Annual Report

Out of the Ordinary®

Investec

2014 | Investec Bank plc annual financial statements

About this report

Cross-referencing tools:

Audited information

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

Reporting standard

Denotes our consideration of a reporting standard

Page references

Refers readers to information elsewhere in this report

Sustainability

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

Website

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

Contents

Investec Bank plc
in perspective

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

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

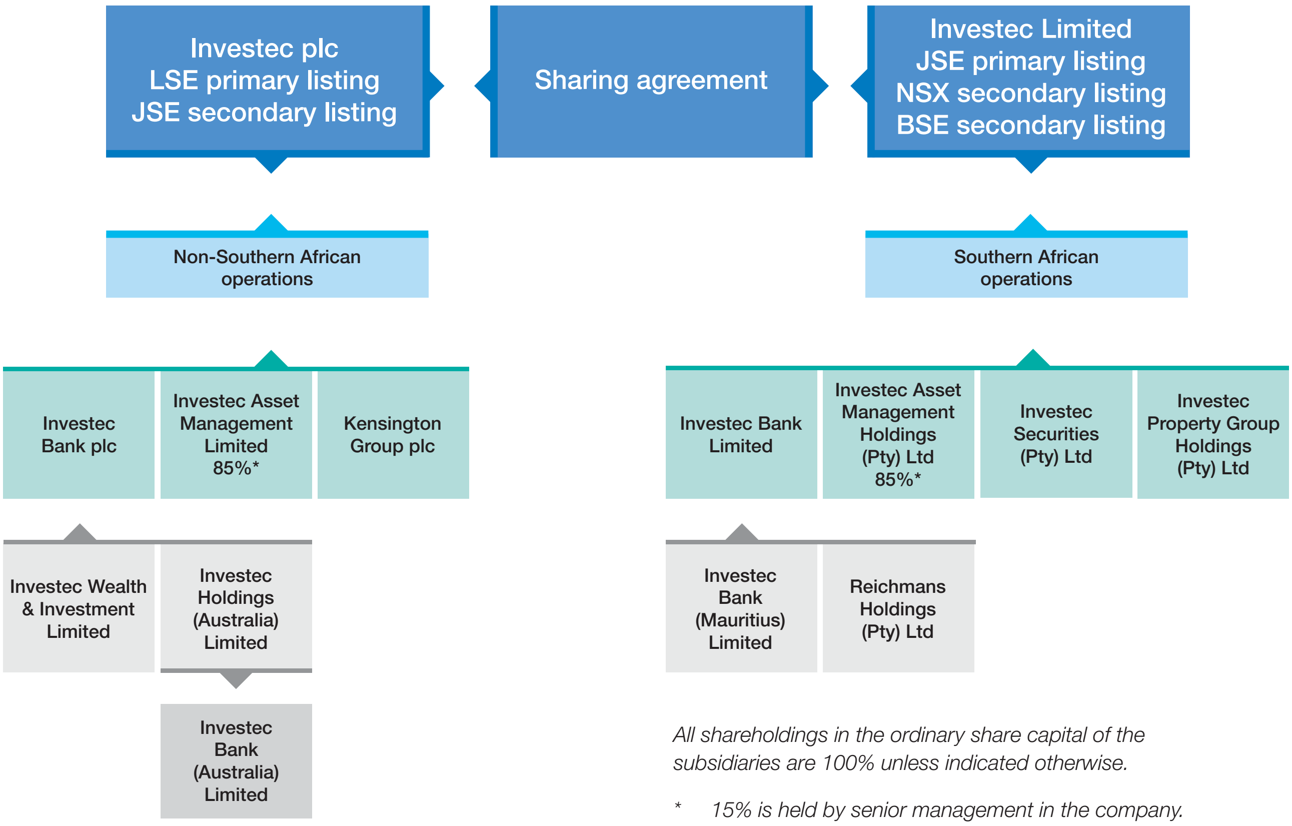
Operating structure

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

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

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

Our DLC structure and main operating subsidiaries at 31 March 2014



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

* *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.

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

What we do. . .
Specialist Banking

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

Corporates/government/institutional clients

Investment activities

Principal investments

Property investment fund management

Australia
Hong Kong
UK and Europe

Our principal investments business in Hong Kong largely focuses on pre-IPO investment opportunities in Chinese companies with good track records, whilst our business in the UK focuses on opportunistic investment alongside credible clients.

