to enjoy strong inflows of customer deposits whilst maintaining good access to wholesale markets despite the underlying market environment. Our liquidity and funding profile reflects our strategy, risk appetite and business activities. The table reflects that loans and advances to customers are largely financed by stable funding sources.

With respect to the contractual liquidity mismatch:

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

With respect to the behavioural liquidity mismatch:

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

The liquidity position of the bank remained sound with total cash and near cash balances amounting to R84.5 billion

Contractual liquidity at 31 March 2014

R'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	>Five years	Total
Cash and short-term funds – banks *	29 809	5 791	1 807	–	43	1 149	–	38 599
Cash and short-term funds – non-banks	8 906	86	53	–	–	–	–	9 045
Investment/trading assets and statutory liquids **	30 218	11 725	3 207	835	4 729	13 176	34 153	98 043
Securitised assets	1 288	7	25	41	69	63	2 832	4 325
Advances	2 786	5 849	10 576	10 064	15 189	63 841	40 809	149 114
Other assets	–	12	1 226	148	607	–	2 099	4 092
Assets	73 007	23 470	16 894	11 088	20 637	78 229	79 893	303 218
Deposits – banks	(1 006)	(1 636)	(2 048)	(203)	(398)	(17 116)	–	(22 407)
Deposits – non-banks	(77 690)^	(28 084)	(31 016)	(20 038)	(21 695)	(24 381)	(1 999)	(204 903)
Negotiable paper	–	–	(47)	(280)	(325)	(4 714)	–	(5 366)
Securitised liabilities	(6)	(157)	(826)	–	–	–	(536)	(1 525)
Investment/trading liabilities	(134)	(8 071)	(1 493)	(1 320)	(7 070)	(8 915)	(1 371)	(28 374)
Subordinated liabilities	–	(34)	–	–	(254)	(525)	(9 685)	(10 498)
Other liabilities	(94)	(111)	(194)	(98)	(97)	(192)	(3 758)	(4 544)
Liabilities	(78 930)	(38 093)	(35 624)	(21 939)	(29 839)	(55 843)	(17 349)	(277 617)
Shareholders' funds	–	–	–	–	–	–	(25 601)	(25 601)
Contractual liquidity gap	(5 923)	(14 623)	(18 730)	(10 851)	(9 202)	22 386	36 943	–
Cumulative liquidity gap	(5 923)	(20 546)	(39 276)	(50 127)	(59 329)	(36 942)	–	–

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

As discussed on page 63.

R'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	>Five years	Total
*Cash and short-term funds – banks	24 512	5 791	1 807	–	43	1 149	5 297	38 599
**Investment/trading assets and statutory liquids	1 573	7 039	8 690	13 870	13 979	14 924	37 968	98 043

Behavioural liquidity

As discussed on page 63.

R'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	>Five years	Total
Behavioural liquidity gap	41 173	(6 811)	5 298	4 373	3 423	(93 500)	46 044	–
Cumulative	41 173	34 362	39 660	44 033	47 456	(46 044)	–	

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

Balance sheet risk year in review

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

Investec continues to build its structural liquidity cash resources over the course of the year as part of our drive to improve the Basel III LCR to be implemented from 1 January 2015. The bank continues to benefit from a growing retail franchise with total customer deposits increasing by 10.6% from 1 April 2013 to R204.9 billion at 31 March 2014 (Private Bank deposits amounted to R76 billion and other external deposits amount to R129 billion). Cash and near cash balances increased by 15.8% from 1 April 2013 to R84.5 billion at 31 March 2014. Our liquidity was further boosted by several successful medium-term senior and subordinated notes issues totalling R9.5 billion and the sale of securitisation notes totalling R3 billion. Syndicated loan deals raised about US$1.25 billion two, three-year and five-year funds. The softening of some of the Basel III guidelines on liquidity risk has placed Investec in a very favourable position to meet the new criteria with less of a negative impact on margins.

Regulatory considerations – balance sheet risk

The banking industry, continued to experience elevated levels of prospective changes to laws and regulations from national and supranational regulators.

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

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

The BCBS published the second consultation document on the NSFR early January 2014 with a number of positive changes, and expect to publish the final calibration of the NSFR later in 2014.

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

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

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

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

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

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

Investec is involved in the process in the following ways:

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

South Africa is a region with insufficient liquid assets; to address this systemic challenge, the SARB announced the introduction of a committed liquidity facility (CLF) whereby South African banks can apply to the Reserve Bank for the CLF against eligible collateral for a prescribed commitment fee. The CLF will be limited to 40% of net outflows under the LCR.

SARB is in the process of finalising the items for national discretion. With the changes announced by BCBS in January 2013, Investec South Africa already meets the requirement for the LCR in 2015.

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

BCBS has committed to finalise calibration of the NSFR ratio in 2014.

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

Since 2008, the twin peaks model has gained wider acceptance globally. Whereas currently the micro-prudential role of the SARB is limited to banks, the twin peaks reform in South Africa will see the consolidation of prudential regulation and supervision of banks and insurers within the prudential regulator in the SARB. The regulation and supervision of market conduct of the financial sector will be consolidated within the FSB.

The prudential regulator's objective will be to maintain and enhance the safety and soundness of regulated financial institutions. This means being concerned with risks in each individual entity and ensuring the continued financial health of regulated institutions. The Market Conduct Regulator's objective will be to protect consumers of financial services and promote confidence in the South African financial system. This entails ensuring that consumers of financial services are treated fairly. Coordination between the two regulators will be crucial as market conduct issues can result in prudential problems and/or financial instability.

Operational risk

Operational risk definition

Operational risk is the risk of loss arising from inadequate or failed internal processes, people or systems, or external events. 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 practises.

Operational risk management framework

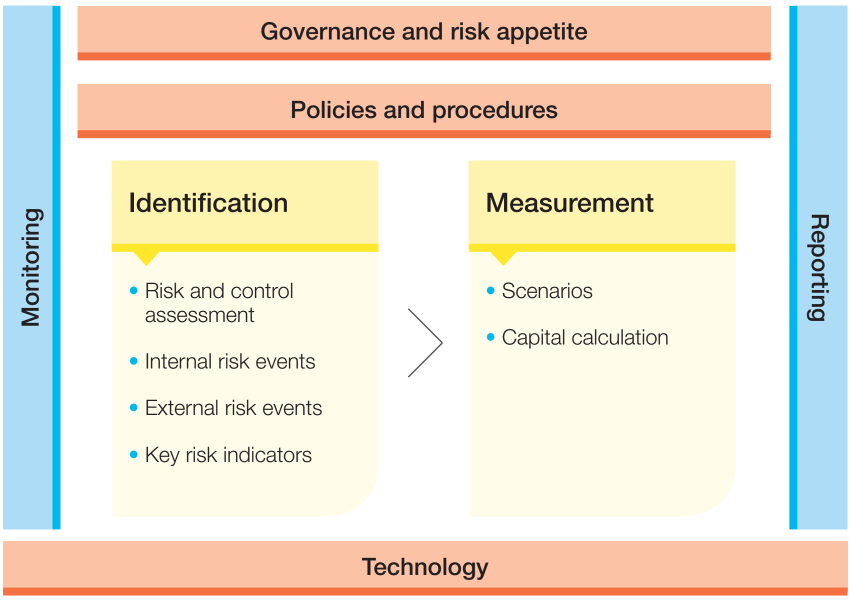
The bank continues to operate under the Standardised Approach (TSA) to operational risk which forms the basis of the operational risk management framework. The framework is embedded at all levels of the organisation and is continually reviewed to ensure appropriate and effective management of operational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

During the year under review, enhancement of all the components of the operational risk management framework remained an area of focus.

The process of advancing practices and understanding regulatory requirements is supported by regular interaction with the regulator and with industry counterparts at formal industry forums.

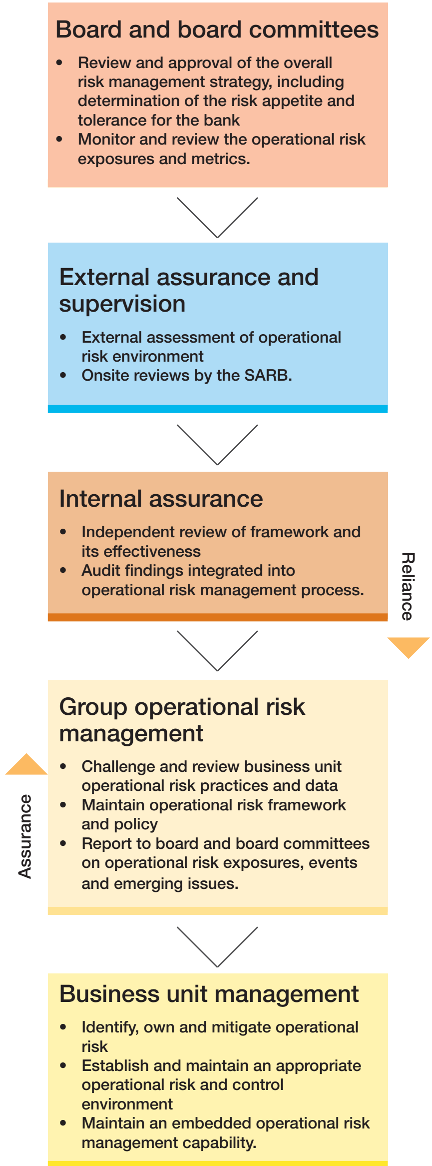
An independent group operational risk management function, mandated by the board risk and capital committee, ensures that operational risk policies and procedures are developed and applied consistently and effectively throughout the bank. Business unit management, supported by operational risk managers (ORMs) who operate at a business unit level, are responsible for embedding and implementing operational risk practices and policies. All personnel are adequately skilled at both a business unit and a group level.

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



Governance

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 in the following manner:



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 as illustrated in the diagram below:

Enhancement of all the components of the operational risk management framework remained an area of focus

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, 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

Key operational risk considerations

The following key risks may result in loss of value should they materialise.

Definition of risk	Approach to mitigation	Priority for 2014
Financial crime		
Risk associated with fraud, forgery, theft and corruption.	• Proactive strategy which includes fraud risk assessments • Review external and industry events by engaging with external partners such as South African Banking Risk Information Centre (SABRIC), SAPS and agency banks • Understanding and proactively managing the emerging threat of cybercrime across the industry.	• Financial crime awareness for internal and external stakeholders, including awareness relating to the Investec Integrity Line.
Information security		
Risks associated with the confidentiality, availability or integrity of our information assets, irrespective of location or media.	• Identification of threats and associated risks to our information assets including legal and regulatory requirements • Development and monitoring of policies, processes and technical controls designed to mitigate the risks to our information • Evaluation of risks introduced by our information supply chain • Maintenance and testing of our security incident and breach response processes.	• Raising awareness with internal and external stakeholders of the threats, controls and policies relating to information security and their responsibility in protecting our information.
Process failure		
Risk associated with inadequate internal processes, including human errors and control failures within the business. This includes process origination, execution and operations.	• Weaknesses in controls are identified through the causal analysis process following the occurrence of risk events • Thematic reviews are performed to monitor the effectiveness of controls across business units • Effective management of change remains a focus area for the year ahead.	• Enhancement of processes to identify risks related to new products and projects.
Regulatory and compliance		
Risk associated with identification, implementation and monitoring of compliance with regulations.	• Group Compliance and Group Legal Risk assist in the management of regulatory and compliance risk • Identification and adherence to legal and regulatory requirements • Review practices and policies as regulatory requirements change.	• Alignment of regulatory and compliance approach to reflect new regulatory landscapes (particularly change of regulatory structures) • Managing business impact and implementation challenges as a result of significant volumes of statutory and regulatory changes and developments • Ensuring existing monitoring remains focused appropriately as areas of conduct and regulatory risk develop.
Technology		
Risk associated with the reliance on technology to support business processes and client services. This relates to the operations, usage, ownership and responsibility of IT systems across the business.	• Establishment and maintenance of an IT risk assessment framework to consistently and effectively assess IT exposures across the business • Monitoring risk exposures related to adoption of new technologies • Identification and remediation of vulnerabilities identified in IT systems, applications, and processes • Establishing appropriate IT recovery capabilities to safeguard against business disruptions resulting from systems failures and IT service outages.	• Identifying, monitoring and reducing risks in our digital channel, following the introduction of mobile applications and our increased online presence.

Insurance

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

Business continuity management

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

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

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

Reputational risk

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

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

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

Legal risk management

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

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

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

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

The legal risk policy is implemented through:

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

Overall responsibility for this policy rests with the board. The board delegates responsibility for implementation of the policy to the global head of legal risk.

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

The global head assigns responsibility for controlling these risks to the managers of appropriate departments and focused units throughout the group.

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

Conduct risk

The South African financial sector regulatory landscape has been under review for the last few years. A new regulatory structure is developing, and existing legislation is also being amended. The conduct of financial institutions is currently regulated under various pieces of legislation, and by various regulators.

The National Credit Act (NCA) regulates the credit industry, ensuring that credit providers guard against reckless lending and over-indebting customers. Amendments to the NCA will grant greater enforcement and rule-making powers to the National Credit regulator. The Financial Advisory and Intermediary Services Act (FAIS) regulates advice and intermediary services in relation to specific financial products. Risk and controls have been identified across the business, and these are reviewed and monitored regularly. Annual reports are also submitted to the regulators. FAIS is also being amended to include regulation of activities in relation to professional clients. The FSB has also introduced the Treating Customers Fairly (TCF) framework, which considers fairness outcomes for customers throughout the product lifecycle. A gap analysis is under way to assess the level of compliance with TCF, and to guide business on implementation and management reporting.

The draft Financial Sector Regulation Bill (Twin Peaks) proposes two new regulatory structures, the Prudential Authority and the Market Conduct Authority, incorporating portions of the Reserve Bank and the entire FSB structure. Financial institutions will be mono or dual regulated, depending on the activities they engage in.

Capital management and allocation

Capital measurement

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

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

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

Regulatory capital – Investec Bank Limited

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

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

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

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

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

Capital targets

Over recent years, capital adequacy standards for banks have been raised as part of attempts to increase the stability and resilience of the global banking sector. Investec Limited and Investec plc have always held capital in excess of regulatory requirements and the group continues to remain well capitalised. Accordingly, the group is targeting a minimum CET1 capital ratio of above 10% by March 2016, a tier 1 capital ratio of above 11% by March 2016 and a total capital adequacy ratio target range of 14% to 17%. These targets are continuously assessed for appropriateness.

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

Management of leverage

At present Investec Bank Limited calculates and reports its leverage ratio based on the latest SARB regulations. The leverage ratio is a non-risk based measure intended to prevent excessive build up of leverage and mitigate the risks associated with deleveraging during periods of market uncertainty. The reporting of the leverage ratio in South Africa has been mandatory since 1 January 2013 as part of an exercise to monitor South African banks' readiness to comply with the minimum standard of

4% from 1 January 2018. At present the SARB treatment of off-balance sheet items is more punitive than that of the most recent document released by the Basel Committee in January however, Investec Bank Limited is still well above the minimum levels specified.

Leverage ratio target

Investec is currently targeting a leverage ratio above 6%, but will continue to reassess this target for appropriateness.

As with the governance of capital management, the DLC capital committee is responsible for ensuring that the impact of any regulatory changes on the leverage ratio are analysed and the impact on the ratio is calculated and understood at both Investec Limited and Investec plc level.

Capital management

Philosophy and approach

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

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

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

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

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

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

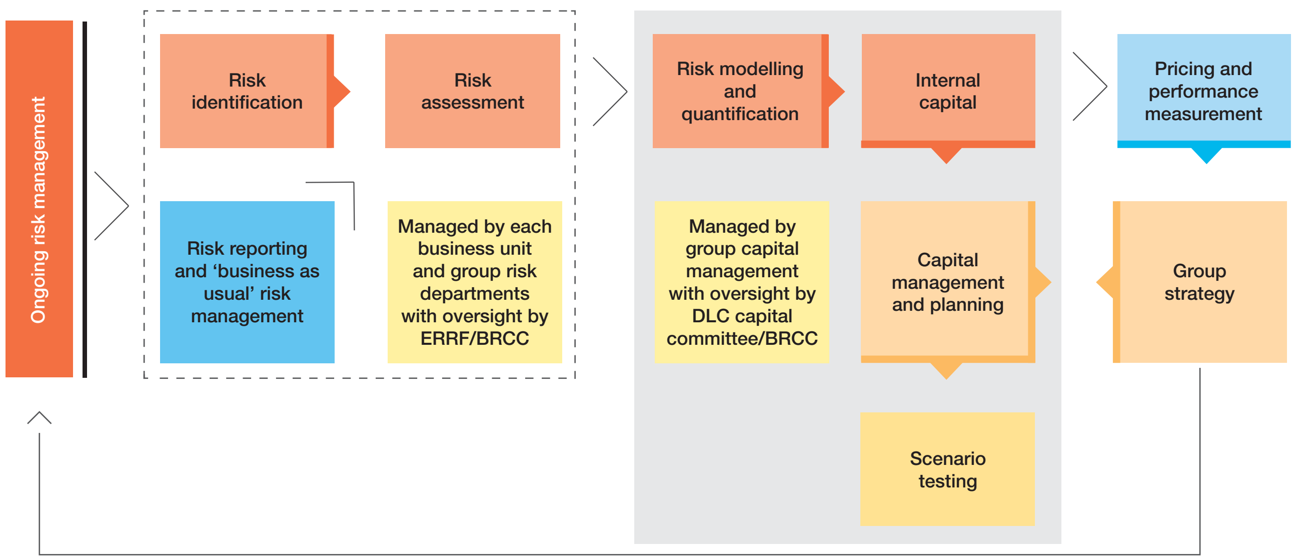
The framework has been approved by the board and is managed by the DLC capital committee, which is responsible for oversight of the management of capital on a regulatory and an internal basis.

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

Risk assessment and reporting

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

The (simplified) integration of risk and capital management



Assessment of the materiality of risks is directly linked to the board's stated risk appetite and approved risk management policies covering all key risks.

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

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

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

Risk modelling and quantification (internal capital)

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

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

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

Capital planning and scenario testing

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

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

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

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

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

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

Pricing and performance measurement

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

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

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

Regulatory capital and requirements

For regulatory capital purposes, our total regulatory capital is divided into three main categories, namely common equity tier 1, additional tier 1 and tier 2 capital as follows:

- Common equity tier (CET) 1 capital comprises shareholders' equity and related eligible non-controlling interests after giving effect to deductions for disallowed items (for example, goodwill and intangible assets) and other adjustments
- Additional tier 1 capital includes qualifying capital instruments, which are capable of being fully and permanently written down or converted fully into CET1 at the point of non-viability of the firm and other additional tier 1 instruments, which no longer qualify as additional tier 1 capital and are subject to grandfathering provisions
- Tier 2 capital comprises qualifying subordinated debt and related eligible non-controlling interests and other tier 2 instruments, which no longer qualify as tier 2 capital and are subject to grandfathering provisions.

Capital disclosures

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

Capital management and allocation

Capital structure and capital adequacy

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

At 31 March R'million	2014	2013
Tier 1 capital		
Shareholders' equity	24 067	21 975
Shareholders' equity per balance sheet	25 601	23 509
Perpetual preference share capital and share premium	(1 534)	(1 534)
Regulatory adjustments to the accounting basis	522	446
Cash flow hedging reserve	522	446
Deductions	(102)	(90)
Goodwill and intangible assets net of deferred tax	(102)	(90)
Securitisation positions	–	–
Common equity tier 1 capital	24 487	22 331
Additional tier 1 capital before deductions	1 227	1 381
Additional tier 1 instruments	1 534	1 534
Phase out of non-qualifying additional tier 1 instruments	(307)	(153)
Total tier 1 capital	25 714	23 712
Tier 2 capital		
Total qualifying tier 2 capital before deductions	10 670	11 493
Collective impairment allowances	172	122
Tier 2 instruments	10 498	12 496
Phase out of non-qualifying tier 2 instruments	–	(1 125)
Total tier 2 capital	10 670	11 493
Total regulatory capital	36 384	35 205
Risk-weighted assets	238 396	217 715
Capital ratios		
Common equity tier 1 ratio	10.3%	10.3%
Tier 1 ratio	10.8%	10.9%
Total capital ratio	15.3%	16.2%
Leverage ratio	7.2%	n/a

Capital management and allocation (continued)

Capital requirements

At 31 March R'million	2014	2013
Capital requirements	23 840	20 681
Credit risk – prescribed standardised exposure classes	17 611	14 798
Corporates	10 418	9 023
Secured on real estate property	1 601	1 513
Short-term claims on institutions and corporates	2 722	2 155
Retail	544	325
Institutions	1 064	1 058
Other exposure classes	176	73
Securitisation exposures	1 086	651
Equity risk – standardised approach	3 865	3 472
Listed equities	757	789
Unlisted equities	3 108	2 683
Counterparty credit risk	648	716
Market risk	395	426
Interest rate	117	117
Foreign exchange	98	74
Commodities	5	2
Equities	175	233
Operational risk – standardised approach	1 321	1 269

Risk-weighted assets

At 31 March R'million	2014	2013
Risk-weighted assets (banking and trading)	238 396	217 715
Credit risk – prescribed standardised exposure classes	176 112	155 781
Corporates	104 181	94 983
Secured on real estate property	16 011	15 925
Short-term claims on institutions and corporates	27 215	22 685
Retail	5 441	3 426
Institutions	10 644	11 141
Other exposure classes	1 759	768
Securitisation exposures	10 861	6 853
Equity risk – standardised approach	38 653	36 548
Listed equities	7 570	8 306
Unlisted equities	31 083	28 242
Counterparty credit risk	6 479	7 537
Market risk	3 947	4 488
Interest rate	1 174	1 229
Foreign exchange	978	783
Commodities	50	20
Equities	1 745	2 456
Operational risk – standardised approach	13 205	13 361

Credit ratings

In terms of our dual listed companies structure, Investec plc and Investec Limited are treated separately from a credit point of view. As a result, the rating agencies have assigned ratings to the significant banking entities within the group, namely Investec Bank plc, Investec Bank Limited and Investec Bank (Australia) Limited. Certain rating agencies have assigned ratings to the holding companies, namely, Investec plc and Investec Limited. Our ratings at 31 March 2014 are as follows:

Rating agency	Investec Limited	Investec Bank Limited – a subsidiary of Investec Limited
Fitch		
Long-term ratings		
Foreign currency	BBB-	BBB-
National		A+(zaf)
Short-term ratings		
Foreign currency	F3	F3
National		F1 (zaf)
Viability rating	bbb-	bbb-
Support rating	5	3
Moody's		
Long-term deposit ratings		
Foreign currency		Baa1
National		Aa3 (za)
Short-term deposit ratings		
Foreign currency		Prime-2
National		P1 (za)
Bank financial strength rating		C-
S&P		
Long-term deposit ratings		
Foreign currency		BBB
National		za.AA
Short-term deposit ratings		
Foreign currency		A-2
National		za.A-1
Global Credit Ratings		
Local currency		
Short-term rating		A1+(za)
Long-term rating		AA-(za)

Internal Audit

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

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

The head of internal audit reports at each audit committee meeting and has a direct reporting line to the chairman of the audit committee. The head of internal audit operates independently of executive management, but has regular access to the chief executive officer and to BU executives. The head of internal audit is responsible for coordinating internal audit efforts to ensure coverage is global and departmental skills are leveraged to maximise efficiency. For administrative purposes, the head of internal audit also reports to the global head of corporate governance and compliance. The function complies with the International Standards for the Professional Practice of Internal Auditing, and is subject to an independent Quality Assurance Review (QAR) at appropriate intervals. The recent QAR benchmarked the function against the July 2013 publication by the Chartered Institute for Internal Auditors entitled 'Effective Internal Audit in the Financial Services Sector', the results of which were communicated to the audit committees in March 2014 and will be communicated to the respective regulators.

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

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

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

Compliance

Over the last year, the pace of regulatory change in the financial sector has shown little signs of abating, and the pressure the industry has faced to implement various regulatory initiatives has continued to be resource intensive. Regulators, globally, have continued to endeavour to promote stability and resilience in financial markets, with the focus shifting from strategic reforms such as recovery and resolution plans and structural reform to conduct-related issues, with the focus on consumer protection and transparency within markets.

In particular, some of the changes have come from proposals which aim to promote transparency within the over-the-counter (OTC) markets. Regulations such as European Market Infrastructure Regulation (EMIR) in the EU and the Dodd Frank Act in the US have imposed clearing and reporting requirements on both regulated and non-regulated counterparties in respect of their derivative trades as well as requiring counterparties to agree risk mitigation processes and procedures for all OTC derivative trades.

In addition to a number of international proposals aiming for an internationally accepted single global tax reporting standard and automatic information exchange, the Foreign Account Tax Compliance Act (FATCA) is also having a global impact on firms. To combat tax evasion by US tax residents using foreign accounts, FATCA requires firms outside of the US to pass information about their US customers to the US tax authorities, Internal Revenue Service (IRS). Failure to meet the new reporting obligations under FATCA would result in a 30% withholding tax on financial institutions. The UK, along with a number of other countries, has entered into an intergovernmental disclosure agreement with the US. South Africa has agreed the wording of an intergovernmental agreement with the IRS and the parliamentary ratification process is in progress. This allows South African to be treated as a participating country and thus avoid withholding on South African financial institutions. Investec is engaged in projects to ensure that operationally we are able to identify our US clients, and that we have processes in place to exchange relevant information with the IRS.

Financial crime continues to be a regulatory focus with regulators globally encouraging firms to increase efforts around having systems and controls to combat bribery and corruption. In order to strengthen the anti-money laundering regime, regulators are holding discussions with the legal community on changes required to rules on identifying beneficial ownership. This, together with other proposals in relation to financial crime, will become a focus for the bank as a result of embedding the 4th Money Laundering Directive.

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

Year in review

There have been numerous regulatory developments in the past year, most notably the publication of the Draft Financial Sector Regulation Bill which outlines the proposed Twin Peaks model of regulation (Twin Peaks model). The first phase of the Twin Peaks model will create the two new regulatory structures, the Prudential Authority and the Market Conduct Authority. This will see structural changes within the SARB and the Financial Services Board (FSB). The second phase will entail amending existing South African legislation and creating new legislation, where applicable, to give effect to the new regulatory structures. The Twin Peaks model will also allow for the Treating Customers Fairly (TCF) programme to be applicable across the financial services sector.

The Financial Markets Act (FMA), which replaces the Securities Services Act, was promulgated in 2013. The main impact of the FMA is the regulation of over-the-counter (OTC) derivatives, and the introduction of trade repositories. The regulations, which will give operational effect to the FMA, are being drafted by National Treasury.

Other significant developments include the Solvency Asset Management in the insurance industry, amendments to the Long Term Insurance Act, Basel III and further regulation of hedge funds and collective investment schemes. Investec continues to participate in the relevant industry work-streams. Investec further continues to review and provide feedback to industry bodies and regulators regarding proposals for new or enhanced regulation.

Mauritius has brought amendments to the main anti-money laundering legislation, namely to the Financial Intelligence and Anti-Money Laundering Act. The details of the amendments are as follows:

- Governance, accounting and reporting requirements to the Financial Intelligence Unit
- Submission by reporting institutions of Suspicious Transactions Reports (STRs) solely to the Financial Intelligence Unit
- STRs submitted to the Financial Intelligence Unit cannot be used as evidence in court
- Financial institutions have 15 days to file STRs and to submit information requested by the Financial Intelligence Unit.

Conduct Risk (consumer protection)

Consumer protection regulation remains a key focus into 2014 with continued emphasis on aligning existing processes with the TCF Roadmap published by the FSB. Some of the key developments in 2013 are highlighted below.

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

The Department of Trade and Industry (dti) issued regulations at the end of February 2014 for the removal of adverse credit information, in respect of paid up judgments, from the records of credit bureaus. The regulations also prohibit credit providers from utilising the deleted information for purposes of credit assessments/scoring. The dti also introduced the National Credit Amendment Bill (NCAB) to Parliament at the end of 2013. The NCAB is a result of the policy review undertaken for the National Credit Regulator (NCR) by the University of Pretoria. Some of the key amendments proposed in the NCAB include the permanent removal of adverse credit information in respect of paid up judgments, greater powers of enforcement and rule-making powers being granted to the NCR, new and enhanced regulation of debt counsellors and payment distribution agencies. The NCAB is at an advanced stage in the Parliamentary process, and the changes are expected to be effective this year.

The FSB is reviewing the definition of 'intermediary services' in the Financial Advisory and Intermediary Services Act (FAIS), and the draft Category V Code relating to professional clients (and which will impact FSPs currently subject to the merchant banking exemption).

The Protection of Personal Information Act (POPI) was enacted in November 2013. Section 1, Part A of Chapter 5 and sections 112 and 113 are in effect. The commencement of these sections allows for the establishment of an information regulator and for the drafting of regulations, which will provide further guidance in respect of implementation. Once the regulations have been drafted they will be published for comment. POPI has a material impact on all aspects of Investec's business that concern the processing of personal information in respect of Investec's clients and employees, as well as information relating to the Investec group and subsidiaries.

Corporate governance

Chairman's introduction

Introduction

I am pleased to present the 2014 annual corporate governance report which sets out Investec Bank Limited's approach to corporate governance.

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

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

A more detailed review is provided in the corporate governance report of the Investec group's 2014 integrated annual report and can be found on our website.

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

Board composition

The nomination and directors' affairs committee (NOMDAC) continued to focus on ensuring that the board has the appropriate balance of skills, experience, independence and knowledge.

A structured refreshment programme has been implemented by the boards of Investec plc and Invested Limited, and in this regard, Peter Malungani will not offer himself for re-election at the August 2014 annual general meetings of Investec plc and Investec Limited and accordingly, will step down from the board of Investec Bank Limited at the same time.

While non-executive appointments are based on merit and overall suitability for the role, the NOMDAC will be mindful of the value of diversity as it considers any recommendations for the board.

The board of Investec Bank Limited, on the recommendation of the NOMDAC and following regulatory approval, resolved that Khumo Shuenyane be appointed as independent non-executive director with effect from 8 August 2014, following the annual general meeting.

Governance framework

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

A diagram of the group's governance framework as well as reports on the various board committees can be found in the corporate governance report of Investec group's 2014 integrated annual report.

Board committees

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

- Audit committee:
  In terms of the King III Code and the Companies Act, No 71 of 2008, as amended, the chairman of the audit committee should report to shareholders on its statutory duties. The Investec Limited audit committee performs the necessary functions required on behalf of Investec Bank Limited. The report by the chairman of the audit committees can be found in the corporate governance report of the Investec group's 2014 integrated annual report
- Social and ethics committee:
  In terms of the Companies Act, No 71 of 2008, as amended, the chairman of the social and ethics committee should report to shareholders on the matters within its mandate. The DLC social and ethics committee performs the necessary functions required on behalf of Investec Bank Limited. The report by the chairman of the DLC social and ethics committee can be found in the corporate governance report of the Investec group's 2014 integrated annual report
- The DLC nominations and directors' affairs committee (NOMDAC) acts as the NOMDAC for the group (including Investec Bank Limited)
- The DLC remuneration committee acts as the remuneration committee for the group (including Investec Bank Limited) and the statement of the remuneration committee, explaining the group's policies and processes, as well as required disclosures can be found on pages 86 to 95.

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

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

Our culture and values

Underpinning legislative, regulatory and best practice requirements are Investec's values and philosophies which provide the framework against which we measure behaviour and practices so as to assess the characteristics of good governance. Our values require that directors and employees act with integrity, displaying consistent and uncompromising moral strength and conduct in order to promote and maintain trust. Sound corporate governance is therefore implicit in our values, culture, processes, functions and organisational structure. Structures are designed to ensure that our values remain embedded in all businesses and processes. We continually refine these structures and a written statement of values serves as our code of ethics.

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

Conclusion

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

Fani Titi
Chairman

11 June 2014

Board statement

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

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

King III

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

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

Financial reporting and going concern

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

- Budgeting and forecasts
- Profitability
- Capital
- Liquidity.

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

Further information on the bank's liquidity and capital position is provided on pages 60 to 65 of this report.

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

In addition, the directors are responsible for monitoring and reviewing the preparation, integrity and reliability of the bank's annual financial statements, accounting policies and the information contained in the integrated annual report.

In undertaking this responsibility, the directors are supported by an ongoing process for identifying, evaluating and managing the significant risks Investec faces in preparing the financial and other information contained in this integrated annual report. This process was in place for the year under review and up to the date of approval of the integrated annual report and financial statements.

The process is implemented by management and independently monitored for effectiveness by the audit, risk and other sub-committees of the board.

Management and succession planning

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

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

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

The NOMDAC received a detailed presentation from the executive regarding senior management succession and the NOMDAC is satisfied that there is a formal management succession plan in place. The NOMDAC will continue to focus on ensuring that the management succession plan remains up to date.

Risk management

The board is responsible for the total process of risk management and the systems of internal control. A number of group committees and forums assist in this regard. Senior management is responsible for identifying risks and implementing appropriate mitigation processes and controls within their businesses. The independent group risk management functions, accountable to group boards, are responsible for establishing, reviewing and monitoring the process of risk management. Group Risk Management reports regularly to the board risk and capital committee and the executive risk review forum (ERRF).

More information on risk management can be found on pages 21 to 74.

Internal control

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

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

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

Conflict of interests

Certain statutory duties with respect to directors' conflicts of interest are in force under the South African Companies Act 2008, as amended. In accordance with the Act and the Memorandum of Incorporation (MOI) of Investec Bank Limited, the board may authorise any matter that otherwise may involve the directors breaching their duty to avoid conflicts of interest. The board has adopted a procedure, as set out in the MOI, that includes a requirement for directors to submit, in writing, disclosures detailing any actual or potential conflict for consideration and, if considered appropriate, approval.

Internal financial controls

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

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

Board of directors

The board operates within the group's governance framework and is accountable for the performance and affairs of Investec Bank Limited. The board meets its objectives by reviewing and following the corporate strategy as determined by the boards of Investec Limited and Investec plc.

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

For further detail of the functions of the board of Investec Bank Limited, as included with the functions of the boards of Investec Limited and Investec plc, performed directly or through board committees, refer to the Investec group's 2014 integrated annual report.

Membership

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

In accordance with King III, a third of the non-executive directors should retire by rotation and accordingly, Fani Titi, Peter Thomas and Sir David Prosser will offer themselves for re-election at the 2014 annual general meeting.

The names of the directors at the date of this report, the year of their appointment and their independence status, are set out in the table below.

Independence

At 31 March 2014, the board is compliant with Chapter 2, Principle 2.18 of King III in that the majority of non-executive directors are independent.

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

Relationships and associations

Peter Malungani is the chairman and Busi Tshili is the financial director of Peu Group (Pty) Ltd (Peu). Peu had a material relationship with Investec Limited as a result of the empowerment transaction concluded in 2003 in light of South Africa's Financial Sector Charter in place at that time. Accordingly, the board concluded that Peter and Busi could not be considered independent under King III. Peter will be stepping down from the board at the upcoming 2014 annual general meeting.

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

Tenure

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

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

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

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

Attendance at credit meetings

David Friedland and Peter Thomas regularly attend, by invitation, certain credit committees of the group. The board considers their attendance at these committees to be desirable in terms of developing an understanding of the day-to-day issues facing the business. The board concluded that David and Peter retain independence of character and judgement.

Board meetings

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

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

Details of directors' attendance at board meetings:

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

Skills, knowledge, experience and attributes of directors

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

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

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

Board and directors' performance evaluation

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

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

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

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

Terms of appointment

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

Ongoing training and development

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

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

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

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

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

Independent advice

Through the chairman or deputy chairman or the company secretary, individual directors are entitled to seek professional independent advice on matters related to the exercise of their duties and responsibilities at the expense of Investec. No such advice was sought during the 2014 financial year.

Chairman and chief executive officer

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

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

The deputy chairman is David Lawrence.

Company secretary

Benita Coetsee is the company secretary of Investec Bank Limited. Benita has resigned with effect from 30 June 2014, and as from 1 July 2014 Niki van Wyk will assume the role of company secretary of Investec Bank Limited. Both Benita and Niki are professionally qualified and have experience, gained over a number of years. The company secretary's services are evaluated by board members during the annual board evaluation process. The company secretary is responsible for the flow of information to the board and its committees and for ensuring compliance with board procedures. All directors have access to the advice and services of the company secretary, whose appointment and removal are a board matter.

The board has considered and is satisfied that the company secretary is competent, has the relevant qualifications and experience and maintains an arm's length relationship with the board. In evaluating these qualities, the board has considered the prescribed role and duties pursuant to the requirements codified in the Companies Act, No 71 of 2008 and the listings and governance requirements as applicable. Furthermore, the board is satisfied with the skill, experience and qualifications of Niki van Wyk, who will take over the role as company secretary from Benita Coetsee on 1 July 2014.

In addition, the board confirms that the company secretary has not served as a director on the boards of Investec plc, Investec Limited or Investec Bank Limited, nor does she take part in board deliberations and only advises on matters of governance, form or procedure. The review was for the period 1 April 2013 to 31 March 2014.

Further disclosures

Refer to the Investec group's 2014 integrated annual report for more information regarding:

- Remuneration
- Directors' dealings
- Internal audit
- Compliance
- Regulation and supervision
- Values and code of conduct
- Sustainability
- IT governance.

Directorate

Investec Bank Limited

(details at the date of this report)

A subsidiary of Investec Limited

Fani Titi (51)

Non-executive chairman
BSc (Hons), MA, MBA

David M Lawrence (63)

Deputy chairman
BA (Econ) (Hons), MCom

Sam E Abrahams (75)

FCA, CA(SA)

Glynn R Burger (57)

BAcc, CA(SA), H Dip BDP, MBL

David Friedland (60)

BCom, CA(SA)

Bernard Kantor (64)

CTA

Stephen Koseff (62)

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

M Peter Malungani (56)

BCom, MAP, LDP

Sir David J Prosser (70)

BSc (Hons), FIA

Karl-Bart XT Socikwa (45)

BCom, LLB, MAP, IPBM (IMD)

Bradley Tapnack (67)

BCom, CA(SA)

Peter RS Thomas (69)

CA(SA)

C Busi Tshili (50)

CA(SA)

FOUR

Remuneration
report

Remuneration report

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

Remuneration policy

Remuneration philosophy

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

We reward employees generally for their contribution through:

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

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

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

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

In summary, we recognise that financial institutions have to distribute the return from their enterprises between the suppliers of capital and labour and the societies in which they do business, the latter through taxation and corporate social responsibility activities. Our remuneration philosophy seeks to maintain an appropriate balance between the interests of these stakeholders, and is closely aligned to our culture and values which include risk consciousness, meritocracy, material employee ownership and an unselfish contribution to colleagues, clients and society.

Remuneration principles

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

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

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

The fixed-cost component of remuneration is, however, designed to be sufficient so that employees do not become dependent on their variable compensation as we are not contractually (and do not consider ourselves morally) bound to make variable remuneration awards. Investec has the ability to pay no annual bonuses and make no long-term incentive awards should the performance of the bank or individual employees require this.

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

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

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

Remuneration policy for employees

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

Our policy with respect to remuneration of employees has remained unchanged during the 2014 financial year.

Determination of remuneration levels

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

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

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

Factors considered to determine total compensation for each individual include:

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

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

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

The following section outlines our remuneration policy in more detail for each element of total compensation as it applies to employees. Our remuneration arrangements for S Koseff, B Kantor and GR Burger can be found in the Investec group's 2014 integrated annual report.

Gross remuneration: base salary and benefits

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

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

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

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

Variable short-term incentive: annual bonus

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

Risk-weighted returns form basis for variable remuneration levels

In our ordinary course of business we face a number of risks that could affect our business operations, as highlighted on page 14.

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

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

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

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

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

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

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

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

EVA model: allocation of performance-related bonus pool

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

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

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

Our EVA model has been consistently applied for a period of about 15 years and encompasses the following elements:

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

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

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

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

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

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

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

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

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

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

Deferral of annual bonus awards

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

Long-term incentive: share awards

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

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

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

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

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

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

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

For further information on the share option and long-term share incentive plans in operation and in which the directors are eligible to participate refer to the Investec group's 2014 integrated annual report.

Non-executive directors' remuneration

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

Governance

Compliance and governance statement

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

Scope of our remuneration policy

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

Audited information

Directors' annual remuneration

	Salaries, directors' fees and other remuneration 2014 R	Annual bonus 2014* R	Total remuneration expense 2014 R	Salaries, directors fees and other remuneration 2013 R	Annual bonus 2013* R	Total remuneration 2013 R
Executive directors						
S Koseff (chief executive officer)	2 158 109	3 200 000	5 358 109	1 818 603	1 946 883	3 765 486
B Kantor (managing director)	1 426 849	3 200 000	4 626 849	1 202 382	2 930 792	4 133 174
DM Lawrence (deputy chairman)	1 445 625	3 600 000	5 045 625	2 547 577	3 600 000	6 147 577
GR Burger (group risk and finance director)	1 979 167	7 133 273	9 112 440	1 861 667	5 250 000	7 111 667
B Tapnack	1 780 000	2 400 000	4 180 000	1 667 500	2 250 000	3 917 500
Total in Rands	8 789 750	19 533 273	28 323 023	9 097 729	15 977 675	25 075 404
Non-executive directors						
F Titi (chairman)	1 841 393	–	1 841 393	1 512 280	–	1 512 280
SE Abrahams**	674 723	–	674 723	2 028 387	–	2 028 387
D Friedland^	2 014 066	–	2 014 066	–	–	–
MP Malungani	904 290	–	904 290	696 831	–	696 831
Sir DJ Prosser	260 000	–	260 000	250 000	–	250 000
KXT Socikwa	460 000	–	460 000	443 000	–	443 000
PRS Thomas	1 331 928	–	1 331 928	1 218 246	–	1 218 246
B Tshili	385 000	–	385 000	370 000	–	370 000
Total in Rands	7 871 400	–	7 871 400	6 518 744	–	6 518 744
Total in Rands	16 661 150	19 533 273	36 194 423	15 616 473	15 977 675	31 594 148

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

** *SE Abrahams resigned from a number of group companies on 8 August 2013.*

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

Directors' shareholdings in Investec plc and Investec Limited shares at 31 March 2014

	Beneficial and non-beneficial interest		% of shares in issue[1]	Beneficial and non-beneficial interest		% of shares in issue[1]
	Investec plc[2]		Investec plc	Investec Limited[3]		Investec Limited
	1 April 2013	31 March 2014	31 March 2014	1 April 2013	31 March 2014	31 March 2014
Executive directors						
S Koseff (chief executive officer)	4 589 355	4 589 355	0.8%	1 809 399	1 809 399	0.6%
B Kantor (managing director)	57 980	57 980	0.0%	4 201 000	4 301 000	1.5%
DM Lawrence (deputy chairman)	799 410	799 410	0.1%	100 590	100 590	–
GR Burger (group risk and finance director)	2 402 135	2 402 135	0.4%	737 076	737 076	0.3%
B Tapnack	75 595	75 595	0.0%	40 000	40 000	–
Total number	7 924 475	7 924 475	1.3%	6 888 065	6 988 065	2.4%
Non-executive directors						
F Titi (chairman)	–	–	–	–	–	–
SE Abrahams	–	–	–	–	–	–
D Friedland	–	–	–	–	–	–
MP Malungani	–	–	–	–	–	–
Sir DJ Prosser	10 000	10 000	–	–	–	–
KXT Socikwa	–	–	–	250	250	–
PRS Thomas	195 800	–	–	500	–	–
B Tshili	–	–	–	–	–	–
Total number	205 800	10 000	–	750	250	–
Total number	8 130 275	7 934 475	1.3%	6 888 815	6 988 315	2.4%

1. *The issued share capital of Investec plc and Investec Limited at 31 March 2014 was 608.8 million and 282.9 million shares, respectively.*
2. *The market price of an Investec plc share at 31 March 2014 was £4.85 (2013: £4.59), ranging from a low of £3.66 to a high of £5.08 during the financial year.*
3. *The market price of an Investec Limited share at 31 March 2014 was R84.84 (2013: R64.26), ranging from a low of R59.00 to a high of R85.04 during the financial year.*

Directors' interest in preference shares at 31 March 2014

	Investec Bank Limited		Investec Limited		Investec plc	
	1 April 2013	31 March 2014	1 April 2013	31 March 2014	1 April 2013	31 March 2014
Executive directors						
S Koseff	4 000	4 000	3 000	3 000	101 198	101 198
DM Lawrence	4 000	4 000	5 400	5 400	–	–
B Tapnack	2 000	2 000	8 620	8 620	9 058	9 058

- *The market price of an Investec plc preference share at 31 March 2014 was R87.99 (2013: R56.00).*
- *The market price of an Investec Limited preference share at 31 March 2014 was R84.01 (2013: R85.10).*
- *The market price of an Investec Bank Limited preference share at 31 March 2014 was R90.00 (2013: R91.90).*

Directors' interest in options at 31 March 2014

Investec plc shares

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

Investec Limited shares

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

Directors' interest in long-term incentive plans at 31 March 2014

Investec Limited shares

	Date of grant	Exercise price	Number of Investec Limited shares at 1 April 2013	Exercised during the year	Options granted/ lapsed during the year	Balance at 31 March 2014	Market price at date of exercise	Gross gains made on date of exercise	Period exercisable
DM Lawrence	25 June 2009	Nil	100 000	(75 000)	–	25 000	R64.02	R4 801 170	25 June 2014
	1 July 2010	Nil	100 000	–	–	100 000			75% is exercisable on 1 July 2014 and 25% on 1 July 2015
B Tapnack	23 December 2011	Nil	100 000	–	–	100 000			75% is exercisable on 23 December 2015 and 25% on 23 December 2016
	13 June 2013	Nil	–	–	50 000	50 000			75% is exercisable on 13 June 2017 and 25% on 13 June 2018

These options are not subject to any performance conditions.