Our Property business focuses on property fund management and property investments.

Corporate and Institutional Banking activities

Treasury and trading services

Specialised lending, funds and debt capital markets

Advisory and institutional research, sales and trading

Australia
Canada
India
UK and Europe
Hong Kong
USA

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.

During the 2014 financial year the investment banking and securities business was integrated into the corporate and institutional banking division.

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

High income and high net worth private clients

Private Banking activities

Transactional banking
Lending
Deposits
Investments

Australia
UK and Europe

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

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

Integrated systems and infrastructure

What we do. . .
Wealth & Investment

United Kingdom and Other

Investments and savings

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

Pensions and retirement

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

Tax planning and mitigation

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

Investec Wealth & Investment offers its clients comfort in its scale, international reach and depth of investment processes.

The European operations are conducted through Investec Wealth & Investment Ireland, European Wealth Management which operates from Switzerland and in Guernsey through Investec Wealth & Investment Channel Islands.

Over 1 000 staff operate from offices located throughout the UK and Europe, with combined funds under management of £27.0 billion. Investec Wealth & Investment is one of the UK's leading providers of private client investment management services.

Investec Bank (Australia) Limited

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

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

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

The financial year has seen Investec beginning the process of restructuring and reshaping the Australian business into a boutique operation focusing on Investec's core strengths across Capital Markets, Corporate Finance and Property Funds Management. As part of this restructuring and reshaping, Investec Bank (Australia) Limited announced late in 2013 that independent advisers were appointed to identify alternatives for its Professional Finance and Asset Finance & Leasing businesses. In April 2014, an agreement was reached with Bank of Queensland to sell these two businesses and the deposit book, for a premium of A$210 million, subject to regulatory approval.

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

Investec Bank (Australia) Limited is subject to regulation by the Australian Prudential Regulation Authority.

Our operational footprint

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

Business leaders

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

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

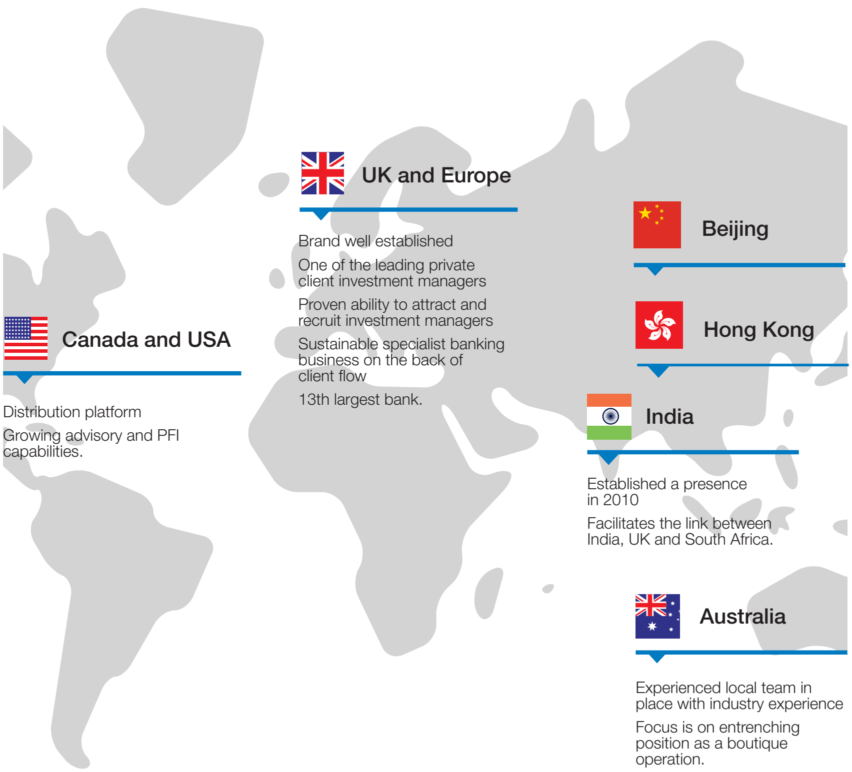
Wealth & Investment value proposition

- Investec Wealth & Investment has been built via the acquisition and integration of businesses and organic growth over a long period of time
- Well established platforms in the UK and Switzerland. The new Guernsey business became fully operational in the final quarter of the 2013 calendar year
- Focus is on internationalising the business and organic growth in our key markets
- The business currently has four distinct channels: direct, intermediaries, charities and international, and is in the process of developing its online capabilities to form a fifth 'digital' distribution channel
- *c.*77 000 clients.