DM Lawrence exercised his options and sold 75 000 Investec Limited shares on 2 July 2013, at a share price of R64.02 per share.

Directors' interests in the Investec plc Executive Incentive Plan 2013 at 31 March 2014

Name	Date of grant	Exercise price	Conditional awards made during the year	Balance at 31 March 2014	Performance period	Period exercisable	Retention period
S Koseff	16 September 2013	Nil	600 000	600 000	1 April 2013 to 31 March 2016	75% is exercisable on 16 September 2017; and	16 September 2017 to 16 March 2018
						25% on 16 September 2018, subject to performance criteria being met.	16 September 2018 to 16 March 2019
B Kantor	16 September 2013	Nil	600 000	600 000	1 April 2013 to 31 March 2016	75% is exercisable on 16 September 2017; and	16 September 2017 to 16 March 2018
						25% on 16 September 2018, subject to performance criteria being met.	16 September 2018 to 16 March 2019
GR Burger	16 September 2013	Nil	600 000	600 000	1 April 2013 to 31 March 2016	75% is exercisable on 16 September 2017; and	16 September 2017 to 16 March 2018
						25% on 16 September 2018, subject to performance criteria being met.	16 September 2018 to 16 March 2019

The Executive Incentive Plan and the awards made on 16 September 2013 were approved at the 2013 annual general meeting in terms of which 600 000 nil cost options each were awarded to S Koseff, B Kantor and GR Burger.

The performance criteria in respect of these awards are detailed in the Investec group's 2014 integrated annual report. None of these awards have as yet vested.

South African Companies Act 2008 disclosures

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

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

- Stephen Koseff
- Bernard Kantor
- Glynn Burger

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

Additional remuneration disclosures (unaudited)

Pillar III remuneration disclosures

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

The bank's qualitative remuneration disclosures are provided on pages 86 to 90 and further information is provided in the Investec group's 2014 integrated annual report.

The information contained in the tables below sets out the bank's quantitative disclosures for the year ended 31 March 2014.

Aggregate remuneration by remuneration type

R'million	Senior management^	Risk takers^	Financial and risk control staff^	Total
Variable remuneration*				
– Cash	116.3	74.2	51.3	241.8
– Deferred shares	120.4	61.8	3.4	185.6
- Deferred shares – long-term incentive awards	145.4	88.2	51.3	284.9
Other				
– Options – long-term incentive awards made in current year**	16.2	9.9	5.6	31.7
– Options – long-term incentive awards made in prior years**	55.4	26.2	15.1	96.7
Total aggregate remuneration and deferred incentives	453.7	260.3	126.7	840.7

* *Total number of employees receiving variable remuneration was 227.*
** *Information based on the IFRS 2 accounting charge that has been expensed by the company in its income statement during the financial year.*

Additional disclosure on deferred remuneration

R'million	Senior management^	Risk takers^	Financial and risk control staff^	Total
Deferred unvested remuneration outstanding at the beginning of the year	280.4	105.1	36.2	421.7
Deferred unvested remuneration adjustment – employees that are no longer employed by the bank or reclassified	6.2	(19.4)	(13.3)	(26.5)
Deferred remuneration awarded in year	265.8	150.0	54.7	470.5
Deferred remuneration reduced in year through performance adjustments	–	–	–	–
Deferred remuneration vested in year	(81.5)	(19.2)	(1.1)	(101.8)
Deferred unvested remuneration outstanding at the end of the year	**470.9**	**216.5**	**76.5**	**763.9**

R'million	Senior management^	Risk takers^	Financial and risk control staff^	Total
Deferred unvested remuneration outstanding at the end of the year				
– Equity	470.9	216.5	76.5	763.9
– Cash	–	–	–	–
– Other	–	–	–	–
	470.9	216.5	76.5	763.9

R'million	Senior management^	Risk takers^	Financial and risk control staff^	Total
Deferred remuneration vested in the year				
– For awards made in 2013 financial year	–	–	–	–
– For awards made in 2012 financial year	59.3	9.3	0.7	69.3
– For awards made in 2011 financial year	22.2	9.9	0.4	32.5
	81.5	19.2	1.1	101.8

Other remuneration disclosures

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

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

Five

Annual financial
statements

Directors' responsibility statement

The directors are responsible for the preparation and fair presentation of the group annual financial statements and the annual financial statements of Investec Bank Limited, comprising the balance sheets at 31 March 2014, and the income statements and statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the annual financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report, in accordance with International Financial Reporting Standards, SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Standards Council, and in the manner required by the Companies Act, No 71 of 2008, as amended.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these annual financial statements.

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

In addition, the board considers that this integrated annual report and annual financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary to assess the company's performance, business model and strategy.

The auditors are responsible for reporting on whether the group annual financial statements and annual financial statements of Investec Bank Limited are fairly presented in accordance with the applicable financial reporting framework.

Approval of group annual financial statements and annual financial statements

The group annual financial statements and annual financial statements of Investec Bank Limited, as identified in the first paragraph, were approved by the board of directors on 11 June 2014 and signed on its behalf by:

Fani Titi
Chairman

Stephen Koseff
Chief executive officer

11 June 2014

Declaration by the company secretary

In terms of section 88(2)(e) of the South African Companies Act, No 71 of 2008, as amended (the Act), I hereby certify that, to the best of my knowledge and belief, Investec Bank Limited has lodged with the Companies and Intellectual Property Commission, for the financial year ended 31 March 2014, all such returns as are required in terms of the Act and that all such returns are true, correct and up to date.

Benita Coetsee
Company secretary, Investec Bank Limited

11 June 2014

Independent auditors' report to the members of Investec Bank Limited

We have audited the consolidated and separate annual financial statements of Investec Bank Limited, which comprise consolidated and separate balance sheets of Investec Bank Limited at 31 March 2014, and its consolidated and separate income statements, consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate cash flow statements for the year then ended, and the notes to the annual financial statements which include a summary of significant accounting policies, other explanatory notes, as set out on pages 101 to 183 and the specified disclosures within the risk management, remuneration and Directors' report that are marked as audited.

Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these consolidated and separate annual financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate annual financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, these consolidated and separate annual financial statements present fairly, in all material respects, the consolidated and separate financial poistion of Investec Bank Limited at 31 March 2014, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other Reports Required by the Companies Act

As part of our audit of the consolidated and separate annual financial statements for the year ended 31 March 2014, we have read the Company Secretary's Certificate and the Directors' report for the purpose of identifying whether there are material inconsistencies between these reports and the audited annual financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion thereon.

KPMG Inc.

KPMG Inc.
Registered Auditor

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

KPMG Cresent
85 Empire Road Parktown 2193
Johannesburg

11 June 2014

Ernst + Young Inc.

Ernst & Young Inc.
Registered Auditor

Per Ernest van Rooyen
Chartered Accountant (SA)
Registered Auditor
Director

102 Rivonia Road
Sandton
Private Bag X14
Sandton 2146
Johannesburg

11 June 2014

Directors' report

Nature of business

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

Financial results

The group and company financial results of Investec Bank Limited are set out in the annual financial statements and accompanying notes for the year ended 31 March 2014.

A review of the operations for the year can be found on pages 11 to 19.

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

Authorised and issued share capital

Details of the share capital are set out in notes 39 and 40 to the annual financial statements.

Ordinary dividends

The following dividends were declared and paid during the year:

- R75 000 000 was declared and paid on 6 June 2013.

Preference dividends

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

Preference dividend number 21 for the six months ended 30 September 2013, amounting to 355.12278 cents per share, was declared to members holding preference shares registered on 6 December 2013 and was paid on 17 December 2013.

Preference dividend number 22 for the six months ended 31 March 2014, amounting to 360.14541 cents per share, was declared to members holding preference shares registered on 13 June 2014 and will be paid on 24 June 2014.

Directors

Details of the directors are reflected on pages 81 and 84.

Directors' shareholdings

No director holds any ordinary shares in Investec Bank Limited.

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

Directors' remuneration

Directors' remuneration is disclosed on pages 86 to 95.

Company secretary and registered office

As from 1 July 2014 the company secretary is Niki van Wyk. Benita Coetsee resigned with effect from 30 June 2014.

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

Audit committee

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

An audit committee comprising non-executive directors meets regularly with senior management, the external auditors, Operational Risk, the Internal Audit, Compliance and the Finance division, to consider the nature and scope of the audit reviews and the effectiveness of the group's risk and control systems. Further details on the role and responsibilities of the audit committee are set out in the Investec group's 2014 integrated annual report.

Social and ethics committee

As allowed under the Companies Act, No 71 of 2008, as amended, the social and ethics committee of the group performs the necessary functions required on behalf of Investec Bank Limited. Further details on the role and responsibilities of the social and ethics committee are set out in the Investec group's 2014 integrated annual report.

Auditors

KPMG Inc. and Ernst & Young Inc. have expressed their willingness to continue in office as joint auditors. A resolution to re-appoint KPMG Inc. and Ernst & Young Inc. as joint auditors will be proposed at the annual general meeting taking place on 7 August 2014.

Holding company

The bank's holding company is Investec Limited.

Major shareholders

Investec Limited owns 100% of the issued ordinary shares.

Subsidiary and associated companies

Details of principal subsidiary companies are reflected on page 163 and the associate companies on page 159.

The interest of the company in the aggregate profits after taxation of its subsidiary companies is R634.9 million (2013: R414.0 million) and its share in aggregate losses is R48.4 million (2013: R20.1 million).

Special resolutions

At the general meeting of members held on 9 July 2013, the following special resolutions were passed in terms of which:

- The authorised share capital of Investec Bank Limited was reduced by the cancellation of the authorised but unissued 4 000 000 variable rate redeemable, cumulative preference shares with a par value of R1.00 each
- At a separate class meeting of the holders of the non-redeemable, non-cumulative, non-participating

preference shares the authorised share capital of Investec Bank Limited was increased by the creation of 50 000 000 redeemable, non-participating preference shares with a par value of R0.01 each (redeemable programme preference shares)

- The existing Memorandum of Incorporation (MOI) was abrogated in its entirety and replaced with a new MOI.

At the annual general meeting of members held on 8 August 2013, the following special resolutions were passed in terms of which:

- The board of directors of Investec Bank Limited may authorise Investec Bank Limited to provide direct or indirect financial assistance by way of loan, guarantee, the provision of security or otherwise, not in the ordinary course of business
- The remuneration of the non-executive directors was approved for a period of 24 months from the date of passing the special resolution
- The authorised share capital of Investec Bank Limited was increased by the creation of 20 000 000 non-redeemable, non-cumulative, non-participating preference shares having a par value of R0.01 each (non-redeemable Programme Preference shares)
- Schedule 4 to the MOI of Investec Bank Limited was amended to include the 20 000 000 non-redeemable, non-cumulative, non-participating preference shares.

Accounting policies and disclosure

Accounting policies are set having regard to commercial practice and are in accordance with International Financial Reporting Standards, SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Standards Council, as well as the requirements of the Companies Act, No 71 of 2008, as amended.

These policies are set out on pages 109 to 117.

Employees

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

Further information is provided in the Investec group's 2014 integrated annual report.

Empowerment and transformation

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

Environment

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

Further information is provided in the Investec group's 2014 integrated annual report.

Subsequent events

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

Going concern

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

Fani Titi
Chairman

Stephen Koseff
Chief executive officer

11 June 2014

Income statements

For the year to 31 March R'million	Notes	Group 2014	Group 2013	Company 2014	Company 2013
Interest income	1	17 063	15 809	16 117	14 980
Interest expense	1	(12 147)	(10 926)	(11 982)	(10 649)
Net interest income		4 916	4 883	4 135	4 331
Fee and commission income	2	1 567	1 051	1 458	982
Fee and commission expense	2	(174)	(109)	(145)	(100)
Investment income	3	334	459	248	349
Trading income arising from					
– customer flow		343	119	325	126
– balance sheet management and other trading activities		235	220	234	220
Other operating loss	4	(5)	(3)	(7)	(7)
Total operating income before impairment losses on loans and advances		7 216	6 620	6 248	5 901
Impairment losses on loans and advances	24	(638)	(868)	(579)	(844)
Operating income		6 578	5 752	5 669	5 057
Operating costs	5	(4 113)	(3 629)	(3 838)	(3 379)
Profit before taxation		2 465	2 123	1 831	1 678
Taxation	7	(315)	(245)	(269)	(191)
Profit after taxation		2 150	1 878	1 562	1 487

Statements of comprehensive income

For the year to 31 March R'million	Notes	Group 2014	Group 2013	Company 2014	Company 2013
Profit after taxation		2 150	1 878	1 562	1 487
Other comprehensive income:					
Items that may be reclassified to the income statement					
Fair value movements on cash flow hedges taken directly to other comprehensive income	7	(75)	(194)	(75)	(194)
Fair value movements on available-for-sale assets taken directly to other comprehensive income	7	(212)	86	(216)	86
Gain on realisation of available-for-sale assets recycled through the income statement	7	(2)	(39)	(2)	(39)
Foreign currency adjustments on translating foreign operations		414	441	–	–
Total comprehensive income		2 275	2 172	1 269	1 340
Total comprehensive income attributable to shareholders		2 167	2 063	1 161	1 231
Total comprehensive income attributable to perpetual preference shareholders		108	109	108	109
Total comprehensive income		2 275	2 172	1 269	1 340

Balance sheets

At 31 March R'million	Notes	Group 2014	Group 2013	Company 2014	Company 2013
Assets					
Cash and balances at central banks	15	5 927	5 677	5 751	5 635
Loans and advances to banks	16	32 672	23 278	29 672	20 123
Non-sovereign and non-bank cash placements		9 045	5 875	9 045	5 875
Reverse repurchase agreements and cash collateral on securities borrowed	17	6 442	7 668	6 442	7 668
Sovereign debt securities	18	34 815	33 730	34 815	33 730
Bank debt securities	19	21 538	20 969	20 233	19 848
Other debt securities	20	11 933	6 258	13 019	5 286
Derivative financial instruments	21	12 299	12 161	11 957	11 883
Securities arising from trading activities	22	1 316	1 357	1 316	1 357
Investment portfolio	23	8 834	9 102	8 657	8 969
Loans and advances to customers	24	148 562	135 726	134 611	124 327
Own originated loans and advances to customers securitised	25	2 822	2 379	–	919
Other loans and advances	24	552	672	–	672
Other securitised assets	25	1 503	1 168	527	414
Interest in associated undertakings	26	52	45	–	–
Deferred taxation assets	27	75	55	–	–
Other assets	28	1 771	1 166	1 492	865
Property and equipment	29	219	224	215	220
Investment properties	30	84	1	84	1
Intangible assets	31	102	90	96	89
Loans to group companies	32	1 924	11 673	2 797	11 840
Non-current assets classified as held for sale		731	–	731	–
Investment in subsidiaries	33	–	–	4 766	5 755
		303 218	279 274	286 226	265 476
Liabilities					
Deposits by banks		22 407	17 861	22 266	17 688
Derivative financial instruments	21	9 259	9 232	9 259	9 232
Other trading liabilities	34	1 431	1 063	1 431	1 063
Repurchase agreements and cash collateral on securities lent	17	17 686	18 188	16 407	17 089
Customer accounts (deposits)		204 903	185 311	196 177	179 172
Debt securities in issue	35	5 366	4 091	4 386	3 261
Liabilities arising on securitisation of own originated loans and advances	25	1 369	2 933	–	919
Liabilities arising on securitisation of other assets	25	156	588	–	–
Current taxation liabilities	36	1 288	1 142	1 450	1 315
Deferred taxation liabilities	27	61	61	54	54
Other liabilities	37	3 193	2 799	2 673	2 648
		267 119	243 269	254 103	232 441
Subordinated liabilities	38	10 498	12 496	10 498	12 496
		277 617	255 765	264 601	244 937
Equity					
Ordinary share capital	39	32	32	32	32
Share premium	40/41	14 885	14 885	14 885	14 885
Other reserves		364	175	(625)	(332)
Retained income		10 320	8 417	7 333	5 954
Total equity		25 601	23 509	21 625	20 539
Total liabilities and equity		303 218	279 274	286 226	265 476

Statements of changes in equity

R'million	Ordinary share capital	Share premium
Group		
At 1 April 2012	29	13 527
Movement in reserves 1 April 2012 – 31 March 2013		
Profit after taxation	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–
Gain on realisation of available-for-sale assets recycled through the income statement	–	–
Foreign currency adjustments on translating foreign operations	–	–
Total comprehensive income for the year	–	–
Issue of ordinary shares	3	1 358
Dividends paid to ordinary shareholders	–	–
Dividends paid to perpetual preference shareholders	–	–
At 31 March 2013	32	14 885
Movement in reserves 1 April 2013 – 31 March 2014		
Profit after taxation	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–
Fair value movements on available-for sale assets taken directly to other comprehensive income	–	–
Gain on realisation of available-for-sale assets recycled through the income statement	–	–
Foreign currency adjustments on translating foreign operations	–	–
Total comprehensive income for the year	–	–
Dividends paid to ordinary shareholders	–	–
Dividends paid to perpetual preference shareholders	–	–
Transfer from retained earnings to regulatory general risk reserve	–	–
At 31 March 2014	32	14 885

Other reserves					
Regulatory general risk reserve	Available-for-sale reserve	Cash flow hedge reserve	Foreign currency reserve	Retained income	Total equity
323	63	(252)	(253)	7 496	20 933
–	–	–	–	1 878	1 878
–	–	(194)	–	–	(194)
–	86	–	–	–	86
–	(39)	–	–	–	(39)
–	–	–	441	–	441
–	47	(194)	441	1 878	2 172
–	–	–	–	–	1 361
–	–	–	–	(848)	(848)
–	–	–	–	(109)	(109)
323	**110**	**(446)**	**188**	**8 417**	**23 509**
–	–	–	–	2 150	2 150
–	–	(75)	–	–	(75)
–	(212)	–	–	–	(212)
–	(2)	–	–	–	(2)
–	–	–	414	–	414
–	(214)	(75)	414	2 150	2 275
–	–	–	–	(75)	(75)
–	–	–	–	(108)	(108)
64	–	–	–	(64)	–
387	**(104)**	**(521)**	**602**	**10 320**	**25 601**

Statements of changes in equity (continued)

R'million	Ordinary share capital	Share premium
Company		
At 1 April 2012	29	13 527
Movement in reserves 1 April 2012 – 31 March 2013		
Profit after taxation	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–
Gain on realisation of available-for-sale assets recycled through the income statement	–	–
Total comprehensive income for the year	–	–
Issue of ordinary shares	3	1 358
Dividends paid to ordinary shareholders	–	–
Dividends paid to perpetual preference shareholders	–	–
At 31 March 2013	32	14 885
Movement in reserves 1 April 2013 – 31 March 2014		
Profit after taxation	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–
Gain on realisation of available-for-sale assets recycled through the income statement	–	–
Total comprehensive income for the year	–	–
Dividends paid to ordinary shareholders	–	–
Dividends paid to perpetual preference shareholders	–	–
At 31 March 2014	32	14 885

Other reserves				
Available-for-sale reserve	Cash flow hedge reserve	Foreign currency reserve	Retained income	Total equity
64	(252)	3	5 424	18 795
–	–	–	1 487	1 487
–	(194)	–	–	(194)
86	–	–	–	86
(39)	–	–	–	(39)
47	(194)	–	1 487	1 340
–	–	–	–	1 361
–	–	–	(848)	(848)
–	–	–	(109)	(109)
111	(446)	3	5 954	20 539
–	–	–	1 562	1 562
–	(75)	–	–	(75)
(216)	–	–	–	(216)
(2)	–	–	–	(2)
(218)	(75)	–	1 562	1 269
–	–	–	(75)	(75)
–	–	–	(108)	(108)
(107)	(521)	3	7 333	21 625

Cash flow statements

For the year to 31 March R'million	Notes	Group 2014	 2013	Company 2014	 2013
Cash flows from operating activities					
Operating profit adjusted for non-cash items	43	3 253	3 102	2 560	2 630
Taxation (paid)/received		(71)	(188)	(34)	41
Increase in operating assets	43	(18 330)	(33 456)	(17 660)	(28 752)
Increase in operating liabilities	43	22 565	15 982	21 527	12 634
Net cash inflow/(outflow) from operating activities		7 417	(14 560)	6 393	(13 447)
Cash flows from investing activities					
Net investment in property and equipment and intangible assets		(159)	(59)	(154)	(67)
Net investment in associates		–	1	–	–
Net decrease/(increase) in investment in subsidiaries		–	–	989	(1 873)
Net cash (outflow)/inflow from investing activities		(159)	(58)	835	(1 940)
Cash flows from financing activities					
Proceeds on issue of shares, net of related costs		–	1 361	–	1 361
Dividends paid to ordinary shareholders		(75)	(848)	(75)	(848)
Dividends paid to perpetual preference shareholders		(108)	(109)	(108)	(109)
Net (outflow)/inflow on subordinated debt raised		(1 998)	3 787	(1 998)	3 787
Net cash (outflow)/inflow from financing activities		(2 181)	4 191	(2 181)	4 191
Effects of exchange rates on cash and cash equivalents		410	406	–	–
Net increase/(decrease) in cash and cash equivalents		5 487	(10 021)	5 047	(11 196)
Cash and cash equivalents at the beginning of the year		14 973	24 994	12 237	23 433
Cash and cash equivalents at the end of the year		20 460	14 973	17 284	12 237
Cash and cash equivalents is defined as including:					
Cash and balances at central banks		5 927	5 677	5 751	5 635
On demand loans and advances to banks		5 488	3 421	2 488	727
Non-sovereign and non-bank cash placements		9 045	5 875	9 045	5 875
Cash and cash equivalents at the end of the year		20 460	14 973	17 284	12 237

Cash and cash equivalents have a maturity profile of less than three months.

Accounting policies

Basis of presentation

The group and company annual financial statements are prepared in accordance with the International Financial Reporting Standards, SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Standards Council, as well as the requirements of the Companies Act.

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

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

Presentation of information

Disclosure under IFRS 7 – Financial Instruments: Disclosures and IAS 1 – Presentation of Financial Statements: Capital Disclosures relating to the nature and extent of risks have been included in sections marked as audited in the risk management report on pages 21 to 75.

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

Restatements and presentation of information

The group has adopted the following new or revised standards from 1 April 2013:

IAS 1 – Presentation of Financial Statements (Revised)

The amendments require entities to group items presented in other comprehensive income based on whether they are potentially reclassifiable to profit or loss subsequently. The amendments further require tax associated with items presented before tax to be shown separately for each of the two groups of other comprehensive income items.

IFRS 7 – Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities

The revisions to the standard came into effect from 1 April 2013 and require additional disclosures which are provided in note 49.

IFRS 10 – Consolidated Financial Statements

The application of the single definition of control contained in the standard has not had a material impact on the group.

IFRS 11 – Joint Arrangements

The new accounting standard came into effect from 1 April 2013 and has not had any impact on the group.

IFRS 12 – Disclosure of Interests in Other Entities

The new disclosure standard has been applied retrospectively and requires disclosure of the significant judgements and assumptions made in determining the nature of interests in subsidiaries, joint ventures and interest in associated undertakings and the interest that non-controlling interests have in the group's activities and cash flows.
The standard further provides disclosure requirements relating to consolidated and unconsolidated structured entities with which the group is associated.
The disclosures relating to unconsolidated structured entities are not required to include comparative information in the first year of application.

IFRS 13 – Fair Value Measurement

The new accounting standard has been applied prospectively from 1 April 2013. The standard defines fair value as being a market-based measurement and sets out in a single IFRS a framework for the measurement of fair value. Application of the standard has not had a material impact on the recognition and measurement of assets and liabilities of the group.

Basis of consolidation

All subsidiaries or structured entities are consolidated when the group controls an investee. The group controls an investee if it is exposed to, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial results of subsidiaries are included in the consolidated annual financial statements of the group from the date on which control is obtained until the date the group can no longer demonstrate control.

Investec performs a reassessment of consolidation whenever there is a change in the substance of the relationship between Investec and an entity. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. Investec also holds investments for example, private equity investments which give rise to significant, but not majority, voting rights. Assessing these voting rights and whether Investec controls these entities requires judgement that affects the date at which subsidiaries are consolidated or deconsolidated.

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

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

The consolidated balance sheet reflects the associated undertakings net of accumulated impairment losses.

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

Investments in subsidiaries (including loan advances to subsidiaries) are carried at their cost less any accumulated impairment losses.

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

Segmental reporting

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

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

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at the acquisition date fair value and the amount of any prior non-controlling interest in the acquiree. For each business combination, the group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed immediately in the income statement.

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and the designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the group's previously held equity interest in the acquiree is re-measured to fair value at each acquisition date through the income statement.

Any contingent consideration to be transferred by the group will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in the income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured until it is finally settled within equity.

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

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

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

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

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

Share-based payments to employees

The group engages in equity-settled share based payments in respect of services received from employees.

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

The increase in equity is offset by a payment made to the holding company of Investec Bank Limited for the provision of the equity-settled shares. In addition, all entities of the group account for any share-based recharge costs allocated to equity in the period during which it is levied in their separate annual financial statements. Any excess over and above the recognised share-based payment expense is accounted for as an expense within profit and loss. This cost is presented with the share-based payment expense in note 6.

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

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

Foreign currency transactions and foreign operations

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

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

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

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

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

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

Revenue recognition

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

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

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

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

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

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

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

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

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

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

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

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the group measures the fair value of an instrument using the quoted price in an active market for that instrument.

A market is regarded as active if transactions for the asset or liability takes place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The group classifies disclosed fair values according to a hierarchy that reflects the significance of observable market inputs. A transfer is made between the hierarchy when the inputs have changed or there has been a change in the valuation method.

Financial instruments

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

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

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

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

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

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

- It eliminates or significantly reduces an inconsistent measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy and information about the group is provided internally on that basis to the group's key management personnel; and
- If a contract contains one or more embedded derivatives (which significantly modifies the cash flows that would be required by the contract and is not clearly prohibited from separation from the host contract) and the group has designated the entire hybrid contract as a financial instrument at fair value through profit or loss.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial instruments with fixed or determinable payments and maturity dates which the group has the intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity assets are measured at amortised cost using the effective interest method, less impairment losses.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in interest income in the income statement. The losses arising from impairment of such investments are recognised in the income statement.

Loans and receivables

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

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

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

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

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

Securitisation/credit investment and trading activities exposures

The group makes use of securitisation vehicles as a source of finance, as a means of risk transfer and to leverage returns through the retention of equity tranches in low default rate portfolios. The group predominately focuses on the securitisation of residential and commercial mortgages. The group also trades in structured credit investments.

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

The structured entities are consolidated under IFRS 10 – Consolidated Financial Statements when the group has exposure to or rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Available-for-sale financial assets

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

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

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

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

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

Financial liabilities

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

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

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

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

Day 1 profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on the valuation technique whose variables include only data from observable markets, the difference between the transaction price and fair value is recognised immediately in the income statement.

In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised or over the life of the transaction.

Impairments of financial assets held at amortised cost

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

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

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

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

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

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

Derecognition of financial assets and liabilities

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

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

Reclassification of financial instruments

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

Derivative instruments

All derivative instruments of the group are recorded on the balance sheet at fair value. Positive and negative fair values are reported as assets and liabilities, respectively.

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

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

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

Hedge accounting

The group applies either fair value or cash flow hedge or hedge of net investments in foreign operations accounting when the transactions meet the specified hedge accounting criteria. To qualify for hedge accounting treatment, the group ensures that all of the following conditions are met:

- At inception of the hedge, the group formally documents the relationship between the hedging instrument(s) and hedged item(s) including the risk management objectives and the strategy in undertaking the hedge transaction. Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%
- For cash flow hedges, a forecasted transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit and loss
- The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured
- The hedge effectiveness is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

For qualifying fair value hedges, the change in fair value of the hedging instrument is recognised in the income statement. Changes in fair value of the hedged item that is attributable to the hedged risk are also recognised in the income statement.

For qualifying cash flow hedges in respect of non-financial assets and liabilities, the change in fair value of the hedging instrument, relating to the effective portion is initially recognised directly in other comprehensive income in the cash flow hedge reserve and is included in the initial cost of any asset/liability recognised or in all other cases released to the income statement when the hedged firm commitment or forecasted transaction affects net profit. If the forecast transaction or firm commitment is no longer expected to occur, the balance included in other comprehensive income is reclassified to the income statement immediately and recognised in trading income from balance sheet management and other trading activities.

For qualifying cash flow hedges in respect of financial assets and liabilities, the change in fair value of the hedging instrument, which represents an effective hedge are initially recognised in other comprehensive income and is released to the income statement in the same period during which the relevant financial asset or liability affects the income statement. Any ineffective portion of the hedge is immediately recognised in the income statement.

Qualifying hedges of a net investment in a foreign operation including a hedge of a monetary item that is accounted for as part of the net investment are accounted for in a way similar to cash flow hedges. Changes in the fair value of the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of any such gain or loss recorded in other comprehensive income is reclassified to the income statement.

Hedge accounting is discontinued when it is determined that the instrument ceases to be highly effective as a hedge; when the derivative expires or is sold, terminated or exercised; when the hedge item matures or is sold or repaid; when a forecasted transaction is no longer deemed highly probable, or when the designation as a hedge is revoked.

Embedded derivatives

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

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

Offsetting of financial assets and liabilities

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

Issued debt and equity financial instruments

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

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

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

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

Sale and repurchase agreements (including securities borrowing and lending)

Where securities are sold subject to a commitment to repurchase them, at a fixed price or a selling price plus a lender's return, they remain on balance sheet.

Proceeds received are recorded as a liability on balance sheet under 'repurchase agreements and cash collateral on securities lent'. Securities that are purchased under a commitment to resell the securities at a future date are not recognised on the balance sheet. The consideration paid is recognised as an asset under 'reverse repurchase agreements and cash collateral on securities borrowed'.

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

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

The cash collateral from agency based scrip lending transactions are disclosed on a net basis, in accordance with master netting agreements and the group's intention to settle net.

Financial guarantees

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

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

Instalment credit, leases and rental agreements

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

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

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

Property and equipment

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

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

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

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

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

* *Leasehold improvements depreciation rates are determined by reference to the appropriate useful life of its separate components, limited to the period of the lease. No depreciation is provided on freehold land, however, similar to other property-related assets, it is subject to impairment testing when an indication of impairment exists.*

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

Investment property

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

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

Dealing property

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

Intangible assets

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

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

Impairment of non-financial assets

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

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

Trust and fiduciary activities

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

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

Taxation and deferred taxation

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

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

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

Deferred tax assets or liabilities are measured using the tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised.

Items recognised directly in other comprehensive income are net of related current and deferred taxation.

Employee benefits

The group operates various defined contribution schemes.

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

The group has no liabilities for other post-retirement benefits.

Borrowing costs

Borrowing costs that are directly attributable to property developments which take a substantial period of time to develop for sale are capitalised.

Provisions, contingent liabilities and contingent assets

Provisions are recognised when the group has 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. The expense relating to a provision is presented in the income statement net of any reimbursement. Contingent assets and contingent liabilities are not recognised on balance sheet.

Standards and interpretations issued, but not yet effective

The following significant standards and interpretations, which have been issued but are not yet effective, are applicable to the group. These standards and interpretations have not been applied in these annual financial statements. The group intends to comply with these standards from the effective dates.

IFRS 9 – Financial Instruments

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

- Classification and measurement of financial assets and financial liabilities – the standard requires that all financial assets be classified as either held at fair value or amortised cost. The amortised cost classification is only permitted where it is held within a business model where the underlying cash flows are held in order to collect contractual cash flows and that the cash flows arise solely from payment of principal and interest. The standard further provides that gains and losses on assets held at fair value are measured through the income statement unless the entity has elected to present gains and losses on non-trading equity investments (individually elected) directly through comprehensive income. With reference to financial liabilities held at fair value, the standard proposes that changes to fair value attributable to credit risk is taken directly to other comprehensive income without recycling. These are current deliberations which may result in limited modifications to IFRS 9 relating to classification and measurement
- Impairment methodology – the key change is related to a shift from an incurred loss to an expected loss impairment methodology. Revisions to the methodology are subject to deliberation, with the section of the standard on impairment currently expected to be published in 2014.

The amendments made to IFRS 9 in February 2014 provide that the mandatory effective date for IFRS 9 is from 2018. However, entities may still choose to apply IFRS 9 immediately.

There are additional disclosures and consequential amendments in IFRS 7 resulting from the introduction of the hedge accounting chapter in IFRS 9; these will become effective when IFRS 9 is applied.

All other standards and interpretations issued but not yet effective are not expected to have an impact on the group.

Key management assumptions

In preparation of the annual financial statements the group makes estimations and applies judgement that could affect the reported amount of assets and liabilities within the next financial year. Key areas in which judgement is applied include:

- Valuation of unlisted investments in the private equity and direct investments portfolios. Key valuation inputs are based on the most relevant observable market inputs, adjusted where necessary for factors that specifically apply to the individual investments and recognising market volatility.

  Details of unlisted investments can be found in note 23 with further analysis contained in the risk management section on pages 48 to 50.

- Valuation of investment properties is performed twice annually by directors who are qualified valuators.

  Refer to note 30 for the carrying value of investment property with further analysis contained in the risk management section on pages 48 to 50.

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

  Refer to pages 39 to 47 in the risk management section for further analysis on impairments.

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

- Determination of interest income and interest expense using the effective interest method involves judgement in determining the timing and extent of future cash flows

- In order to meet the objectives of IFRS 12, management performs an assessment of the value of each associate in relation to the value of total assets, as well as any qualitative consideration that may exist, in order to determine materiality to the reporting entity for disclosure purposes.

Notes to the annual financial statements

For the year to 31 March 2014 R'million	Notes	Group Balance sheet value	Group Interest income	Company Balance sheet value	Company Interest income

1. Net interest income

For the year to 31 March 2014 R'million	Notes	Group Balance sheet value	Group Interest income	Company Balance sheet value	Company Interest income
Cash, near cash and bank debt and sovereign debt securities	1	110 439	4 617	105 958	5 019
Core loans and advances	2	151 384	11 775	134 611	10 602
Private client		93 720	7 456	91 924	7 086
Corporate, institutional and other clients		57 664	4 319	42 687	3 516
Other debt securities and other loans and advances		12 485	504	13 019	378
Other interest-earning assets	3	3 427	167	3 324	118
Total interest-earning assets		277 735	17 063	256 912	16 117

For the year to 31 March 2014 R'million	Notes	Group Balance sheet value	Group Interest expense	Company Balance sheet value	Company Interest expense
Deposits by banks and other debt-related securities	4	45 459	(825)	43 059	(804)
Customer accounts		204 903	(10 313)	196 177	(10 250)
Other interest-bearing liabilities	5	1 525	(308)	–	(226)
Subordinated liabilities		10 498	(701)	10 498	(702)
Total interest-bearing liabilities		262 385	(12 147)	249 734	(11 982)
Net interest income			4 916		4 135

For the year to 31 March 2013 R'million	Notes	Group Balance sheet value	Group Interest income	Company Balance sheet value	Company Interest income
Cash, near cash and bank debt and sovereign debt securities	1	97 197	4 245	92 879	4 174
Core loans and advances	2	138 105	11 149	125 245	10 203
Private client		92 563	7 185	86 713	6 802
Corporate, institutional and other clients		45 542	3 964	38 532	3 401
Other debt securities and other loans and advances		6 930	266	5 958	197
Other interest-earning assets	3	12 841	149	12 254	406
Total interest-earning assets		255 073	15 809	236 336	14 980

For the year to 31 March 2013 R'million	Notes	Group Balance sheet value	Group Interest expense	Company Balance sheet value	Company Interest expense
Deposits by banks and other debt related securities	4	40 140	(797)	38 038	(757)
Customer accounts		185 311	(8 892)	179 172	(8 710)
Other interest-bearing liabilities	5	3 521	(419)	919	(364)
Subordinated liabilities		12 496	(818)	12 496	(818)
Total interest-bearing liabilities		241 468	(10 926)	230 625	(10 649)
Net interest income			4 883		4 331

See notes on next page.

Notes:

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

For the year to 31 March	Group		Company	
R'million	2014	2013	2014	2013

2. Net fee and commission

Corporate and institutional transactional and advisory services	1 123	627	1 070	594
Private client transactional fees	444	424	388	388
Fee and commission income	1 567	1 051	1 458	982
Fee and commission expense	(174)	(109)	(145)	(100)
Net fee and commission income	1 393	942	1 313	882
Annuity fees (net of fees payable)	622	542	574	493
Deal fees	771	400	739	389

Fees and commission from trust and fiduciary activities amounts to R18.4 million (2013: R20.8 million) for the group and Rnil (2013: Rnil) for the company, and is included in private client transactional fees.

For the year to 31 March R'million	Investment portfolio (listed and unlisted equities)*	Debt securities (sovereign, bank and other)	Investment properties	Other asset categories	Total

3. Investment income

The following table analyses investment income generated by the asset portfolio shown on the balance sheet:

Group					
2014					
Investment income comprises:					
Realised	216	–	–	14	230
Unrealised	(240)	(175)	63	(6)	(358)
Dividend income	646	–	–	–	646
Funding cost and other net related costs	(181)	–	–	(3)	(184)
	441	(175)	63	5	334
2013					
Investment income comprises:					
Realised	512	–	26	10	548
Unrealised	(103)	42	–	–	(61)
Dividend income	159	–	–	–	159
Funding cost and other net related costs	(180)	–	–	(7)	(187)
	388	42	26	3	459

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

For the year to 31 March R'million	Investment portfolio (listed and unlisted equities)*	Debt securities (sovereign, bank and other)	Investment properties	Other asset categories	Total
3. Investment income (continued)					
The following table analyses investment income generated by the asset portfolio shown on the balance sheet:					
Company					
2014					
Investment income comprises:					
Realised	212	–	–	(8)	204
Unrealised	(351)	(117)	63	(4)	(409)
Dividend income	633	–	–	4	637
Funding cost and other net related costs	(181)	–	–	(3)	(184)
	313	(117)	63	(11)	248
2013					
Investment income comprises:					
Realised	512	–	–	2	514
Unrealised	(142)	–	–	–	(142)
Dividend income	159	–	–	4	163
Funding cost and other net related costs	(179)	–	–	(7)	(186)
	350	–	–	(1)	349

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

For the year to 31 March R'million	Group 2014	Group 2013	Company 2014	Company 2013
4. Other operating loss				
Rental income from properties	–	4	–	–
Loss on realisation of fixed assets	(5)	(7)	(7)	(7)
	(5)	(3)	(7)	(7)

For the year to 31 March R'million	Group 2014	Group 2013	Company 2014	Company 2013
5. Operating costs				
Staff costs	2 724	2 269	2 585	2 151
– Salaries and wages (including directors' remuneration)*	2 134	1 811	2 014	1 708
– Training and other costs	87	66	84	64
– Share-based payments expense	367	245	354	235
– Social security costs	18	39	18	38
– Pensions and provident fund contributions	118	108	115	106
Premises expenses (excluding depreciation)	380	337	342	300
Equipment expenses (excluding depreciation)	222	314	182	280
Business expenses**	393	364	344	313
Marketing expenses	247	202	240	195
Depreciation, amortisation and impairment of property, equipment and intangibles	147	143	145	140
	4 113	3 629	3 838	3 379
The following amounts were paid to the auditors:				
Audit fees	36	27	21	23
Other services	2	3	–	3
	38	30	21	26
Fees by audit firm:				
Ernst & Young Inc.	15	9	7	6
KPMG Inc.	23	21	14	20
	38	30	21	26
Minimum operating lease payments recognised in operating costs	380	285	380	285

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

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

For the year to 31 March R'million	Group 2014	Group 2013	Company 2014	Company 2013
6. Share-based payments				
The group operates share option and long-term incentive plans for employees, which are on an equity-settled basis. The purpose of the staff share schemes is to promote an *esprit de corps* within the organisation, create an awareness of Investec's performance and provide an incentive to maximise individual and group performance by allowing all staff to share in the risks and rewards of the group. Further information on the group share options and long-term incentive plans are provided in the remuneration report and on our website.				
Equity-settled share-based payment expense charged to the income statement	367	245	354	235
Fair value of options at grant date	503	257	485	248

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Number of share options For the year to 31 March	Group 2014	2013	Company 2014	2013
6. Share-based payments (continued)				
Details of options outstanding during the year				
Outstanding at the beginning of the year	30 993 741	28 119 086	29 867 875	26 971 544
Relocation of employees during the year	(90 182)	196 660	(90 182)	192 748
Granted during the year	9 724 953	7 274 675	9 362 503	7 023 875
Exercised during the year	(7 095 346)	(3 392 724)	(6 882 973)	(3 125 274)
Expired during the year	(1 419 455)	(1 203 956)	(1 402 742)	(1 195 018)
Outstanding at the end of the year	32 113 711	30 993 741	30 854 481	29 867 875
Exercisable at the end of the year	5 250	386 265	2 750	384 820

The weighted average exercise price for all options is Rnil (2013: Rnil) for the group and company.

For the year to 31 March	Group 2014	2013	Company 2014	2013
The exercise price range and weighted average remaining contractual life for the options outstanding were as follows:				
Long-term incentive options with no strike prices				
Exercise price range	Rnil	Rnil	Rnil	Rnil
Weighted average remaining contractual life	2.79 years	2.74 years	2.79 years	2.74 years
Weighted average fair value of options granted at measurement date	R51.77	R34.88	R51.78	R34.86
The fair values of options granted were calculated using a Black-Scholes option pricing model. For options granted during the year, the inputs into the model were as follows:				
– Share price at date of grants	R66.84 – R71.20	R43.85 – R56.86	R66.84 – R71.20	R43.85 – R56.86
– Exercise price	R nil	R nil	R nil	R nil
– Expected volatility	30%	30%	30%	30%
– Option life	3 – 5 Years	2.5years – 5 years	3 – 5 Years	2.5 – 5 Years
– Expected dividend yields	3.89% – 5.08%	5.42% – 6.70%	3.89% – 5.08%	5.42% – 6.70%
– Risk-free rate	6.04% – 7.08%	5.46% – 6.29%	6.04% – 7.08%	5.46% – 6.29%

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

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

For the year to 31 March R'million	Group 2014	Group 2013	Company 2014	Company 2013
7. Taxation				
Income statement tax charge				
Taxation on income				
South Africa	300	232	269	191
– Current taxation	318	201	269	154
in respect of current year	416	242	367	195
in respect of prior year adjustments	(98)	(41)	(98)	(41)
– Deferred taxation	(18)	31	–	37
Foreign taxation – Mauritius	15	13	–	–
Total taxation charge as per income statement	**315**	**245**	**269**	**191**
Tax rate reconciliation:				
Profit before taxation as per income statement	2 465	2 123	1 831	1 678
Total taxation charge as per income statement	315	245	269	191
Effective rate of taxation	12.8%	11.5%	14.7%	11.4%
The standard rate of South African normal taxation has been affected by:				
Dividend income	13.0%	9.6%	16.0%	11.6%
Foreign earnings*	4.7%	3.6%	–	–
Prior year tax adjustments	3.6%	2.0%	5.4%	2.5%
Profits of capital nature	0.2%	4.8%	0.2%	6.1%
Other permanent differences	(6.3%)	(3.5%)	(8.3%)	(3.6%)
	28.0%	28.0%	28.0%	28.0%

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

For the year to 31 March R'million	Group 2014	Group 2013	Company 2014	Company 2013
7. Taxation (continued)				
Other comprehensive income taxation effects				
Fair value movements on cash flow hedges taken directly to other comprehensive income	(75)	(194)	(75)	(194)
– Pre-taxation	(175)	(194)	(175)	(194)
– Current tax	119	–	100	–
– Deferred tax	(19)	–	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	(212)	86	(216)	86
– Pre-taxation	(230)	111	(235)	110
– Deferred tax	18	(25)	19	(24)
Gains on realisation of available-for-sale assets recycled through the income statement	(2)	(39)	(2)	(39)
– Pre-taxation	(3)	(50)	(3)	(50)
– Deferred tax	1	11	1	11

For the year to 31 March	Group 2014 Cents per share	Group 2014 R'million	Group 2013 Cents per share	Group 2013 R'million	Company 2014 Cents per share	Company 2014 R'million	Company 2013 Cents per share	Company 2013 R'million
8. Dividends								
Perpetual preference dividend								
Final dividend in prior year	353.18	53	338.42	52	353.18	53	338.42	52
Interim dividend for current year	355.12	55	367.68	57	355.12	55	367.68	57
Total dividend attributable to perpetual preference shareholders recognised in current financial year	708.30	108	706.10	109	708.30	108	706.10	109

The directors have declared a final dividend in respect of the financial year ended 31 March 2014 of 360.14541 cents (2013: 353.18222 cents) per perpetual preference share.