Specialist Banking value proposition

- High quality specialist banking solution to corporate, institutional and private clients with leading positions in selected areas
- Provide high touch personalised service
- Ability to leverage international, cross-border platforms
- Well positioned to capture opportunities between the developed and the emerging world
- Balanced business model with good business depth and breadth
- Total corporate and other clients: *c.*168 000
- Total high income and high net worth clients: *c.*68 000

Where we operate



Highlights

A diversified business model continues to support a large recurring revenue base, totalling 59.8% of operating income

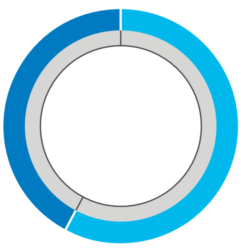
(2013: 56.6%)

We have a strong franchise that supports a solid revenue base

Operating profit before taxation* increased 26.1% to £109.5 million

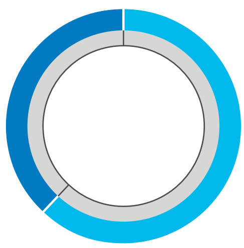
(2013: £86.9 million)

Contribution to operating profit before taxation*



31 March 2014

Specialist Banking	57.9%
Wealth & Investment	42.1%



31 March 2013

Specialist Banking	62.2%
Wealth & Investment	37.8%

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

Our financial performance

Investec Bank plc recorded a 4.3% increase in total operating income

2013	2014
£839.2mn	£875.4mn

Earnings attributable to ordinary shareholders increased

2013	2014
£31.8mn	£51.6mn

Improving credit loss ratio

2013	2014
1.20%	1.00%

Cash and near cash balances reduced 6.4%

2013	2014
£4 543mn	£4 253mn

Our financial performance

Core loans and advances remained flat

2013	2014
£8 237mn	£8 201mn

Customer deposits decreased 2.3%

2013	2014
£11 355mn	£11 096mn

Third party assets under management increased 8.6%

2013	2014
£25 054mn	£27 206mn

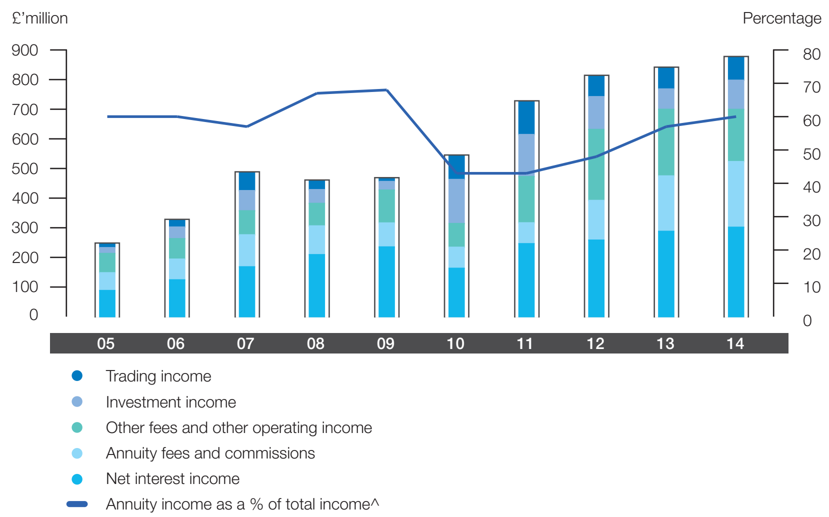
Low gearing ratios

2013	2014
11.4 times	10.5 times

Other financial features

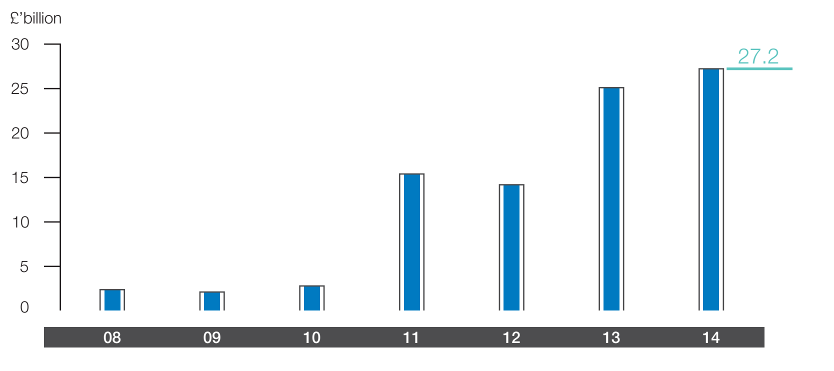
£'000	31 March 2014	31 March 2013	% change
Total capital resources (including subordinated liabilities)	2 579 048	2 557 869	0.8%
Total shareholders' equity	1 909 272	1 879 127	1.6%
Total assets	20 035 483	21 331 214	(6.1%)

Total operating and annuity income^



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

Momentum in building our third party assets under management continues



Credit quality on core loans and advances has improved

Core loans and advances remained flat at £8 201 million

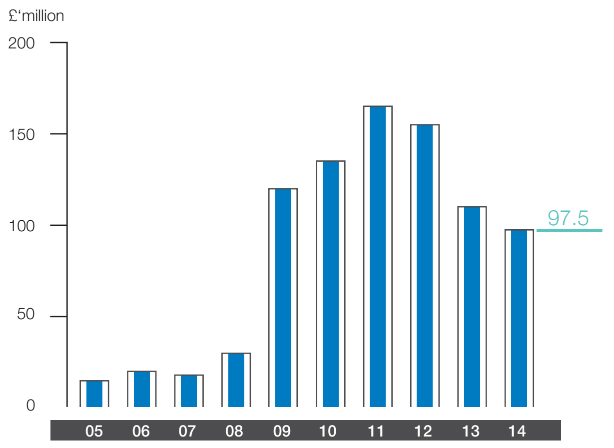
Default loans (net of impairments) as a percentage of core loans and advances decreased from 3.76% to 3.22%

Impairments have decreased by 11.7% since 31 March 2013, with a substantial improvement reported in the UK business offset by a slight increase reported in the Australian business

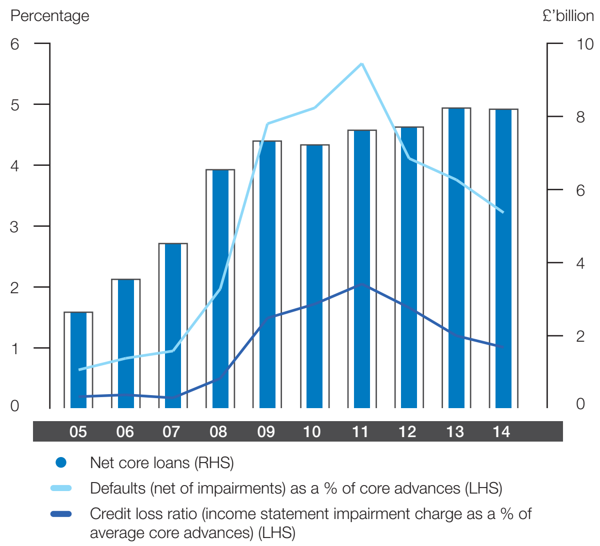
The credit loss ratio improved from 1.20% to 1.00%

Net defaults (after impairments) remain adequately collateralised.

Impairments



Default and core loans



Sound capital and liquidity principles maintained

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

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

Investec has maintained a stable capital base

A well established liquidity management philosophy remains in place

We have a stable retail deposit franchise

Advances as a percentage of customer deposits is at 69.9% (2013: 68.2%)

Continue to focus on:

- Maintaining a high level of readily available, high quality liquid assets – approximately 32.5% of the bank's liability base
- Diversifying funding sources
- Limiting concentration risk
- Reduced reliance on wholesale funding.