For the year to 31 March R'million	Group 2014	Group 2013	Company 2014	Company 2013
9. Headline earnings				
Profit after taxation	2 150	1 878	1 562	1 487
Preference dividends paid	(108)	(109)	(108)	(109)
Earnings attributable to ordinary shareholders	2 042	1 769	1 454	1 378
Headline adjustments, net of taxation	44	(28)	44	(28)
Revaluation of investment properties*	46	–	46	–
Gain on realisation of available-for-sale financial assets*	(2)	(28)	(2)	(28)
Headline earnings attributable to ordinary shareholders	2 086	1 741	1 498	1 350

* *Amount is net of taxation of R18.2 million (2013: R10.9 million) for both group and company.*

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

For the year to 31 March R'million	At fair value through profit or loss Trading	 Designated at inception
Group		
2014		
Net interest income	469	1 507
Fee and commission income	–	25
Fee and commission expense	–	(30)
Investment income	–	264
Trading income arising from		
– customer flow	346	(3)
– balance sheet management and other trading activities	138	4
Other operating income	–	–
Total operating income before impairment losses on loans and advances	953	1 767
Impairment losses on loans and advances	–	–
Operating income	953	1 767
2013		
Net interest income	547	1 981
Fee and commission income	–	4
Fee and commission expense	–	(6)
Investment income	7	422
Trading income arising from		
– customer flow	82	8
– balance sheet management and other trading activities	228	(40)
Other operating income	–	–
Total operating income before impairment losses on loans and advances	864	2 369
Impairment losses on loans and advances	–	–
Operating income	864	2 369

	Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non-financial instruments	Other fee income	Total
	639	12 275	571	(10 535)	(10)	–	4 916
	–	503	–	27	20	992	1 567
	–	(69)	–	(11)	(18)	(46)	(174)
	–	–	16	–	54	–	334
	–	–	–	–	–	–	343
	–	93	–	–	–	–	235
	–	–	–	–	(5)	–	(5)
	639	12 802	587	(10 519)	41	946	7 216
	–	(638)	–	–	–	–	(638)
	639	**12 164**	**587**	**(10 519)**	**41**	**946**	**6 578**
	929	10 564	644	(9 777)	(5)	–	4 883
	–	304	–	10	2	731	1 051
	–	(29)	–	–	(2)	(72)	(109)
	–	5	8	–	17	–	459
	–	29	–	–	–	–	119
	(2)	34	–	–	–	–	220
	–	–	–	–	(3)	–	(3)
	927	10 907	652	(9 767)	9	659	6 620
	–	(868)	–	–	–	–	(868)
	927	**10 039**	**652**	**(9 767)**	**9**	**659**	**5 752**

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10. Analysis of income and impairments by category of financial instrument (continued)

For the year to 31 March R'million	At fair value through profit or loss Trading	 Designated at inception
Company		
2014		
Net interest income	471	1 547
Fee and commission income	–	25
Fee and commission expense	–	(30)
Investment income	–	179
Trading income arising from		
– customer flow	326	(1)
– balance sheet management and other trading activities	144	3
Other operating income	–	–
Total operating income before impairment losses on loans and advances	941	1 723
Impairment losses on loans and advances	–	–
Operating income	941	1 723
2013		
Net interest income	541	1 995
Fee and commission income	–	4
Fee and commission expense	–	(6)
Investment income	7	345
Trading income arising from		
– customer flow	89	9
– balance sheet management and other trading activities	228	(43)
Other operating income	–	–
Total operating income before impairment losses on loans and advances	865	2 304
Impairment losses on loans and advances	–	–
Operating income	865	2 304

Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non-financial instruments	Other fee income	Total
584	11 471	544	(10 475)	(7)	–	4 135
–	443	–	1	20	969	1 458
–	(47)	–	(11)	(11)	(46)	(145)
–	–	16	–	53	–	248
–	–	–	–	–	–	325
–	87	–	–	–	–	234
–	–	–	–	(7)	–	(7)
584	11 954	560	(10 485)	48	923	6 248
–	(579)	–	–	–	–	(579)
584	11 375	560	(10 485)	48	923	5 669
930	9 520	644	(9 294)	(5)	–	4 331
–	271	–	1	2	704	982
–	(24)	–	–	(2)	(68)	(100)
–	5	–	–	(8)	–	349
–	28	–	–	–	–	126
–	35	–	–	–	–	220
–	–	–	–	(7)	–	(7)
930	9 835	644	(9 293)	(20)	636	5 901
–	(844)	–	–	–	–	(844)
930	8 991	644	(9 293)	(20)	636	5 057

At 31 March R'million	At fair value through profit or loss Trading	 Designated at inception
11. Analysis of financial assets and liabilities by measurement basis		
Group		
2014		
Assets		
Cash and balances at central banks	–	–
Loans and advances to banks	–	26
Non-sovereign and non-bank cash placements	27	–
Reverse repurchase agreements and cash collateral on securities borrowed	6 442	–
Sovereign debt securities	–	26 802
Bank debt securities	–	6 085
Other debt securities	–	59
Derivative financial instruments*	12 299	–
Securities arising from trading activities	1 316	–
Investment portfolio	–	6 781
Loans and advances to customers	–	13 008
Own originated loans and advances to customers securitised	–	–
Other loans and advances	–	–
Other securitised assets	–	–
Interests in associated undertakings	–	–
Deferred taxation assets	–	–
Other assets	2	–
Property and equipment	–	–
Investment properties	–	–
Intangible assets	–	–
Loans to group companies	(1 341)	–
Non-current assets classified as held for sale^	–	–
	18 745	52 761
Liabilities		
Deposits by banks	–	1
Derivative financial instruments*	9 259	–
Other trading liabilities	1 431	–
Repurchase agreements and cash collateral on securities lent	3 320	–
Customer accounts (deposits)	–	19 473
Debt securities in issue	–	3 135
Liabilities arising on securitisation of own originated loans and advances	–	–
Liabilities arising on securitisation of other assets	–	–
Current taxation liabilities	–	–
Deferred taxation liabilities	–	–
Other liabilities	517	–
Subordinated liabilities	–	–
	14 527	22 609

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

^ *Non-current assets held for sale relates to an acquisition of a 100% interest in an entity, however management have entered into negotiations to dispose of a controlling interest in the entity.*

For more information refer to note 48.

Available-for-sale	Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
–	–	–	5 927	–	5 927	–	5 927
–	26	–	32 646	–	32 646	–	32 672
–	27	–	9 018	–	9 018	–	9 045
–	6 442	–	–	–	–	–	6 442
4 616	31 418	3 397	–	–	3 397	–	34 815
2 227	8 312	11 906	1 320	–	13 226	–	21 538
5 278	5 337	2 077	4 519	–	6 596	–	11 933
–	12 299	–	–	–	–	–	12 299
–	1 316	–	–	–	–	–	1 316
2 053	8 834	–	–	–	–	–	8 834
–	13 008	–	135 554	–	135 554	–	148 562
–	–	–	2 822	–	2 822	–	2 822
–	–	–	552	–	552	–	552
–	–	–	1 503	–	1 503	–	1 503
–	–	–	–	–	–	52	52
–	–	–	–	–	–	75	75
–	2	–	1 288	–	1 288	481	1 771
–	–	–	–	–	–	219	219
–	–	–	–	–	–	84	84
–	–	–	–	–	–	102	102
–	(1 341)	–	3 265	–	3 265	–	1 924
–	–	–	–	–	–	731	731
14 174	85 680	17 380	198 414	–	215 794	1 744	303 218
–	1	–	–	22 406	22 406	–	22 407
–	9 259	–	–	–	–	–	9 259
–	1 431	–	–	–	–	–	1 431
–	3 320	–	–	14 366	14 366	–	17 686
–	19 473	–	–	185 430	185 430	–	204 903
–	3 135	–	–	2 231	2 231	–	5 366
–	–	–	–	1 369	1 369	–	1 369
–	–	–	–	156	156	–	156
–	–	–	–	–	–	1 288	1 288
–	–	–	–	–	–	61	61
–	517	–	–	989	989	1 687	3 193
–	–	–	–	10 498	10 498	–	10 498
–	37 136	–	–	237 445	237 445	3 036	277 617

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

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

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

For more information refer to note 48.

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

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

At 31 March R'million	At fair value through profit or loss Trading	 Designated at inception
Company		
2014		
Assets		
Cash and balances at central banks	–	–
Loans and advances to banks	–	26
Non-sovereign and non-bank cash placements	27	–
Reverse repurchase agreements and cash collateral on securities borrowed	6 442	–
Sovereign debt securities	–	26 802
Bank debt securities	–	6 085
Other debt securities	–	–
Derivative financial instruments*	11 957	–
Securities arising from trading activities	1 316	–
Investment portfolio	–	6 605
Loans and advances to customers	–	13 008
Other securitised assets	–	–
Other assets	2	–
Property and equipment	–	–
Investment properties	–	–
Intangible assets	–	–
Loans to group companies	(1 347)	–
Investment in subsidiaries	–	–
Non-current assets classified as held for sale	–	–
	18 397	52 526
Liabilities		
Deposits by banks	–	1
Derivative financial instruments*	9 259	–
Other trading liabilities	1 431	–
Repurchase agreements and cash collateral on securities lent	3 320	–
Customer accounts (deposits)	–	19 473
Debt securities in issue	–	3 135
Current taxation liabilities	–	–
Deferred taxation liabilities	–	–
Other liabilities	517	–
Subordinated liabilities	–	–
	14 527	22 609

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

^ *Non-current assets held for sale relates to an acquisition of a 100% interest in an entity, however management have entered into negotiations to dispose of a controlling interest in the entity.*

For more information refer to note 48.

Available-for-sale	Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
–	–	–	5 751	–	5 751	–	5 751
–	26	–	29 646	–	29 646	–	29 672
–	27	–	9 018	–	9 018	–	9 045
–	6 442	–	–	–	–	–	6 442
4 616	31 418	3 397	–	–	3 397	–	34 815
2 227	8 312	10 601	1 320	–	11 921	–	20 233
4 686	4 686	4 643	3 690	–	8 333	–	13 019
–	11 957	–	–	–	–	–	11 957
–	1 316	–	–	–	–	–	1 316
2 052	8 657	–	–	–	–	–	8 657
–	13 008	–	121 603	–	121 603	–	134 611
–	–	–	527	–	527	–	527
–	2	–	1 216	–	1 216	274	1 492
–	–	–	–	–	–	215	215
–	–	–	–	–	–	84	84
–	–	–	–	–	–	96	96
–	(1 347)	–	4 144	–	4 144	–	2 797
–	–	–	–	–	–	4 766	4 766
–	–	–	–	–	–	731	731
13 581	84 504	18 641	176 915	–	195 556	6 166	286 226
–	1	–	–	22 265	22 265	–	22 266
–	9 259	–	–	–	–	–	9 259
–	1 431	–	–	–	–	–	1 431
–	3 320	–	–	13 087	13 087	–	16 407
–	19 473	–	–	176 704	176 704	–	196 177
–	3 135	–	–	1 251	1 251	–	4 386
–	–	–	–	–	–	1 450	1 450
–	–	–	–	–	–	54	54
–	517	–	–	568	568	1 588	2 673
–	–	–	–	10 498	10 498	–	10 498
–	37 136	–	–	224 373	224 373	3 092	264 601

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

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

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

For more information refer to note 48.

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

12. Fair value hierarchy

IFRS 13 requires that an entity disclose for each class of financial instruments measured at fair value the level in the fair value hierachy into which the fair value measurements are categorised in their entirety. The fair value heirachy reflects the significance of the inputs used in making fair value measurements. The level in the fair value hierachy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

Level 1 – quoted (unadjusted) prices in active markets for identical assets or liabilities that the entity can access at the measurement date

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

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

For the year to 31 March R'million	Financial instruments at fair value	Level within the fair value hierarchy Level 1	Level 2	Level 3
Group				
2014				
Financial assets				
Loans and advances to banks	26	–	26	–
Non-sovereign and non-bank cash placements	27	–	27	–
Reverse repurchase agreements and cash collateral on securities borrowed	6 442	–	6 442	–
Sovereign debt securities	31 418	31 418	–	–
Bank debt securities	8 312	2 227	6 085	–
Other debt securities	5 337	5 278	–	59
Derivative financial instruments	12 299	–	12 545	(246)
Securities arising from trading activities	1 316	1 316	–	–
Investment portfolio	8 834	2 357	362	6 115
Loans and advances to customers	13 008	–	13 008	–
Other assets	2	2	–	–
Loans to group companies	(1 341)	–	(1 341)	–
	85 680	42 598	37 154	5 928
Financial liabilities				
Deposits by banks	1	–	1	–
Derivative financial instruments	9 259	–	9 259	–
Other trading liabilities	1 431	763	668	–
Repurchase agreements and cash collateral on securities lent	3 320	–	3 320	–
Customer accounts (deposits)	19 473	–	19 473	–
Debt securities in issue	3 135	–	3 135	–
Other liabilities	517	–	517	–
	37 136	763	36 373	–
Net assets	48 544	41 835	781	5 928

For the year to 31 March R'million	Financial instruments at fair value	Level within the fair value hierarchy		
		Level 1	Level 2	Level 3
12. Fair value hierarchy (continued)				
Group				
2013				
Financial assets				
Loans and advances to banks	789	–	789	–
Non-sovereign and non-bank cash placements	–	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	5 043	–	5 043	–
Sovereign debt securities	30 479	30 479	–	–
Bank debt securities	9 531	1 121	8 410	–
Other debt securities	1 261	1 144	11	106
Derivative financial instruments	12 161	13	12 233	(85)
Securities arising from trading activities	1 357	1 357	–	–
Investment portfolio	9 102	2 601	6 439	62
Loans and advances to customers	14 856	–	14 856	–
Other securitised assets	432	–	432	–
Other assets	1	1	–	–
Loans to group companies	(57)	(57)	–	–
	84 955	36 659	48 213	83
Financial liabilities				
Deposits by banks	5	–	5	–
Derivative financial instruments	9 232	–	9 232	–
Other trading liabilities	1 063	1 063	–	–
Repurchase agreements and cash collateral on securities lent	2 205	–	2 205	–
Customer accounts (deposits)	6 252	–	6 252	–
Debt securities in issue	2 619	–	2 619	–
Liabilities arising on securitisation of other assets	588	588	–	–
Other liabilities	496	–	496	–
	22 460	1 651	20 809	–
Net assets	62 495	35 008	27 404	83

For the year to 31 March R'million	Total instruments at fair value	Level within the fair value hierarchy		
		Level 1	Level 2	Level 3

12. Fair value hierarchy (continued)

Company				
2014				
Financial assets				
Loans and advances to banks	26	–	26	–
Non-sovereign and non-bank cash placements	27	–	27	–
Reverse repurchase agreements and cash collateral on securities borrowed	6 442	–	6 442	–
Sovereign debt securities	31 418	31 418	–	–
Bank debt securities	8 312	2 227	6 085	–
Other debt securities	4 686	4 686	–	–
Derivative financial instruments	11 957	–	12 203	(246)
Securities arising from trading activities	1 316	1 316	–	–
Investment portfolio	8 657	2 354	188	6 115
Loans and advances to customers	13 008	–	13 008	–
Other assets	2	2	–	–
Loans to group companies	(1 347)	–	(1 347)	–
	84 504	42 003	36 632	5 869
Financial liabilities				
Deposits by banks	1	–	1	–
Derivative financial instruments	9 259	–	9 259	–
Other trading liabilities	1 431	763	668	–
Repurchase agreements and cash collateral on securities lent	3 320	–	3 320	–
Customer accounts (deposits)	19 473	–	19 473	–
Debt securities in issue	3 135	–	3 135	–
Other liabilities	517	–	517	–
	37 136	763	36 373	–
Net assets	47 368	41 240	259	5 869

For the year to 31 March R'million	Total instruments at fair value	Level within the fair value hierarchy Level 1	Level 2	Level 3
12. Fair value hierarchy (continued)				
Company				
2013				
Financial assets				
Loans and advances to banks	789	–	789	–
Non-sovereign and non-bank cash placements	–	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	5 043	–	5 043	–
Sovereign debt securities	30 479	30 479	–	–
Bank debt securities	9 530	1 121	8 409	–
Other debt securities	1 155	1 144	11	–
Derivative financial instruments	11 883	13	11 955	(85)
Securities arising from trading activities	1 357	1 357	–	–
Investment portfolio	8 969	2 598	6 322	49
Loans and advances to customers	14 856	–	14 856	–
Other assets	1	1	–	–
Loans to group companies	(99)	(99)	–	–
	83 963	36 614	47 385	(36)
Financial liabilities				
Deposits by banks	5	–	5	–
Derivative financial instruments	9 232	–	9 232	–
Other trading liabilities	1 063	1 063	–	–
Repurchase agreements and cash collateral on securities lent	2 205	–	2 205	–
Customer accounts (deposits)	6 252	–	6 252	–
Debt securities in issue	2 619	–	2 619	–
Other liabilities	496	–	496	–
	21 872	1 063	20 809	–
Net assets/(liabilities)	62 091	35 551	26 576	(36)

12. Fair value hierarchy (continued)

Transfers between level 1 and level 2

There were no transfers between level 1 and level 2 for the current year.

For the year ended 31 March 2013, in line with market practice, repurchase agreements have been moved from level 1 to level 2. There is no change in the level of observability, however, these are based on principal pricing rather than quoted market prices.

Level 3 instruments

The following table is a reconciliation of the opening balances to the closing balances for fair value measurements in level 3 of the fair value hierarchy:

For the year to 31 March	Group		Company	
R'million	2014	2013	2014	2013
Net level 3 instruments at fair value movements through the income statement				
Group				
Net opening balance at the beginning of the year	83	27	(36)	(36)
Transfers due to application of IFRS 13^	6 230	–	6 230	–
Total gains/(losses) recognised in the current year	(78)	46	(26)	(2)
Purchases	832	–	832	–
Sales	(363)	–	(338)	–
Issues	(175)	(9)	(175)	(10)
Transfers out of level 3	(126)	(3)	(126)	(3)
Transfers into level 3	239	15	239	15
Transfer to non-current assets held for sale	(731)	–	(731)	–
Foreign exchange adjustments	17	7	–	–
Net closing balance at the end of the year	5 928	83	5 869	(36)

^ *All reclassifications into level 3 at 1 April 2013 occurred as a result of inputs to the valuation model being regarded as unobservable as a result of applying the principles in IFRS 13. Observable inputs are defined as inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability. All other inputs have been considered to be unobservable.*

For the year ended 31 March 2014, investments to the value of R239 million have been transferred into level 3 due to inputs into the valuation model becoming unobservable. R126 million has been transferred out of level 3 due to inputs becoming observable.

The group transfers between levels within the fair value hierarchy when the observability of inputs change or if the valuation methods change.

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

For the year to 31 March	Group		Company	
R'million	2014	2013	2014	2013
Net interest (expense)/income	(2)	1	(2)	1
Investment income	(133)	29	(81)	(19)
Trading income arising from customer flow	57	16	57	16
Total gains/(losses) recognised in the current year	(78)	46	(26)	(2)

For the year ended 31 March 2014 R151.2 million of the total loss shown in investment income is an unrealised loss for the group and R106.8 million for the company.

12. Fair value hierarchy (continued)

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

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

At 31 March 2014 R'million	Balance sheet value	Valuation method	Significant unobservable input changed	Range which unobservable input has been stressed	Reflected in the income statement: Favourable changes	Reflected in the income statement: Unfavourable changes
Group						
Assets						
Other debt securities	59	Discounted cash flows	Discount rates	(3%)/2%	8	(7)
Derivative financial instruments	(246)				134	(77)
		Black-Scholes	Volatilities	25%/40%	74	(41)
		Discounted cash flows	Credit spreads	(50bps)/50bps	4	(12)
		Other*	Various*	*	56	(24)
Investment portfolio	6 115	Other*	Various*	*	1 260	(702)
Total	5 928				1 402	(786)

At 31 March 2014 R'million	Balance sheet value	Valuation method	Significant unobservable input changed	Range which unobservable input has been stressed	Reflected in the income statement: Favourable changes	Reflected in the income statement: Unfavourable changes
Company						
Assets						
Derivative financial instruments	(246)				134	(77)
		Black-Scholes	Volatilities	20%/50%	74	(41)
		Discounted cash flows	Credit spreads	(50bps)/50bps	4	(12)
		Other*	Various*	*	56	(24)
Investment portfolio	6 115	Other*	Various*	*	1 260	(702)
Total	5 869				1 394	(779)

* *Other – The valuation sensitivity for the private equity and embedded derivates (profit share portfolios) has been assessed by adjusting various inputs such as expected cash flows, discount rates and earnings multiples. It is deemed appropriate to reflect the outcome on a portfolio basis for the purposes of this analysis as the sensitivity of the investments cannot be determined through the adjustment of a single input.*

12. Fair value hierarchy (continued)

Unobservable inputs

In determining the value of level 3 financial instruments, the following are the principal inputs that can require judgement.

Credit spreads

Credit spreads reflect the additional yield that a market participant would demand for taking exposure to the credit risk of an instrument. The credit spread for an instrument forms part of the yield used in a discounted cash flow calculation. In general a significant increase in credit spread in isolation will result in a movement in fair value that is unfavourable for the holder of a cash instrument. Credit spreads are key inputs in the valuation of interest rate swaps.

Discount rates

Discount rates are the interest rates used to discount future cash flows in a discount cash flow valuation method. The discount rate takes into account time value of money and uncertainty of cash flows.

Volatilities

Volatility is a key input in the valuation of derivative products containing optionality. Volatility is a measure of the variability or uncertainty in returns for a given derivative underlying. It represents an estimate of how much a particular underlying instrument, parameter or index will change in value over time.

12. Fair value hierarchy (continued)

Measurement of financial instruments at level 2

The table below sets out information about the valuation techniques used at the end of the reporting period in measuring financial instruments categorised as level 2 in the fair value hierarchy

	Valuation basis/ technique	Main input
Assets		
Loans and advances to banks	Discounted cash flows	Discount rates
Non-sovereign and non-bank cash placements	Discounted cash flows	Discount rates
Reverse repurchase agreements and cash collateral on securities borrowed	Discounted cash flows Black-Scholes	Yield curve Volatilities
Bank debt securities	Discounted cash flows	Swap curves and NCD curves
Other debt securities	Discounted cash flows	Swap curves and NCD curves
Derivative financial instruments	Discounted cash flows Black-Scholes	Yield curve Volatilities
Investment portfolio	Quoted price	Net assets
Loans and advances to customers	Discounted cash flows	Swap curves and discount rates
Liabilities		
Derivative financial instruments	Discounted cash flows	Discount rates
Other trading liabilities	Discounted cash flows	Discount rates
Repurchase agreements and cash collateral on securities lent	Discounted cash flows	Discount rates
Customer accounts (deposits)	Discounted cash flows	Swap curves
Debt securities in issue	Discounted cash flows	Swap curves

At 31 March R'million	2014 Carrying value	2014 Fair value	2013 Carrying value	2013 Fair value
13. Fair value of financial assets and liabilities held at amortised cost				
Group				
Financial assets				
Cash and balances at central banks*	5 927	5 927	5 677	5 677
Loans and advances to banks*	32 646	32 646	22 489	22 489
Non-sovereign and non-bank cash placements*	9 018	9 018	5 875	5 875
Reverse repurchase agreements and cash collateral on securities borrowed*	–	–	2 625	2 625
Sovereign debt securities	3 397	3 476	3 251	3 610
Bank debt securities	13 226	13 790	11 438	12 004
Other debt securities	6 596	6 780	4 997	5 029
Loans and advances to customers	135 554	135 958	120 870	122 027
Own originated loans and advances to customers securitised*	2 822	2 822	2 379	2 379
Other loans and advances*	552	552	672	672
Other securitised assets*	1 503	1 503	736	736
Other assets*	1 288	1 288	583	583
Loans to group companies*	3 265	3 265	11 730	11 730
	215 794	217 025	193 322	195 436
Financial liabilities				
Deposits by banks	22 406	22 718	17 856	17 822
Repurchase agreements and cash collateral on securities lent	14 366	14 419	15 983	15 964
Customer accounts (deposits)	185 430	185 657	179 059	179 498
Debt securities in issue*	2 231	2 231	1 472	1 472
Liabilities arising on securitisation of own originated loans and advances*	1 369	1 369	2 933	2 933
Liabilities arising on securitisation of other assets*	156	156	–	–
Other liabilities*	989	989	669	751
Subordinated liabilities	10 498	10 575	12 496	12 821
	237 445	238 114	230 468	231 261

* *Assets for which fair value approximates carrying value.*

At 31 March R'million	2014 Carrying value	2014 Fair value	2013 Carrying value	2013 Fair value
13. Fair value of financial assets and liabilities held at amortised cost (continued)				
Company				
Financial assets				
Cash and balances at central banks*	5 751	5 751	5 635	5 635
Loans and advances to banks*	29 646	29 646	19 334	19 334
Non-sovereign and non-bank cash placements*	9 018	9 018	5 875	5 875
Reverse repurchase agreements and cash collateral on securities borrowed*	–	–	2 625	2 625
Sovereign debt securities	3 397	3 476	3 251	3 610
Bank debt securities	11 921	12 325	10 318	10 752
Other debt securities	8 333	8 396	4 131	4 163
Loans and advances to customers	121 603	121 603	109 471	110 572
Own originated loans and advances to customers securitised*	–	–	919	919
Other loans and advances*	–	–	672	672
Other securitised assets*	527	527	414	414
Other assets*	1 216	1 216	532	532
Loans to group companies*	4 144	4 144	11 939	11 939
	195 556	196 102	175 116	177 042
Financial liabilities				
Deposits by banks	22 265	22 577	17 683	17 649
Repurchase agreements and cash collateral on securities lent	13 087	13 141	14 884	14 956
Customer accounts (deposits)	176 704	176 931	172 920	173 360
Debt securities in issue*	1 251	1 251	642	642
Liabilities arising on securitisation of own originated loans and advances*	–	–	919	919
Other liabilities*	568	568	629	711
Subordinated liabilities	10 498	10 575	12 496	12 821
	224 373	225 043	220 173	221 058

*Assets for which fair value approximates carrying value

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

Assets for which fair value does not approximate carrying value

Fixed rate financial instruments

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

At 31 March 2014 R'million	Fair value	Valuation technique applied Level 1	Level 2	Level 3
13. Fair value of financial assets and liabilities held at amortised cost (continued)				
Fair value techniques for instruments where fair value does not approximate carrying value				
Group				
Financial assets				
Sovereign debt securities	3 476	3 476	–	–
Bank debt securities	13 790	11 105	2 685	–
Other debt securities	6 780	1 212	5 568	–
Loans and advances to customers	135 958	–	–	135 958
Financial liabilities				
Deposits by banks	22 718	776	21 942	–
Repurchase agreements and cash collateral on securities lent	14 419	–	14 419	–
Customer accounts (deposits)	185 657	13 135	172 522	–
Subordinated liabilities	10 575	10 575	–	–
Company				
Financial assets				
Sovereign debt securities	3 476	3 476	–	–
Bank debt securities	12 325	9 641	2 684	–
Other debt securities	8 396	1 470	6 926	–
Loans and advances to customers	121 603	–	–	121 603
Financial liabilities				
Deposits by banks	22 577	776	21 801	–
Repurchase agreements and cash collateral on securities lent	13 141	–	13 141	–
Customer accounts (deposits)	176 931	13 135	163 796	–
Subordinated liabilities	10 575	10 575	–	–

The table below sets out information about the valuation techniques used at the end of the reporting period in measuring financial instruments not held at fair value:

	Valuation basis/ technique	Main inputs
Assets		
Other debt securities	Discounted cash flow	Discount rates
Loans and advances to customers	Discounted cash flow	Discount rates
Liabilities		
Deposits by banks	Discounted cash flow	Interest rate yield curve
Repurchase agreements and cash collateral on securities lent	Discounted cash flow	Interest rate yield curve
Customer accounts (deposits)	Discounted cash flow	Interest rate yield curve

At 31 March R'million	Carrying value	Fair value adjustment Year to date	Fair value adjustment Cumulative	Maximum exposure to credit risk

14. Designated at fair value: loans and receivables and financial liabilities

At 31 March R'million	Carrying value	Fair value adjustment		Maximum exposure to credit risk
		Year to date	Cumulative	
Group				
Loans and receivables				
2014				
Loans and advances to banks	26	(88)	(88)	26
Other debt securities	59	58	(166)	59
Loans and advances to customers	13 008	(771)	177	13 008
	13 093	(801)	(77)	13 093
2013				
Loans and advances to banks	789	93	103	789
Bank debt securities	93	15	24	93
Other debt securities	79	17	(140)	79
Loans and advances to customers	14 856	174	928	14 856
	15 817	299	915	15 817

At 31 March R'million	Group and company 2014	2013
Fair value adjustments to loans and receivables attributable to credit risk		
Year to date	48	17
Cumulative	(46)	(140)

At 31 March R'million	Carrying value	Remaining contractual amount to be repaid at maturity	Fair value adjustment	
			Year to date	Cumulative
Group				
Financial liabilities				
2014				
Deposits by banks	1	1	(4)	–
Customer accounts (deposits)	19 473	19 595	(402)	(122)
Debt securities in issue	3 135	3 171	(39)	(36)
	22 609	22 767	(445)	(158)
2013				
Deposits by banks	5	5	–	–
Customer accounts (deposits)	6 252	5 972	47	280
Debt securities in issue	2 619	2 772	3	(153)
Liabilities arising on securitisation of other assets	588	588	–	–
	9 464	9 337	50	127

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

Year-to-date and cumulative changes in fair value of financial liabilities attributable to credit risk were both Rnil (2013: Rnil).

14. Designated at fair value: loans and receivables and financial liabilities

(continued)

At 31 March R'million	Carrying value	Fair value adjustment Year to date	Fair value adjustment Cumulative	Maximum exposure to credit risk
Company				
Loans and receivables				
2014				
Loans and advances to banks	26	(88)	(88)	26
Loans and advances to customers	13 008	(771)	177	13 008
	13 034	(859)	89	13 034
2013				
Loans and advances to banks	789	93	103	789
Bank debt securities	93	15	24	93
Loans and advances to customers	14 856	174	928	14 856
	15 738	282	1 055	15 738

Year-to-date and cumulative fair value adjustments to loans and receivables attributable to credit risk were both Rnil (2013: both Rnil).

At 31 March R'million	Carrying value	Remaining contractual amount to be repaid at maturity	Fair value adjustment Year to date	Fair value adjustment Cumulative
Company				
Financial liabilities				
2014				
Deposits by banks	1	1	(4)	–
Customer accounts (deposits)	19 473	19 595	(402)	(122)
Debt securities in issue	3 135	3 171	(39)	(36)
	22 609	22 767	(445)	(158)
2013				
Deposits by banks	5	5	–	–
Customer accounts (deposits)	6 252	5 972	47	280
Debt securities in issue	2 619	2 772	3	(153)
	8 876	8 749	50	127

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

Year-to-date and cumulative changes in fair value of financial liabilities attributable to credit risk were both Rnil (2013: Rnil).

At 31 March R'million	Group 2014	Group 2013	Company 2014	Company 2013
15. Cash and balances at central banks				
The country risk of cash and balances at central banks lies in the following geographies:				
South Africa	5 751	5 635	5 751	5 635
Other	176	42	–	–
	5 927	5 677	5 751	5 635

At 31 March R'million	Group 2014	Group 2013	Company 2014	Company 2013
16. Loans and advances to banks				
The country risk of loans and advances to banks lies in the following geographies				
South Africa	14 305	15 242	14 297	15 224
United Kingdom	4 490	2 111	3 870	1 934
Europe (excluding UK)	7 208	2 813	6 302	1 999
Australia	89	175	63	47
United States of America	2 923	1 727	1 862	450
Asia	2 744	460	1 373	460
Other	913	750	1 905	9
Total	32 672	23 278	29 672	20 123

At 31 March R'million	Group 2014	Group 2013	Company 2014	Company 2013
17. Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent				
Assets				
Reverse repurchase agreements	3 389	4 802	3 389	4 802
Cash collateral on securities borrowed	3 053	2 866	3 053	2 866
	6 442	7 668	6 442	7 668
As part of the reverse repurchase and securities borrowing agreements, the group has received securities that it is allowed to sell or re-pledge. R7.1 billion (2013: R2.5 billion) has been re-sold or re-pleged to third parties in connection with financing activities or to comply with commitments under short sale transactions.				
Liabilities				
Repurchase agreements	17 329	18 188	16 051	17 089
Cash collateral on securities lent	357	–	356	–
	17 686	18 188	16 407	17 089

The fair value of the assets transferred and not derecognised in the above repurchase agreements amounts to R18.8 billion (2013: R19.9 billion). They are pledged as security for the term of the underlying repurchase agreement.

At 31 March R'million	Group 2014	 2013	Company 2014	 2013
18. Sovereign debt securities				
Bonds	9 405	11 690	9 405	11 690
Treasury bills	25 410	22 040	25 410	22 040
	34 815	33 730	34 815	33 730
The country risk of the above asset lies in the following geography:				
South Africa	34 815	33 730	34 815	33 730
Total	34 815	33 730	34 815	33 730

At 31 March R'million	Group 2014	 2013	Company 2014	 2013
19. Bank debt securities				
Bonds	10 109	9 915	8 804	8 795
Debentures	1 044	309	1 044	309
Floating rate notes	10 385	10 745	10 385	10 744
	21 538	20 969	20 233	19 848
The country risk of the above asset lies in the following geographies:				
South Africa	6 857	9 195	6 857	9 195
United Kingdom	7 937	5 766	7 361	5 255
Europe (excluding UK)	1 106	900	1 106	900
Australia	22	22	22	22
United States of America	5 513	5 086	4 783	4 476
Other	103	–	104	–
Total	21 538	20 969	20 233	19 848

At 31 March R'million	Group 2014	Group 2013	Company 2014	Company 2013
20. Other debt securities				
Bonds	6 247	3 066	5 470	2 613
Commercial paper	1 042	–	3 212	–
Floating rate notes	1 413	362	1 413	362
Promissory notes	–	11	–	11
Other investments	3 231	2 819	2 924	2 300
	11 933	6 258	13 019	5 286
The country risk of the above assets lies in the following geographies:				
South Africa	7 149	2 416	8 728	1 963
United Kingdom	3 732	2 961	3 696	2 961
Europe (excluding UK)	224	104	–	–
United States of America	379	392	367	362
Australia	449	385	228	–
	11 933	6 258	13 019	5 286

21. Derivative financial instruments

The bank enters into various contracts for derivatives both as principal for trading purposes and as customer for hedging foreign exchange rate and interest rate exposures. These include financial futures, options, swaps and forward rate agreements.

The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations.

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

	2014			2013		
At 31 March R'million	Notional principal amounts	Positive fair value	Negative fair value	Notional principal amounts	Positive fair value	Negative fair value
Group						
Foreign exchange derivatives						
Forward foreign exchange contracts	70 844	547	511	15 781	179	276
Currency swaps	112 308	4 370	10 078	114 767	2 002	972
OTC options	18 828	96	78	7 365	45	31
Other foreign exchange contracts	15 725	40	68	14 671	74	82
	217 705	5 053	10 735	152 584	2 300	1 361
Interest rate derivatives						
Caps and floors	7 623	19	18	7 686	25	24
Swaps	372 015	3 285	4 246	409 544	6 076	5 468
Forward rate agreements	819 850	434	436	687 230	311	328
OTC options	11	30	27	3 270	29	28
Other interest rate contracts	480	208	128	480	222	146
	1 199 979	3 976	4 855	1 108 210	6 663	5 994
Equity and stock index derivatives						
OTC options	48 177	3 450	807	27 992	2 376	639
Equity swaps and forwards	3 492	34	14	4 660	5	1
OTC derivatives	51 669	3 484	821	32 652	2 381	640
Exchange traded futures	6 396	–	4	15 249	2	–
Exchange traded options	31 049	4	–	56 468	5	–
Warrants	253	–	1 375	5 224	–	705
	89 367	3 488	2 200	109 593	2 388	1 345
Commodity derivatives						
OTC options	279	71	49	500	15	243
Commodity swaps and forwards	18	53	83	1 200	322	289
	297	124	132	1 700	337	532
Credit derivatives						
Credit swaps	1 403	36	14	253	7	–
Credit linked notes	4 316	–	22	651	7	–
	5 719	36	36	904	14	–
Embedded derivatives		417	–		459	–
Cash collateral		(795)	(8 699)			
Derivatives per balance sheet		12 299	9 259		12 161	9 232

Cash collateral has been shown separately in the current year. The amount of cash netted off for 2013 is R573.7 million against the positive fair value and R6.9 billion against the negative fair value.

21. Derivative financial instruments (continued)

At 31 March R'million	2014 Notional principal amounts	2014 Positive fair value	2014 Negative fair value	2013 Notional principal amounts	2013 Positive fair value	2013 Negative fair value
Company						
Foreign exchange derivatives						
Forward foreign exchange contracts	85 918	547	511	13 104	177	276
Currency swaps	112 286	4 370	10 078	113 455	2 004	972
OTC options	18 828	96	78	7 365	45	31
Other foreign exchange contracts	15 725	40	68	14 671	74	82
	232 757	5 053	10 735	148 595	2 300	1 361
Interest rate derivatives						
Caps and floors	7 623	19	18	7 686	25	24
Swaps	371 673	3 285	4 246	408 474	6 060	5 468
Forward rate agreements	819 850	434	436	687 230	311	328
OTC options	11	30	27	3 270	29	28
Other interest rate contracts	480	208	128	480	222	146
	1 199 637	3 976	4 855	1 107 140	6 647	5 994
Equity and stock index derivatives						
OTC options	48 177	3 450	807	27 992	2 376	639
Equity swaps and forwards	3 492	34	14	4 660	5	1
OTC derivatives	51 669	3 484	821	32 652	2 381	640
Exchange traded futures	6 396	–	4	15 249	2	–
Exchange traded options	31 049	4	–	56 468	5	–
Warrants	253	–	1 375	5 224	–	705
	89 367	3 488	2 200	109 593	2 388	1 345
Commodity derivatives						
OTC options	279	71	49	500	15	243
Commodity swaps and forwards	18	53	83	1 200	322	289
	297	124	132	1 700	337	532
Credit derivatives						
Credit swaps	1 403	36	14	253	7	–
Credit linked notes	4 316	–	22	651	7	–
	5 719	36	36	904	14	–
Embedded derivatives		75	–		197	–
Cash collateral		(795)	(8 699)			
Derivatives per balance sheet		11 957	9 259		11 883	9 232

Cash collateral has been shown separately in the 2014 numbers, the amount of cash netted off for 2013 is R573.7 million against positive fair value and R6.9 billion against the negative fair value.

At 31 March R'million	Group 2014	Group 2013	Company 2014	Company 2013
22. Securities arising from trading activities				
Listed equities	322	281	322	281
Bonds	797	953	797	953
Floating rate notes	197	123	197	123
	1 316	1 357	1 316	1 357

At 31 March R'million	Group 2014	Group 2013	Company 2014	Company 2013
23. Investment portfolio				
Listed equities	2 381	2 613	2 377	2 610
Unlisted equities	6 453	6 489	6 280	6 359
	8 834	9 102	8 657	8 969

At 31 March R'million	Group 2014	Group 2013	Company 2014	Company 2013
24. Loans and advances to customers and other loans and advances				
Gross loans and advances to customers	149 810	137 075	135 750	125 537
Impairments of loans and advances to customers	(1 248)	(1 349)	(1 139)	(1 210)
Net loans and advances to customers	148 562	135 726	134 611	124 327
Gross other loans and advances	597	684	–	684
Impairments of other loans and advances	(45)	(12)	–	(12)
Net other loans and advances	552	672	–	672

For further analysis on loans and advances refer to pages 39 to 47 in the risk management section.

At 31 March R'million	Group 2014	Group 2013	Company 2014	Company 2013
24. Loans and advances to customers and other loans and advances (continued)				
Specific and portfolio impairments				
Reconciliation of movements in specific and portfolio impairments:				
Loans and advances to customers				
Specific impairment				
Balance at the beginning of the year	1 227	1 101	1 154	1 031
Charge to the income statement	711	1 085	660	1 057
Recoveries	(114)	(118)	(110)	(118)
Utilised	(716)	(841)	(664)	(816)
Transfers	(32)	–	13	–
Balance at the end of the year	1 076	1 227	1 053	1 154
Portfolio impairment				
Balance at the beginning of the year	122	204	56	151
Charge to the income statement	43	(95)	29	(95)
Transfers	(1)	–	1	–
Exchange adjustment	8	13	–	–
Balance at the end of the year	172	122	86	56
Other loans and advances				
Specific impairment				
Balance at the beginning of the year	12	11	12	11
Charge to the income statement	–	1	–	1
Transfers	32	–	(12)	–
Balance at the end of the year	44	12	–	12
Portfolio impairment				
Balance at beginning of year	–	–	–	–
Transfers	1	–	–	–
Balance at end of year	1	–	–	–
Total specific impairments	1 120	1 239	1 053	1 166
Total portfolio impairments	173	122	86	56
Total impairments	1 293	1 361	1 139	1 222
Reconciliation of income statement charge:				
Loans and advances	640	872	579	844
Specific impairment charged to income statement	597	967	550	939
Portfolio impairment charged to income statement	43	(95)	29	(95)
Securitised assets (refer to note 25)	(2)	(5)	–	(1)
Specific impairment charged to income statement	(2)	(4)	–	(1)
Portfolio impairment charged to income statement	–	(1)	–	–
Other loans and advances	–	1	–	1
Specific impairment charged to income statement	–	1	–	1
Total income statement charge	638	868	579	844

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At 31 March R'million	Group		Company	
	2014	2013	2014	2013
25. Securitised assets and liabilities arising on securitisation				
Gross own originated loans and advances to customers securitised	2 824	2 381	–	921
Impairments of own originated loans and advances to customers securitised	(2)	(2)	–	(2)
Net own originated loans and advances to customers securitised	2 822	2 379	–	919
Other securitised assets are made up of the following categories of assets:				
Other securitised assets				
Cash and cash equivalents	1 272	498	–	–
Loans and advances to customers	157	589	–	–
Other debt securities	74	81	527	414
Total other securitised assets	1 503	1 168	527	414
The associated liabilities are recorded on balance sheet in the following line items:				
Liabilities arising on securitisation of own originated loans and advances	1 369	2 933	–	919
Liabilities arising on securitisation of other assets	156	588	–	–
Specific and portfolio impairments				
The impairments below relate only to own originated loans and advances to customers securitised.				
Specific impairment				
Balance at the beginning of the year	1	1	1	2
Charge to the income statement	(2)	(4)	–	(1)
Utilised	1	–	–	–
Disposals	–	4	–	–
Transfers	–	–	(1)	–
Recoveries	1	–	–	–
Balance at the end of the year	1	1	–	1
Portfolio impairment				
Balance at the beginning of the year	1	2	1	1
Charge to the income statement	–	(1)	–	–
Transfers	–	–	(1)	–
Balance at the end of the year	1	1	–	1
Total impairments	2	2	–	2

At 31 March R'million	Group 2014	Group 2013
26. Interest in associated undertakings		
Analysis of the movement in our share of net assets of associates:		
At the beginning of the year	45	38
Exchange differences	7	7
Share of net asset value at the end of the year	52	45
Associated undertakings comprise unlisted investments.		

At 31 March R'million	Group 2014	Group 2013	Company 2014	Company 2013
27. Deferred taxation				
Deferred taxation assets	75	55	–	–
Deferred taxation liabilities	(61)	(61)	(54)	(54)
Net deferred taxation assets/(liabilities)	14	(6)	(54)	(54)
The net deferred taxation assets/(liabilities) consist of:				
Income and expenditure accruals	461	520	449	500
Unrealised fair value adjustments on financial instruments	(490)	(555)	(490)	(540)
Finance lease accounting	50	34	–	–
Tax relief from assessed losses brought forward	2	5	–	–
Impairment of loans and advances to customers	4	3	–	–
Fair value movements on available-for-sale assets	–	(13)	–	(14)
Fair value movements on cash flow hedges	(13)	–	(13)	–
	14	(6)	(54)	(54)
Reconciliation of net deferred taxation assets/(liabilities):				
Opening balance	(6)	37	(54)	(3)
Credit/(charge) to the income statement	18	(31)	–	(37)
Charge directly to other comprehensive income	–	(14)	–	(14)
Other	–	2	–	–
Foreign exchange adjustments	2	–	–	–
Closing balance	14	(6)	(54)	(54)

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

At 31 March R'million	Group 2014	Group 2013	Company 2014	Company 2013
28. Other assets				
Settlement debtors	188	137	179	137
Dealing properties	264	390	71	154
Accruals	451	18	454	16
Prepayments	122	116	97	95
Trading initial margins	204	112	204	112
Other debtors	542	393	487	351
	1 771	1 166	1 492	865

At 31 March R'million	Leasehold improvements	Furniture and vehicles	Equipment	Total
29. Property and equipment				
Group				
2014				
Cost				
At the beginning of the year	24	147	560	731
Additions	1	9	134	144
Disposals	(1)	(4)	(112)	(117)
At the end of the year	24	152	582	758
Accumulated depreciation and impairment				
At the beginning of the year	(19)	(84)	(404)	(507)
Disposals	–	1	61	62
Depreciation	(1)	(22)	(71)	(94)
At the end of the year	(20)	(105)	(414)	(539)
Net carrying value	4	47	168	219
2013				
Cost				
At the beginning of the year	21	139	565	725
Additions	3	10	53	66
Disposals	–	(2)	(58)	(60)
At the end of the year	24	147	560	731
Accumulated depreciation and impairment				
At the beginning of the year	(19)	(80)	(318)	(417)
Disposals	–	1	5	6
Depreciation	–	(5)	(91)	(96)
At the end of the year	(19)	(84)	(404)	(507)
Net carrying value	5	63	156	224

At 31 March R'million	Leasehold improvements	Furniture and vehicles	Equipment	Total
29. Property and equipment (continued)				
Company				
2014				
Cost				
At the beginning of the year	24	136	565	725
Additions	1	9	133	143
Disposals	(1)	(4)	(112)	(117)
At the end of the year	24	141	586	751
Accumulated depreciation and impairment				
At the beginning of the year	(20)	(88)	(397)	(505)
Disposals	–	1	61	62
Depreciation	(1)	(20)	(72)	(93)
At the end of the year	(21)	(107)	(408)	(536)
Net carrying value	3	34	178	215
2013				
Cost				
At the beginning of the year	21	128	562	711
Additions	3	10	53	66
Disposals	–	(2)	(50)	(52)
At the end of the year	24	136	565	725
Accumulated depreciation and impairment				
At the beginning of the year	(19)	(85)	(311)	(415)
Disposals	–	1	1	2
Depreciation	(1)	(4)	(87)	(92)
At the end of the year	(20)	(88)	(397)	(505)
Net carrying value	4	48	168	220

At 31 March R'million	Group 2014	Group 2013	Company 2014	Company 2013
30. Investment properties				
Balance at the beginning of the year	1	5	1	1
Additions	20	–	20	–
Disposals	–	(4)	–	–
Revaluations	63	–	63	–
Balance at the end of the year	84	1	84	1

Investment properties are carried at fair value and falls within level 3 of the fair value hierarchy.