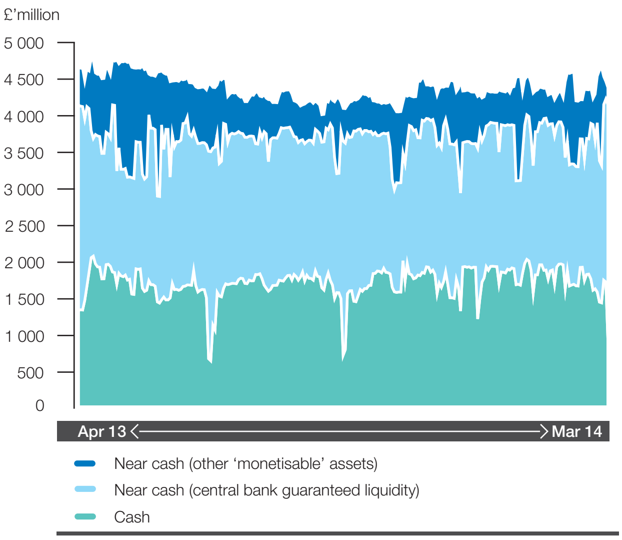
Capital adequacy and tier 1 ratios

	31 March 2014 (Basel III)^			31 March 2013 (Basel II)		
	Capital adequacy ratio	Tier 1 ratio	Common equity tier 1 ratio	Capital adequacy ratio	Tier 1 ratio	Common equity tier 1 ratio
Investec Bank plc	15.7%	10.7%	10.7%	16.1%	11.1%	11.1%
Investec plc	14.9%	10.0%	8.3%	16.7%	11.0%	8.8%

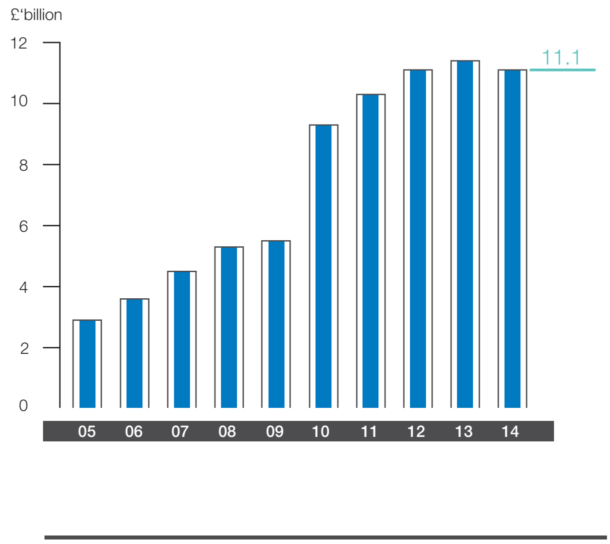
^ *Takes into account the deduction of foreseeable dividends as discussed on page 102.*

Sound retail deposit franchise

Cash and near cash trend



Customer accounts (deposits)



TWO

Financial **review**

An overview of the operating environment impacting our business

United Kingdom

Our views

The UK economy mustered growth of 1.7% through 2013 and expanded by 0.8% on the quarter between January and March 2014 leaving output 3.1% up on the year, the fastest annual pace of growth since Q4 2007.

0.2%	2.3%
2012/13 Economic growth	2013/14 Economic growth

GDP per capita has risen

2013	2014
£24 373	£25 175

Over the 2013/14 financial year, the UK's economic recovery gained momentum

At the same time the UK jobs market recovery picked up pace, with the unemployment rate falling to 6.8% in March 2014 from 7.8% in April 2013, its lowest level since January 2009. Inflation moderated relatively sharply through the period falling to the 2% target in December 2013 and standing below target at the end of the year. Nevertheless, the improved economic backdrop sparked expectations of tighter policy from the Bank of England (BoE). In response, the new BoE governor Mark Carney, in post since 1 July 2013, introduced 'forward guidance' in August 2013 whilst the bank rate stood at 0.5% and the size of the Quantitative Easing programme was held at £375 billion. The BoE's forward guidance began life in August 2013 as advice that implied the BoE would not consider adjusting interest rates until the unemployment rate reached 7%. But when the 7% mark was approached relatively quickly, the BoE adjusted its guidance, broadening it out to look at 'spare capacity' in February 2014, seeking to limit talk of an impending rate hike and the impact such expectations might have on the UK's recovery momentum. There were no changes in the UK's sovereign ratings during the period, with S&P holding the UK at AAA, Fitch at AA+ and Moody's at Aa1.

Australia

Our views

In an election year which saw a change of government, with Tony Abbott of the Liberal Party assuming the role of Prime Minister, the pace of growth in the Australian economy slowed.

3.1%	2.6%
2012/13 Economic growth	2013/14 Economic growth

GDP per capita has risen

2013	2014
A$65 612	A$67 185

Indeed, in 2013, the pace of output growth dropped to 2.4% from 3.6% in 2012, more akin to the level seen in the post-2008/9 financial crisis years than in the pre-crisis period. The resources sector, a key driver of Australian growth momentum, was affected by slower mining demand with this explaining a significant part of the moderation in Australian growth in 2013. Furthermore, a squeeze on domestic expenditure through the fiscal consolidation programme also took its toll on the pace of Australian output expansion, with the new government largely continuing to work on improving Australia's fiscal position. Given this weaker backdrop, the Reserve Bank opted to ease policy further during the period, reducing the cash rate to 2.5% in August 2013, a new low below the 3% level deployed at the height of the 2008/9 crisis. That loose policy stance persisted through the remainder of the forecast period supporting signs of steady, albeit not storming, economic expansion through the early part of 2014.

United States

Our views

At the end of the 2013/14 year US GDP stood 6.3%, up on its 2008 pre-crisis peak level.

The US economy expanded by 1.9% through 2013, continuing America's recovery from the 2008/9 downturn, albeit at a slower pace than the prior year

In the final quarter of the 2013/14 financial year the US recovery appeared to grind to a halt, with growth effectively flat on the quarter. However, that weakness was not expected to continue into the new financial year and recovery momentum was seen as largely intact, with much of the weakness attributed to severe weather. The improvement in the economic backdrop also helped to support a continued recovery in the US jobs market over the period with the unemployment rate having slid further to 6.3% in April 2014 from 7.5% in April 2013. Whilst broader measures of the US's recovery position also built over the year, the housing market was a relative soft spot with some moderation in recovery momentum seen in that sector. That was triggered in part by the decision by the Federal Reserve to 'taper' its QE3 programme in December 2013, with that decision (and the expectation of it) pushing up long-term mortgage rates. The Federal Reserve continued with that pullback at subsequent meetings too, such that the monthly asset purchase pace (of Mortgage Backed Securities and Treasuries) had fallen to U$45 billion per month in April 2014, from U$85 billion per month before the taper commenced in December 2013. More broadly, Federal Reserve policy remained ultra-loose through the period with the Federal Reserve Funds target rate at 0.00-0.25% as the Federal Open Market Committee sought to reinforce the recovery.

Eurozone

The Euro area moved onto a calmer footing in the 2013/14 financial year as a series of positive Euro crisis developments boosted confidence in the single currency zone. Indeed, the financial year saw Ireland exit its bailout programme without assistance, Portugal return to debt markets, Spain exit its Financial Assistance Programme and Greece successfully undertake a debt syndication. Through 2013, overall the Euro area contracted by 0.4%, a marginal improvement on 2012's 0.6% decline, although performance still varied significantly across members with much of peripheral Europe still struggling in a more significant way under the weight of fiscal austerity. Further, even across the brighter member states, recovery momentum remained far from strong and wider measures of economic health, including the jobs market remained soft with unemployment still elevated across much of the Euro area. As such, the European Central Bank (ECB) maintained a stance of exceptionally loose policy through the period under consideration. The ECB's main refinancing rate was reduced from 0.5% to 0.25% in November 2013, on the back of a weak inflation outlook across the zone overall. Indeed, subdued inflation was a theme through much of the latter part of the financial year, with further policy easing such as Quantitative Easing, a negative deposit rate and other monetary easing options all having gained attention towards the end of the period. None of these latest ideas had been enacted by the end of the financial year but remained under consideration as the year closed.

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
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%
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$1 435/oz
Macro-economic				
UK GDP (% change over the period)	2.3%	0.2%		
UK per capita GDP	25 175	24 373	3.3%	
Australia GDP (% change over the period)	2.6%	3.1%		
Per capita GDP (A$)	67 185	65 612	2.4%	

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

Key risks relating to our operations

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

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

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

33 – 63

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

86 – 91

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

90 – 91

Legal and regulatory risks are substantial in our businesses.

79 – 86

Liquidity risk may impair our ability to fund our operations.

90

Reputational, strategic and **business risk.**

76 – 78

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

86 – 91

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

90

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

64 – 74

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

91 – 95

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

86 – 91

Employee misconduct could cause harm that is difficult to detect.