Revaluations are recognised in investment income on the income statement and are unrealised.

The group values its investment properties twice annually. The properties are valued by directors. The valuation is performed by capitalising the annual net income of a property at a market-related yield applicable at the time.

At 31 March R'million	Group Acquired software	Group Internally generated software	Group Total	Company Acquired software	Company Internally generated software	Company Total
31. Intangible assets						
2014						
Cost or valuation						
At the beginning of the year	381	86	467	377	84	461
Additions	56	18	74	53	15	68
Disposals	(9)	–	(9)	(9)	–	(9)
At the end of the year	428	104	532	421	99	520
Accumulated amortisation and impairments						
At the beginning of the year	(294)	(83)	(377)	(288)	(84)	(372)
Amortisation	(42)	(11)	(53)	(41)	(11)	(52)
At the end of the year	(336)	(94)	(430)	(329)	(95)	(424)
Net carrying value	92	10	102	92	4	96
2013						
Cost or valuation						
At the beginning of the year	347	78	425	345	77	422
Additions	34	8	42	32	7	39
At the end of the year	381	86	467	377	84	461
Accumulated amortisation and impairments						
At the beginning of the year	(257)	(72)	(329)	(251)	(74)	(325)
Amortisation	(37)	(11)	(48)	(37)	(10)	(47)
At the end of the year	(294)	(83)	(377)	(288)	(84)	(372)
Net carrying value	87	3	90	89	–	89

At 31 March R'million	Group 2014	Group 2013	Company 2014	Company 2013
32. Loans to group companies				
Loans from holding company – Investec Limited	(1 353)	(87)	(1 353)	(87)
Loans to fellow subsidiaries	3 218	10 202	3 243	10 199
Preference share investment in Investec Limited	400	400	–	–
Preference share (funding)/investment in fellow subsidiaries	(181)	1 215	1 081	1 827
Intergroup derivative instruments	(160)	(57)	(174)	(99)
	1 924	11 673	2 797	11 840

Rnil (2013: R6.8 billion) consists of amounts owing under intergroup repurchase agreements and are fully secured by the rights to cash collateral. R1.9 billlion (2013: R4.9 billion) is unsecured interest bearing, with no fixed terms of repayment.

There were no subordinated loan amounts included in the loans to group companies.

At 31 March	Nature of business	Issued ordinary capital	Holding %	Shares at book value 2014 R'million	Shares at book value 2013 R'million	Net indebtedness 2014 R'million	Net indebtedness 2013 R'million
33. Investment in subsidiaries							
Direct subsidiaries of Investec Bank Limited							
Investec Bank (Mauritius) Limited^	Banking institution	$56 478 463	100	535	535	1 406	2 150
Reichmans Holdings (Pty) Ltd	Trade and asset financing	R15	100	112	112	2 355	1 745
Sechold Finance Services (Pty) Ltd	Investment holding	R1 000	100	*	*	382	232
KWJ Investments (Pty) Ltd	Investment holding	R100	100	*	*	484	395
AEL Investment Holdings (Pty) Ltd	Investment holding	R1 000	100	*	*	(286)	116
Investpref Limited	Investment holding	R1 000	100	*	*	(552)	26
Copperleaf Country Estate (Pty) Ltd	Leisure activities	R100	100	*	*	242	289
Other				80	80	8	75
				727	727	4 039	5 028

Details of subsidiary and associated companies which are not material to the financial position of the group are not reflected above.

Loans to/(from) group companies are unsecured interest bearing, with no fixed terms of repayment.

^ *Mauritius.*
* *Less than R1 million.*

33. Investment in subsidiaries (continued)

Consolidated structured entities

Investec Bank Limited has residual economic interests in the following structured entities which are consolidated. Typically a structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. The judgements to assess whether the group has control over these structures include assessing the purpose and design of the entity, considering whether the group or another involved party with power over the relevant activities is acting as a principal in its own right or as an agent on behalf of others.

Name of principal structured entity	Type of structured entity
Private Mortgages 1 (RF) (Pty) Ltd	Securitised residential mortgages
Private Residential Mortgages (RF) Limited – Series 1	Securitised residential mortgages
Grayston Conduit 1 (RF) Limited – Series 1	Securitised asset-backed securities portfolio
Grayston Conduit 1 (RF) Limited – Series 2	Securitised debt and loan portfolios
Fox Street 2 (RF) Limited	Securitised residential mortgages
Integer Home Loans (Pty) Ltd	Securitised third-party originated residential mortgages

For additional detail on the assets and liabilities arising on securitisation refer to note 25. The details of the risks to which the group is exposed through all its securitisations are included in the risk management report on pages 50 and 51.

The key assumptions for the main types of structured entities which the group consolidates are summarised below:

Securitised residential mortgages

The group has securitised residential mortgages in order to provide investors with exposure to residential mortgage risk and to raise funding. These structured entities are consolidated due to the group's holdings of subordinated notes. The group is not required to fund any losses above those incurred on the notes it has retained, such losses are reflected in any impairment of securitised mortgages as those assets have not been derecognised.

Structured debt and loan portfolios

The group has structured debt and loan portfolios for the purpose of issuing asset-backed securities. This structured entity is consolidated due to the group's retention of residual economic benefits and because it continues to act as the facility provider. The group is not required to fund any losses.

Securitised asset-backed securities portfolio

The group has securitised asset-backed securities portfolio for the purpose of issuing asset-backed commercial paper. This structured entity is consolidated due to the group's retention of residual economic benefits combined with a facility provided. The group is not required to fund any losses.

Securitised third-party originated residential mortgages

The group has a senior and subordinated investment in a third-party originated structured entity. This structured entity is consolidated due to the group’s exposure to residual economic benefits. The group is not required to fund any losses above those incurred on the investments made.

At 31 March R'million	Group 2014	Group 2013	Company 2014	Company 2013
34. Other trading liabilities				
Deposits	668	–	668	–
Short positions – gilts	763	1 063	763	1 063
	1 431	**1 063**	**1 431**	**1 063**

At 31 March R'million	Group 2014	Group 2013	Company 2014	Company 2013
35. Debt securities in issue				
Repayable in:				
Less than three months	56	11	56	11
Three months to one year	612	499	612	499
One to five years	4 698	3 581	3 718	2 751
	5 366	4 091	4 386	3 261

At 31 March R'million	Group 2014	Group 2013	Company 2014	Company 2013
36. Current taxation liabilities				
Income taxation payable	1 249	1 135	1 414	1 306
Indirect taxes payable	39	7	36	9
	1 288	1 142	1 450	1 315

At 31 March R'million	Group 2014	Group 2013	Company 2014	Company 2013
37. Other liabilities				
Settlement liabilities	802	518	528	514
Dividends payable	–	2	–	2
Other non-interest-bearing liabilities	492	405	351	366
Other creditors and accruals	1 899	1 874	1 794	1 766
	3 193	2 799	2 673	2 648

At 31 March R'million	Group 2014	Group 2013	Company 2014	Company 2013
38. Subordinated liabilities				
Issued by Investec Bank Limited				
IV04 10.75% subordinated unsecured callable bonds	–	2 062	–	2 062
IV07 variable rate subordinated unsecured callable bonds	–	941	–	941
IV08 13.735% subordinated unsecured callable upper tier 2 bonds	200	200	200	200
IV09 variable rate subordinated unsecured callable upper tier 2 bonds	200	200	200	200
IV012 variable rate subordinated unsecured callable bonds	250	250	250	250
IV013 variable rate subordinated unsecured callable bonds	50	50	50	50
IV014 10.545% subordinated unsecured callable bonds	125	125	125	125
IV015 variable rate subordinated unsecured callable bonds	1 350	1 350	1 350	1 350
IV016 variable rate subordinated unsecured callable bonds	325	325	325	325
IV017 indexed rate subordinated unsecured callable bonds	1 936	1 813	1 936	1 813
IV019 indexed rate subordinated unsecured callable bonds	79	74	79	74
IV019A indexed rate subordinated unsecured callable bonds	295	273	295	273
IV022 variable rate subordinated unsecured callable bonds	997	997	997	997
IV023 variable rate subordinated unsecured callable bonds	860	860	860	860
IV024 variable rate subordinated unsecured callable bonds	106	106	106	106
IV025 variable rate subordinated unsecured callable bonds	1 000	1 000	1 000	1 000
IV026 variable rate subordinated unsecured callable bonds	750	750	750	750
IV030 indexed rate subordinated unsecured callable bonds	321	299	321	299
IV030A indexed rate subordinated unsecured callable bonds	344	321	344	321
IV031 variable rate subordinated unsecured callable bonds	500	500	500	500
IV032 variable rate subordinated unsecured callable bonds	810	–	810	–
	10 498	12 496	10 498	12 496
All subordinated debt issued by Investec Bank Limited and its subsidiaries is denominated in South African Rand.				
Remaining maturity:				
In one year or less, or on demand	250	3 003	250	3 003
In more than one year, but not more than two years	175	–	175	–
In more than two years, but not more than five years	6 784	4 063	6 784	4 063
In more than five years	3 289	5 430	3 289	5 430
	10 498	12 496	10 498	12 496

The only event of default in relation to the subordinated debt is the non-payment of principal or interest. The only remedy available to the holders of the subordinated debt in the event of default is to petition for the winding up of the issuing entity. In a winding up no amount will be paid in respect of the subordinated debt until all other creditors have been paid in full.

38. Subordinated liabilities (continued)

IV04 10.75% subordinated unsecured callable bonds

Rnil million (2013: R2 062 million) Investec Bank Limited IV04 locally registered subordinated unsecured callable bonds due in 2018. Interest is paid six-monthly in arrears on 30 September and 31 March at a rate of 10.75% per annum until 31 March 2013. The settlement date is 31 March 2018, but the company has the option to call the bonds from 31 March 2013. If not called, the bonds will switch to floating rate bonds of three-month Jibar plus 2.00% from 31 March 2013. The bonds were subsequently called and settled on 2 April 2013.

IV07 variable rate subordinated unsecured callable bonds

Rnil million (2013: R941 million) Investec Bank Limited IV07 locally registered subordinated unsecured callable bonds due in 2018. Interest is payable quarterly in arrears on 31 March, 30 June, 30 September, 31 December at a rate equal to three-month Jibar plus 1.40% until 31 March 2013. From and including 31 March 2013 up to and excluding 31 March 2018 interest is paid at a rate equal to three-month Jibar plus 2.00%. The maturity date is 31 March 2018, but the company has the option to call the bonds from 31 March 2013. The bonds were subsequently called and settled on 2 April 2013.

IV08 13.735% subordinated unsecured callable upper tier 2 bonds

R200 million Investec Bank Limited IV08 locally registered subordinated unsecured callable bonds without a maturity date. Interest is paid six-monthly in arrears on 31 October and 30 April at a rate of 13.735% per annum until 30 April 2018. The company has the option to call the bonds from 30 April 2013 or on any interest payment date falling after 30 April 2018. If not called by 30 April 2018, the bonds will pay interest of 5.625% above Jibar payable quarterly in arrears until called.

IV09 variable rate subordinated unsecured callable upper tier 2 bonds

R200 million Investec Bank Limited IV09 locally registered subordinated unsecured callable bonds without a maturity date. Interest is paid quarterly in arrears on 31 July, 31 October, 31 January and 30 April at a rate equal to three-month Jibar plus 3.75% until 30 April 2018. The company has the option to call the bonds from 30 April 2013 or on any interest payment date falling after 30 April 2018. If not called by 30 April 2018, the bonds will pay interest of 5.625% above Jibar payable quarterly in arrears until called.

IV012 variable rate subordinated unsecured callable bonds

R250 million Investec Bank Limited IV012 locally registered subordinated unsecured callable bonds are due in November 2019. Interest is payable quarterly in arrears on 26 November, 26 February, 26 May and 26 August at a rate equal to three-month Jibar plus 3.25% until 26 November 2014. From and including 26 November 2014, up to and excluding 26 November 2019 interest is paid at a rate equal to three-month Jibar plus 4.50%. The maturity date is 26 November 2019, but the company has the option to call the bonds from 26 November 2014.

IV013 variable rate subordinated unsecured callable bonds

R50 million Investec Bank Limited IV013 locally registered subordinated unsecured callable bonds are due in June 2020. Interest is payable quarterly in arrears on 22 March, 22 June, 22 September and 22 December at a rate equal to three-month JIbar plus 2.75% until 22 June 2015. From and including 22 June 2015, up to and excluding 22 June 2020, interest is paid at a rate equal to three-month Jibar plus 5.50%. The maturity date is 22 June 2020, but the company has the option to call the bonds from 22 June 2015.

IV014 10.545% subordinated unsecured callable bonds

R125 million Investec Bank Limited IV014 locally registered subordinated unsecured callable bonds are due in June 2020. Interest is payable six-monthly in arrears on 22 June and 22 December at a fixed rate of 10.545% until 22 June 2015. From and including 22 June 2015, up to and excluding 22 June 2020, interest is paid quarterly in arrears on 22 June, 22 September, 22 December and 22 March at a rate equal to three-month Jibar plus 5.50%. The maturity date is 22 June 2020, but the company has the option to call the bonds from 22 June 2015.

IV015 variable rate subordinated unsecured callable bonds

R1 350 million Investec Bank Limited IV015 locally registered subordinated unsecured callable bonds are due in September 2022. Interest is payable quarterly in arrears on 20 December, 20 March, 20 June and 20 September at a rate equal to three-month Jibar plus 2.65% basis points until 20 September 2017. From and including 20 September 2017, up to and excluding 20 September 2022 interest is paid at a rate equal to three-month Jibar plus 4.00%. The maturity date is 20 September 2022, but the company has the option to call the bonds upon regulatory capital disqualification or from 20 September 2017.

IV016 variable rate subordinated unsecured callable bonds

R325 million Investec Bank Limited IV016 locally registered subordinated unsecured callable bonds are due in December 2021. Interest is payable quarterly in arrears on 6 December, 6 March, 6 June and 6 September at a rate equal to three-month Jibar plus 2.75%, up to and excluding 6 December 2021. The maturity date is 6 December 2021, but the company has the option to call the bonds upon regulatory disqualification or from 6 December 2016.

38. Subordinated liabilities (continued)

IV017 indexed rate subordinated unsecured callable bonds

R1 936 million (2013: R1 813 million) Investec Bank Limited IV017 locally registered subordinated unsecured callable bonds are due in January 2022. Interest on these inflation-linked bonds is payable semi-annually on 31 January and 31 July at a rate of 2.75%. The IV017 is a replica of the R212 South African government bond. The maturity date is 31 January 2022, but the company has the option to call the bonds upon regulatory capital disqualification or from 31 January 2017.

IV019 indexed rate subordinated unsecured callable bonds

R79 million (2013: R74 million) Investec Bank Limited IV019 locally registered subordinated unsecured callable bonds are due in March 2028. Interest on these inflation-linked bonds is payable semi-annually on 31 March and 30 September at a rate of 2.60%. The IV019 is a replica of the R210 South African government bond. The maturity date is 31 March 2028, but the company has the option to call the bonds upon regulatory capital disqualification from 3 April 2023.

IV019A indexed rate subordinated unsecured callable bonds

R295 million (2013: R273 million) Investec Bank Limited IV019A locally registered subordinated unsecured callable bonds are due in March 2028. Interest on these inflation-linked bonds is payable semi-annually on 31 March and 30 September at a rate of 2.60%. The IV019A is a replica of the R210 South African government bond. The maturity date is 31 March 2028, but the company has the option to call the bonds upon regulatory capital disqualification from 3 April 2023.

IV022 variable rate subordinated unsecured callable bonds

R997 million Investec Bank Limited IV022 locally registered subordinated unsecured callable bonds are due in April 2022. Interest is payable quarterly on 2 January, 2 April, 2 July and 2 October at a rate equal to the three-month Jibar plus 2.50% up to and excluding 2 April 2022. The maturity date is 2 April 2022, but the company has the option to call the bonds upon regulatory capital disqualification from 2 April 2017.

IV023 variable rate subordinated unsecured callable bonds

R860 million Investec Bank Limited IV023 locally registered subordinated unsecured callable bonds are due in July 2022. Interest is payable quarterly on 11 January, 11 April, 11 July and 11 October at a rate equal to the three-month Jibar plus 2.50% up to and excluding 11 July 2022. The maturity date is 11 July 2022, but the company has the option to call the bonds upon regulatory capital disqualification from 11 July 2017.

IV024 variable rate subordinated unsecured callable bonds

R106 million Investec Bank Limited IV024 locally registered subordinated unsecured callable bonds are due in July 2022. Interest is payable quarterly on 27 January, 27 April, 27 July and 27 October at a rate equal to the three-month Jibar plus 2.70% up to and excluding 27 July 2022. The maturity date is 27 July 2022, but the company has the option to call the bonds upon regulatory capital disqualification from 27 July 2017.

IV025 variable rate subordinated unsecured callable bonds

R1 000 million Investec Bank Limited IV025 locally registered subordinated unsecured callable bonds are due in September 2024. Interest is payable quarterly on 12 December, 12 March, 12 June and 12 September at a rate equal to the three-month Jibar plus 2.50% up to and excluding 12 September 2024. The maturity date is 12 September 2024, but the company has the option to call the bonds upon regulatory capital disqualification from 12 September 2019.

IV026 variable rate subordinated unsecured callable bonds

R750 million Investec Bank Limited IV026 locally registered subordinated unsecured callable bonds are due in September 2024. Interest is payable quarterly on 27 December, 27 March, 27 June and 27 September at a rate equal to the three-month Jibar plus 2.45% up to and excluding 27 September 2024. The maturity date is 27 September 2024, but the company has the option to call the bonds upon regulatory capital disqualification from 27 September 2019.

IV030 indexed rate subordinated unsecured callable bonds

R321 million (2013: R299 million) Investec Bank Limited IV030 locally registered subordinated unsecured callable bonds are due in January 2025. Interest on these inflation-linked bonds is payable semi-annually on 31 January and 31 July at a rate of 2.00%. The IV030 is a replica of the I2025 South African government bond. The maturity date is 31 January 2025, but the company has the option to call the bonds upon regulatory capital disqualification from 31 January 2020.

38. Subordinated liabilities (continued)

IV030A indexed rate subordinated unsecured callable bonds

R344 million (2013: R321 million) Investec Bank Limited IV030A locally registered subordinated unsecured callable bonds are due in January 2025. Interest on these inflation-linked bonds is payable semi-annually on 31 January and 31 July at a rate of 2.00%. The IV030A is a replica of the I2025 South African government bond. The maturity date is 31 January 2025, but the company has the option to call the bonds upon regulatory capital disqualification from 31 January 2020.

IV031 variable rate subordinated unsecured callable bonds

R500 million Investec Bank Limited IV031 locally registered subordinated unsecured callable bonds are due in March 2025. Interest is payable quarterly on 11 December, 11 March, 11 June and 11 September at a rate equal to the three-month Jibar plus 2.95% up to and excluding 11 March 2025. The maturity date is 11 March 2025, but the company has the option to call the bonds upon regulatory capital disqualification from 11 March 2020.

IV032 variable rate subordinated unsecured callable bonds

R810 million (2013: Rnil) Investec Bank Limited IV032 locally registered subordinated unsecured callable bonds are due in August 2023. Interest is payable quarterly on 14 November, 14 February, 14 May, 14 August at a rate equal to the three-month Jibar plus 2.95%. The maturity date is 14 August 2023, but the company has the option to call the bonds upon regulatory capital disqualification from 14 August 2018.

At 31 March	Group		Company	
R'million	2014	2013	2014	2013
39. Ordinary share capital				
Authorised				
105 000 000 (2013: 105 000 000) ordinary shares of 50 cents each				
Issued				
63 019 022 (2013: 63 019 022) ordinary shares of 50 cents each	32	32	32	32

At 31 March R'million	Group 2014	 2013	Company 2014	 2013
40. Perpetual preference shares				
Authorised				
70 000 000 (2013: 70 000 000) non-redeemable, non-cumulative, non-participating preference shares of one cent each.				
20 000 000 non-redeemable, non-cumulative, non-participating preference shares with a par value of one cent each ('Non-redeemable Programme Preference shares')				
Issued				
15 447 630 (2013: 15 447 630) non-redeemable, non-cumulative, non-participating preference shares of one cent each, issued at a premium of between R96.46 – R99.99 per share.	1 534	1 534	1 534	1 534
– Perpetual preference share capital	*	*	*	*
– Perpetual preference share premium	1 534	1 534	1 534	1 534

* *Less than R1 million.*

Share premium on perpetual preference shares is included in the line item share premium on the balance sheet. Refer to note 41.

Preference shareholders will be entitled to receive dividends, if declared, at a rate limited to 83.33% of the South African prime interest rate on R100 being the deemed value of the issue price of the preference share held.

Preference shareholders receive dividends in priority to any payment of dividends to the holder of any other class of shares in the capital of the company not ranking prior or *pari passu* with the preference shares.

An ordinary dividend will not be declared by Investec Bank Limited unless the preference dividend has been declared. If declared, preference dividends are payable semi-annually at least seven business days prior to the date on which Investec Bank Limited pays its ordinary dividends, if any, but shall be payable no later than 120 business days after 31 March and 30 September, respectively.

At 31 March R'million	Group 2014	 2013	Company 2014	 2013
41. Share premium				
Share premium on ordinary shares	13 366	13 366	13 366	13 366
Share premium on perpetual preference shares	1 534	1 534	1 534	1 534
Share issue expenses written off	(15)	(15)	(15)	(15)
	14 885	14 885	14 885	14 885

	Group			
	2014		2013	
At 31 March R'million	Total future minimum payments	Present value	Total future minimum payments	Present value
42. Finance lease disclosures				
Finance lease receivables included in loans and advances to customers				
Lease receivables due in:				
Less than one year	572	461	490	393
One to five years	634	557	577	506
	1 206	1 018	1 067	899

Unearned finance income amounted to R188 million (2013: R168 million). At 31 March 2014 and 31 March 2013, there were no unguaranteed residual values.