12 – 14

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

91

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.

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

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

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

Key income drivers

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

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

Specialist Banking

Wealth & Investment

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

Key income drivers	Income impacted primarily by	Income statement – primarily reflected as
• Lending activities.	• Size of portfolios • Clients' capital and infrastructural investments • Client activity • Credit spreads • Shape of yield curve.	• Net interest income • Fees and commissions.
• 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; investment properties) • Gains or losses on investments • Dividends received.	• Macro- and micro-economic market conditions • Availability of profitable exit routes • Whether appropriate market conditions exist to maximise gains on sale • Attractive investment opportunities.	• 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.

Overview

The bank reported a solid increase in operating profit before non-operating items and taxation and after other non-controlling interests to £109.5 million for the year ended 31 March 2014 (2013: £86.9 million). The balance sheet remains strong, supported by sound capital and liquidity ratios.

Unless the context indicates otherwise, all income statement comparatives in the review below relate to the results for the year ended 31 March 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 of £875.4 million is 4.3% higher than the prior year. The various components of total operating income are analysed below.

£'000	31 March 2014	% of total income	31 March 2013*	% of total income	% change
Net interest income	301 446	34.4%	287 670	31.8%	4.8%
Net fee and commission income	385 529	44.0%	380 438	38.6%	1.3%
Investment income	98 491	11.3%	68 648	13.6%	43.5%
Trading income arising from:					
– customer flow	77 052	8.8%	57 867	6.7%	33.2%
– balance sheet management and other trading activities	639	0.1%	13 209	1.8%	(95.2%)
Other operating income	12 207	1.4%	31 345	7.5%	(61.1%)
Total operating income before impairment losses on loans and advances	875 364	100.0%	839 177	100.0%	4.3%

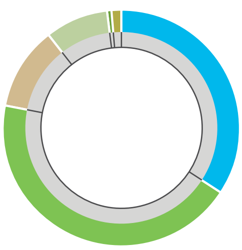
* *Restated.*

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

£'000	31 March 2014	% of total income	31 March 2013*	% of total income	% change
Wealth & Investment	228 825	26.1%	170 380	20.3%	34.3%
Specialist Banking	646 539	73.9%	668 797	79.7%	(3.3%)
Total operating income before impairment losses on loans and advances	875 364	100.0%	839 177	100.0%	4.3%

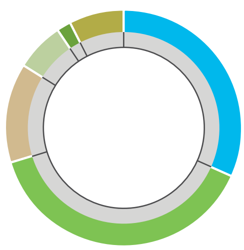
* *Restated.*

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



31 March 2014
£875.4 million total operating income before impairment losses on loans and advances

Net interest income	34.4%
Net fee and commission income	44.0%
Investment income	11.3%
Trading income arising from customer flow	8.8%
Trading income arising from customer balance sheet management and other trading activities	0.1%
Other operating income	1.4%



31 March 2013
£839.2 million total operating income before impairment losses on loans and advances

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

Net interest income

Net interest income increased by 4.8% to £301.4 million (2013: £287.7 million) due to loan book growth and lower cost of funding in both the UK and Australia, partially offset by a lower return earned on certain higher yielding assets and on the legacy portfolios which are running down.

For a further analysis of interest received and interest paid refer to pages 153 and 154.

Net fee and commission income

Net fee and commission income increased by 1.3% to £385.5 million (2013: £380.4 million) as a result of higher average funds under management and net inflows in the Wealth & Investment business. The Specialist Banking business recorded a decrease in net fees and commissions largely due to lower corporate fees earned, however, pipelines remain sound.

For a further analysis of net fee and commission income refer to page 155.

Investment income

Investment income increased by 43.5% to £98.5 million (2013: £68.6 million) as a result of the solid performance of the principal investment portfolio.

For a further analysis of investment income refer to page 156.

Trading income

Trading income from customer flow increased 33.2% to £77.1 million (2013: £57.9 million) whilst trading income from other trading activities decreased by 95.2% to £0.6 million (2013: £13.2 million) due to gains arising from the sale of bonds not repeated in the current year.