At 31 March R'million	Group 2014	Group 2013	Company 2014	Company 2013
43. Notes to cash flow statement				
Operating profit adjusted for non-cash items is derived as follows:				
Profit before taxation	2 465	2 123	1 831	1 678
Adjustments for non-cash items:				
Loss on realisation of fixed assets	5	7	7	7
Gain on realisation of available-for-sale assets recycled through the income statement	(2)	(39)	(2)	(39)
Depreciation, amortisation and impairment of property, equipment and intangibles	147	143	145	140
Impairment losses on loans and advances	638	868	579	844
Operating profit adjusted for non-cash items	3 253	3 102	2 560	2 630
Operating assets				
Loans and advances to banks	(7 296)	(8 450)	(7 788)	(8 164)
Reverse repurchase agreements and cash collateral on securities borrowed	1 226	(2 570)	1 226	(2 570)
Sovereign debt securities	(1 085)	(3 420)	(1 085)	(3 420)
Bank debt securities	(406)	6 897	(385)	6 868
Other debt securities	(5 584)	66	(7 733)	374
Derivative financial instruments	(292)	(1 717)	(249)	(1 690)
Securities arising from trading activities	41	271	41	271
Investment portfolio	76	(3 006)	96	(3 037)
Loans and advances to customers	(12 405)	(12 837)	(10 863)	(10 674)
Own originated loans and advances to customers securitised	(443)	(77)	919	(6)
Other loans and advances	120	(3)	672	(3)
Other securitised assets	(335)	(111)	(113)	(4)
Other assets	(598)	(83)	(627)	(90)
Investment properties	(83)	4	(83)	–
Loans to group companies	9 465	(8 420)	9 043	(6 607)
Non-current assets held for sale	(731)	–	(731)	–
Increase in operating assets	(18 330)	(33 456)	(17 660)	(28 752)
Operating liabilities				
Deposits by banks	4 543	3 923	4 578	3 912
Derivative financial instruments	27	662	27	662
Other trading liabilities	368	891	368	891
Repurchase agreements and cash collateral on securities lent	(661)	(68)	(682)	(1 085)
Customer accounts (deposits)	18 635	8 424	17 005	6 133
Debt securities in issue	1 275	2 353	1 125	2 360
Liabilities arising on securitisation of own originated loans and advances	(1 564)	–	(919)	6
Liabilities arising on securitisation of other assets	(432)	96	–	–
Other liabilities	374	(299)	25	(245)
Increase in operating liabilities	22 565	15 982	21 527	12 634

At 31 March R'million	Group 2014	 2013	Company 2014	 2013
44. Commitments				
Undrawn facilities	36 943	30 652	35 316	29 434
Other commitments	215	657	98	607
	37 158	31 309	35 414	30 041
The group has entered into forward foreign exchange contracts and loan commitments in the normal course of its banking for business which the fair value is recorded on balance sheet.				
Operating lease commitments				
Future minimum lease payments under non-cancellable operating leases:				
Less than one year	410	328	408	325
One to five years	1 457	1 420	1 457	1 419
Later than five years	1 862	2 234	1 862	2 234
	3 729	3 982	3 727	3 978

At 31 March 2014, Investec was obligated under a number of operating leases for properties, computer equipment and office equipment for which the future minimum lease payments extend over a number of years. The annual escalation clauses range between 7.0% and 13.5% per annum. The majority of the leases have renewal options. Contingent rent represents payments made to landlords for operating, tax and other escalation expenses.

At 31 March R'million	2014 Carrying value of asset pledged	 Carrying value of related liability Repurchase agreements and cash collateral on securities lent	2013 Carrying value of asset pledged	 Carrying value of related liability Repurchase agreements and cash collateral on securities lent
Group				
Reverse repurchase agreements and cash collateral on securities borrowed	2 275	2 275	2 205	2 205
Sovereign debt securities	3 475	7 635	7 546	11 125
Bank debt securities	10 829	4 718	9 817	4 503
Other debt securities	1 542	735	362	354
Securities arising from trading activities	688	688	–	–
	18 809	16 051	19 930	18 187
Company				
Reverse repurchase agreements and cash collateral on securities borrowed	2 275	2 275	2 205	2 205
Sovereign debt securities	3 475	7 635	7 546	11 125
Bank debt securities	10 829	4 718	9 817	4 503
Other debt securities	1 542	735	362	354
Securities arising from trading activities	688	688	–	–
	18 809	16 051	19 930	18 187

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

At 31 March R'million	Group 2014	Group 2013	Company 2014	Company 2013
45. Contingent liabilities				
Guarantees and assets pledged as collateral security:				
– Guarantees and irrevocable letters of credit	16 252	12 236	16 906	12 759
	16 252	12 236	16 906	12 759

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

Guarantees are issued by Investec Bank Limited on behalf of third parties and other group companies. The guarantees are issued as part of the banking business. In the current year there are no guarantees issued by Investec Bank Limited in favour of The South African Insurance Association (2013: Rnil)

Legal proceedings

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

For the year to 31 March R'million	Group and company 2014	Group and company 2013
46. Related party transactions		
Transactions, arrangements and agreements involving directors and others: Particulars of transactions, arrangements and agreements entered into by the bank with directors and connected persons and companies controlled by them, and with officers of the company, were as follows:		
Directors, key management and connected persons and companies controlled by them:		
Loans		
At the beginning of the year	508	329
Increase in loans	72	289
Repayment of loans	(182)	(154)
Exchange adjustment	133	44
At the end of the year	531	508
Guarantees		
At the beginning of the year	64	5
Additional guarantees granted	77	75
Guarantees cancelled	(81)	(16)
Exchange adjustments	17	–
At the end of the year	77	64
Deposits		
At the beginning of the year	(388)	(382)
Increase in deposits	(359)	(75)
Repayment of deposits	323	121
Exchange adjustment	(130)	(52)
At the end of the year	(554)	(388)

The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment. None of these loans have been impaired.

46. Related party transactions (continued)

Refer to pages 86 to 95 in the directors' remuneration report for other transactions relating to directors.

Refer to note 32 for loans to group companies and note 33 for loans to/(from) subsidiary companies.

At 31 March R'million	2014	2013
Transactions with Investec plc and its subsidiaries		
Assets		
Loans and advances to banks	289	194
Loans and advances to customers	284	3
Other debt securities	4 588	4 151
Derivative financial instruments	454	503
Other assets	204	–
Liabilities		
Deposits from banks	537	96
Customer accounts (deposits)	20	21
Repurchase agreements and cash collateral on securities lent	5 379	4 256
Derivative financial instruments	20	318

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

For the year ended 31 March 2014, interest of R502.0 million (2013: R227.2 million) was received from entities in the Investec plc group. Interest of R27.2 million (2013: R400.6 million) was paid to entities in the Investec plc group.

In the normal course of business, services are rendered between Investec plc and Investec Bank Limited entities. In the year to 31 March 2014, this resulted in a net payment by Investec plc group of R140.3 million (2013: R94.1 million). Specific transactions of an advisory nature between group entities have resulted in a net fee payment by Investec plc group of Rnil (2013: Rnil).

At 31 March R'million	2014	2013
Transactions with other related parties		
Loan from Investec Bank (Mauritius) Limited to Forty Two Point Two	751	–
The loan arises from Investec's portion of funding in relation to the 15% acquisition of Investec Asset Management by senior management of the business		

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

At 31 March R'million	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
Group								
2014								
Liabilities								
Deposits by banks	915	2 095	2 066	352	257	16 723	–	22 408
Derivative financial instruments	9 238	–	–	–	–	–	21	9 259
– Held-for-trading	9 238	–	–	–	–	–	–	9 238
– Held as hedges	–	–	–	–	–	–	21	21
Other trading liabilities	1 431	–	–	–	–	–	–	1 431
Repurchase agreements and cash collateral on securities lent	3 411	3 515	–	–	4 638	5 130	993	17 687
Customer accounts (deposits)	77 611	27 656	31 094	18 585	23 551	24 639	1 906	205 042
Debt securities in issue	–	4	52	131	480	4 698	–	5 365
Liabilities arising on securitisation of own originated loans and advances	–	–	299	–	–	6 951	–	7 250
Liabilities arising on securitisation of other assets	–	–	156	–	–	–	–	156
Other liabilities	1 035	765	882	171	340	445	621	4 259
	93 641	34 035	34 549	19 239	29 266	58 586	3 541	272 857
Subordinated liabilities	–	56	134	154	339	6 584	6 802	14 069
Total on-balance sheet liabilities	93 641	34 091	34 683	19 393	29 605	65 170	10 343	286 926
Commitments	–	102	5 287	717	2 802	12 173	16 077	37 158
Contingent liabilities	7 200	537	733	220	920	4 121	2 521	16 252
Total liabilities	100 841	34 730	40 703	20 330	33 327	81 464	28 941	340 336

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

At 31 March R'million	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
Group								
2013								
Liabilities								
Deposits by banks	1 267	1 643	204	9 999	346	4 402	–	17 861
Derivative financial instruments	9 202	–	–	–	–	5	25	9 232
– Held-for-trading	9 202	–	–	–	–	–	–	9 202
– Held as hedges	–	–	–	–	–	5	25	30
Other trading liabilities	1 063	–	–	–	–	–	–	1 063
Repurchase agreements and cash collateral on securities lent	–	9 235	14	26	20	8 126	1 120	18 541
Customer accounts (deposits)	72 672	22 587	25 555	17 582	24 990	20 205	1 749	185 340
Debt securities in issue	–	–	11	40	459	3 581	–	4 091
Liabilities arising on securitisation of own originated loans and advances	–	1	920	5	12	1 963	32	2 933
Liabilities arising on securitisation of other assets	–	156	432	–	–	–	–	588
Other liabilities	379	734	680	120	37	318	531	2 799
	84 583	34 356	27 816	27 772	25 864	38 600	3 457	242 448
Subordinated liabilities	–	3 003	107	148	300	6 168	6 075	15 801
Total on-balance sheet liabilities	84 583	37 359	27 923	27 920	26 164	44 768	9 532	258 249
Commitments	1 292	3	1 165	831	4 950	7 444	15 089	30 774
Contingent liabilities	3 560	–	1 688	99	178	5 033	3 044	13 602
Total liabilities	89 435	37 362	30 776	28 850	31 292	57 245	27 665	302 625

The balances in the above table will not agree directly to the balances in the balance sheet as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and those associated with all future coupon payments (except for trading liabilities and trading derivatives). Furthermore, loan commitments are generally not recognised on the balance sheet. Trading liabilities and trading derivatives have been included in the 'demand' time bucket, and not by contractual maturity, because trading liabilities are typically held for short periods of time.

For an analysis based on discounted cash flows, please refer to page 64.

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

At 31 March R'million	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
Company								
2014								
Liabilities								
Deposits by banks	774	2 095	2 066	352	257	16 723	–	22 267
Derivative financial instruments	9 238	–	–	–	–	–	21	9 259
– Held-for-trading	9 238	–	–	–	–	–	–	9 238
– Held as hedges	–	–	–	–	–	–	21	21
Other trading liabilities	1 431	–	–	–	–	–	–	1 431
Repurchase agreements and cash collateral on securities lent	3 320	3 515	–	–	4 638	4 935	–	16 408
Customer accounts (deposits)	71 178	27 002	30 809	18 220	22 651	24 548	1 906	196 314
Debt securities in issue	–	4	52	131	480	3 718	–	4 385
Liabilities arising on securitisation of own originated loans and advances	–	–	–	–	–	–	–	–
Liabilities arising on securitisation of other assets	–	–	–	–	–	–	–	–
Other liabilities	697	648	816	151	338	429	621	3 700
	86 638	33 264	33 743	18 854	28 364	50 353	2 548	253 764
Subordinated liabilities	–	56	134	154	339	6 584	6 802	14 069
Total on-balance sheet liabilities	86 638	33 320	33 877	19 008	28 703	56 937	9 350	267 833
Commitments	–	66	5 061	717	2 785	10 708	16 077	35 414
Contingent liabilities	7 200	537	613	183	911	4 941	2 521	16 906
Total liabilities	93 838	33 923	39 551	19 908	32 399	72 586	27 948	320 153

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

At 31 March R'million	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
Company								
2013								
Liabilities								
Deposits by banks	1 127	1 611	204	9 999	346	4 401	–	17 688
Derivative financial instruments	9 202	–	–	–	–	5	25	9 232
– Held-for-trading	9 202	–	–	–	–	–	–	9 202
– Held as hedges	–	–	–	–	–	5	25	30
Other trading liabilities	1 063	–	–	–	–	–	–	1 063
Repurchase agreements and cash collateral on securities lent	–	9 230	–	–	–	7 859	–	17 089
Customer accounts (deposits)	69 394	21 891	24 343	17 441	24 580	19 774	1 749	179 172
Debt securities in issue	–	–	11	40	459	2 751	–	3 261
Liabilities arising on securitisation of own originated loans and advances	–	1	3	5	12	898	–	919
Liabilities arising on securitisation of other assets	–	–	–	–	–	–	–	–
Other liabilities	339	683	662	79	35	319	531	2 648
	81 125	33 416	25 223	27 564	25 432	36 007	2 305	231 072
Subordinated liabilities	–	3 003	107	148	300	6 168	6 075	15 801
Total on-balance sheet liabilities	81 125	36 419	25 330	27 712	25 732	42 175	8 380	246 873
Committments	1 196	–	965	559	4 829	7 331	14 622	29 502
Contingent liabilities	3 560	–	1 623	65	158	4 923	3 041	13 370
Total liabilities	85 881	36 419	27 918	28 336	30 719	54 429	26 043	289 745

The balances in the above table will not agree directly to the balances in the consolidated balance sheet as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and those associated with all future coupon payments (except for trading liabilities and trading derivatives). Furthermore, loan commitments are generally not recognised on the balance sheet. Trading liabilities and trading derivatives have been included in the 'demand' time bucket, and not by contractual maturity, because trading liabilities are typically held for short periods of time.

For an analysis based on discounted cash flows, please refer to page 64.

48. Hedges

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

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

48. Hedges (continued)

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

Fair value hedges

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

At 31 March R'million	Description of financial instrument being hedged	Fair value of hedging instrument	Cumulative gains or (losses) on hedging instrument	Current year gains or (losses) on hedging instrument	Cumulative gains or (losses) on hedged item	Current year gains or (losses) on hedged item
2014						
Interest rate swaps	Bonds	(631)	(355)	94	337	36
2013						
Interest rate swaps	Bonds	(752)	(120)	(115)	128	121

At year end the hedges were both retrospectively and prospectively effective.

Cash flow hedges

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

At 31 March R'million	Description of financial instrument being hedged	Fair value of hedging instrument	Period in which the hedged cash flows are expected to occur and affect income statement	Ineffective portion recognised in the income statement
2014				
Cross-currency swaps	Bonds	4 824	Three months	–
2013				
Cross-currency swaps	Bonds	(446)	Three months	–

There are cash flow hedges during the year to mitigate interest rate and currency risk. A reconciliation of the cash flow hedge reserve can be found in the statement of changes in equity.

Release to the income statement for cash flow hedges is included in net interest income.

Hedges of net investments in foreign operations

For the year ended 31 March 2014, Investec Bank Limited has entered into foreign exchange contracts to hedge its balance sheet exposure to its net investment, in US Dollars, in Investec Bank Mauritius.

At 31 March R'million	Hedging instrument fair value
2014	(33)

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

49. Offsetting

R'million	Amounts subject to enforceable netting arrangements				
	Effects of offsetting on-balance sheet			Related amounts not offset	
	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Net amount
At 31 March 2014					
Group					
Assets					
Cash and balances at central banks	5 927	–	5 927	–	5 927
Loans and advances to banks	41 371	(8 699)	32 672	–	32 672
Non-sovereign and non-bank cash placements	9 045	–	9 045	–	9 045
Reverse repurchase agreements and cash collateral on securities borrowed	6 442	–	6 442	(2 275)	4 167
Sovereign debt securities	34 815	–	34 815	(7 635)	27 180
Bank debt securities	21 538	–	21 538	(4 718)	16 820
Other debt securities	11 933	–	11 933	(735)	11 198
Derivative financial instruments	13 094	(795)	12 299	(5 753)	6 546
Securities arising from trading activities	1 316	–	1 316	(688)	628
Investment portfolio	8 834	–	8 834	–	8 834
Loans and advances to customers	148 562	–	148 562	–	148 562
Own originated loans and advances to customers securitised	2 822	–	2 822	–	2 822
Other loans and advances	552	–	552	–	552
Other securitised assets	1 503	–	1 503	–	1 503
Other assets	1 771	–	1 771	–	1 771
	309 525	(9 494)	300 031	(21 804)	278 227
Liabilities					
Deposits by banks	23 202	(795)	22 407	–	22 407
Derivative financial instruments	17 958	(8 699)	9 259	(5 753)	3 506
Other trading liabilities	1 431	–	1 431	–	1 431
Repurchase agreements and cash collateral on securities lent	17 686	–	17 686	(16 051)	1 635
Customer accounts (deposits)	204 903	–	204 903	–	204 903
Debt securities in issue	5 366	–	5 366	–	5 366
Liabilities arising on securitisation of own originated loans and advances	1 369	–	1 369	–	1 369
Liabilities arising on securitisation of other assets	156	–	156	–	156
Other liabilities	3 193	–	3 193	–	3 193
Subordinated liabilities	10 498	–	10 498	–	10 498
	285 762	(9 494)	276 268	(21 804)	254 464

R'million	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Net amount
	Amounts subject to enforceable netting arrangements				
	Effects of offsetting on-balance sheet			Related amounts not offset	
49. Offsetting (continued)					
At 31 March 2013					
Group					
Assets					
Cash and balances at central banks	5 677	–	5 677	–	5 677
Loans and advances to banks	30 157	(6 879)	23 278	–	23 278
Non-sovereign and non-bank cash placements	5 875	–	5 875	–	5 875
Reverse repurchase agreements and cash collateral on securities borrowed	7 668	–	7 668	(2 205)	5 463
Sovereign debt securities	33 730	–	33 730	(11 125)	22 605
Bank debt securities	20 969	–	20 969	(4 503)	16 466
Other debt securities	6 258	–	6 258	(354)	5 904
Derivative financial instruments	12 735	(574)	12 161	(6 251)	5 910
Securities arising from trading activities	1 357	–	1 357	–	1 357
Investment portfolio	9 102	–	9 102	–	9 102
Loans and advances to customers	135 726	–	135 726	–	135 726
Own originated loans and advances to customers securitised	2 379	–	2 379	–	2 379
Other loans and advances	672	–	672	–	672
Other securitised assets	1 168	–	1 168	–	1 168
Other assets	1 166	–	1 166	–	1 166
	274 639	(7 453)	267 186	(24 438)	242 748
Liabilities					
Deposits by banks	18 435	(574)	17 861	–	17 861
Derivative financial instruments	16 111	(6 879)	9 232	(6 251)	2 981
Other trading liabilities	1 063	–	1 063	–	1 063
Repurchase agreements and cash collateral on securities lent	18 188	–	18 188	(18 187)	1
Customer accounts (deposits)	185 311	–	185 311	–	185 311
Debt securities in issue	4 091	–	4 091	–	4 091
Liabilities arising on securitisation of own originated loans and advances	2 933	–	2 933	–	2 933
Liabilities arising on securitisation of other assets	588	–	588	–	588
Other liabilities	2 799	–	2 799	–	2 799
Subordinated liabilities	–	–	–	–	–
	249 519	(7 453)	242 066	(24 438)	217 628

R'million	Amounts subject to enforceable netting arrangements				
	Effects of offsetting on-balance sheet			Related amounts not offset	
	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Net amount
49. Offsetting (continued)					
At 31 March 2014					
Company					
Assets					
Cash and balances at central banks	5 751	–	5 751	–	5 751
Loans and advances to banks	38 371	(8 699)	29 672	–	29 672
Non-sovereign and non-bank cash placements	9 045	–	9 045	–	9 045
Reverse repurchase agreements and cash collateral on securities borrowed	6 442	–	6 442	(2 275)	4 167
Sovereign debt securities	34 815	–	34 815	(7 635)	27 180
Bank debt securities	20 233	–	20 233	(4 718)	15 515
Other debt securities	13 019	–	13 019	(735)	12 284
Derivative financial instruments	12 752	(795)	11 957	(5 411)	6 546
Securities arising from trading activities	1 316	–	1 316	(688)	628
Investment portfolio	8 657	–	8 657	–	8 657
Loans and advances to customers	134 611	–	134 611	–	134 611
Own originated loans and advances to customers securitised	–	–	–	–	–
Other loans and advances	–	–	–	–	–
Other securitised assets	527	–	527	–	527
Other assets	1 492	–	1 492	–	1 492
	287 031	(9 494)	277 537	(21 462)	256 075
Liabilities					
Deposits by banks	23 061	(795)	22 266	–	22 266
Derivative financial instruments	17 958	(8 699)	9 259	(5 411)	3 848
Other trading liabilities	1 431	–	1 431	–	1 431
Repurchase agreements and cash collateral on securities lent	16 407	–	16 407	(16 051)	356
Customer accounts (deposits)	196 177	–	196 177	–	196 177
Debt securities in issue	4 386	–	4 386	–	4 386
Liabilities arising on securitisation of own originated loans and advances	–	–	–	–	–
Liabilities arising on securitisation of other assets	–	–	–	–	–
Other liabilities	2 673	–	2 673	–	2 673
Subordinated liabilities	10 498	–	10 498	–	10 498
	272 591	(9 494)	263 097	(21 462)	241 635

R'million	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Net amount
	Amounts subject to enforceable netting arrangements				
	Effects of offsetting on-balance sheet			Related amounts not offset	
49. Offsetting (continued)					
At 31 March 2013					
Company					
Assets					
Cash and balances at central banks	5 635	–	5 635	–	5 635
Loans and advances to banks	27 002	(6 879)	20 123	–	20 123
Non-sovereign and non-bank cash placements	5 875	–	5 875	–	5 875
Reverse repurchase agreements and cash collateral on securities borrowed	7 668	–	7 668	(2 205)	5 463
Sovereign debt securities	33 730	–	33 730	(11 125)	22 605
Bank debt securities	19 848	–	19 848	(4 503)	15 345
Other debt securities	5 286	–	5 286	(354)	4 932
Derivative financial instruments	12 457	(574)	11 883	(5 973)	5 910
Securities arising from trading activities	1 357	–	1 357	–	1 357
Investment portfolio	8 969	–	8 969	–	8 969
Loans and advances to customers	124 327	–	124 327	–	124 327
Own originated loans and advances to customers securitised	919	–	919	–	919
Other loans and advances	672	–	672	–	672
Other securitised assets	414	–	414	–	414
Other assets	865	–	865	–	865
	255 024	(7 453)	247 571	(24 160)	223 411
Liabilities					
Deposits by banks	18 262	(574)	17 688	–	17 688
Derivative financial instruments	16 111	(6 879)	9 232	(5 973)	3 259
Other trading liabilities	1 063	–	1 063	–	1 063
Repurchase agreements and cash collateral on securities lent	17 089	–	17 089	(18 187)	(1 098)
Customer accounts (deposits)	179 172	–	179 172	–	179 172
Debt securities in issue	3 261	–	3 261	–	3 261
Liabilities arising on securitisation of own originated loans and advances	919	–	919	–	919
Liabilities arising on securitisation of other assets	–	–	–	–	–
Other liabilities	2 648	–	2 648	–	2 648
Subordinated liabilities	12 496	–	12 496	–	12 496
	251 021	(7 453)	243 568	(24 160)	219 408

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For contact details for Investec offices refer to page 184.

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