Arising from customer flow

£'000	31 March 2014	31 March 2013	Variance	% change
Wealth & Investment	389	361	28	7.8%
Specialist Banking	76 663	57 506	19 157	33.3%
Trading income arising from customer flow	77 052	57 867	19 185	33.2%

Arising from balance sheet management and other trading activities

£'000	31 March 2014	31 March 2013*	Variance	% change
Wealth & Investment	(72)	4	(76)	(>100.0%)
Specialist Banking	711	13 205	(12 494)	(94.6%)
Trading income arising from balance sheet management and other trading activities	639	13 209	(12 570)	(95.2%)

* *Restated.*

Other operating income

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

Impairment losses on loans and advances

Impairments on loans and advances decreased from £110.4 million to £97.5 million. Impairments in the UK were £17.2 million lower than the prior year, whilst Australia reported a slight increase.

Since 31 March 2013 the percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances improved from 3.76% to 3.22%. The credit loss charge as a percentage of average gross core loans and advances has improved from 1.20% at 31 March 2013 to 1.00%. The ratio of collateral to default loans (net of impairments) is at 1.13 times (2013: 1.15 times).

For further information on asset quality refer to pages 51 to 63.

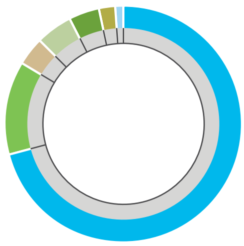
Operating costs

The ratio of total operating costs to total operating income amounted to 76.1% (2013: 76.3%). Total operating expenses grew by 3.6% to £667.3 million (2013: £643.8 million) as a result of growth initiatives implemented in the Wealth & Investment business. Operating costs in the Specialist Bank reduced by 4.3% largely as a result of lower depreciation recorded on operating leased assets and fixed cost containment.

The various components of total expenses are analysed below:

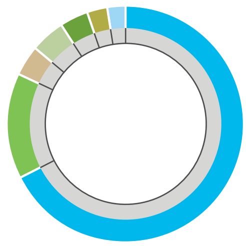
£'000	31 March 2014	% of total expenses	31 March 2013	% of total expenses	% change
Staff costs (including directors' remuneration)	473 949	71.0%	435 477	67.6%	8.8%
Business expenses	85 136	12.8%	94 439	14.6%	(9.9%)
Equipment expenses (excluding depreciation)	26 043	3.9%	25 692	4.0%	1.4%
Premises expenses (excluding depreciation)	32 843	4.9%	31 361	4.9%	4.7%
Marketing expenses	27 272	4.1%	24 300	3.8%	12.2%
Depreciation	16 020	2.4%	16 503	2.6%	(2.9%)
Depreciation on operating leased assets	6 044	0.9%	16 072	2.5%	(62.4%)
Total operating costs	667 307	100.0%	643 844	100.0%	3.6%

% of total operating costs



31 March 2014
£667.3 million total operating costs

Staff costs	71.0%
Business expenses	12.8%
Equipment	3.9%
Premises	4.9%
Marketing	4.1%
Depreciation	2.4%
Depreciation on operating leased assets	0.9%



31 March 2013
£643.8 million total operating costs

Staff costs	67.6%
Business expenses	14.6%
Equipment	4.0%
Premises	4.9%
Marketing	3.8%
Depreciation	2.6%
Depreciation on operating leased assets	2.5%

Impairment of goodwill

The current year's goodwill impairment relates to the restructure of the Australian business.

Amortisation of acquired intangibles

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

Operating costs arising from integration and restructuring

Operating costs arising from integration and restructuring largely includes costs associated with the restructuring of the Australian business as mentioned above.

Net gain on disposal of subsidiaries

Net gain on disposal of subsidiaries comprises a loss on the sale of the Trust business offset by a gain on disposal of Lease Direct Finance.

Balance sheet analysis

Since 31 March 2013:

- Total shareholders' equity (including non-controlling interests) increased by 1.6% to £1.9 billion as a result of the issue of shares and improved retained earnings
- Total assets decreased by 6.1% to £20.0 billion largely as a result of a reduction in surplus cash and near cash assets.

Questions and answers

Steve Elliott

Global head

Wealth & Investment…

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

A Market conditions for the UK business have generally been favourable during the financial year, with many equity markets ending 2013 at or close to all-time highs. Markets began 2014 somewhat less confidently but subsequently recovered. While there remain challenges and uncertainties in the global economy that could lead to further volatility, there are good reasons for investors to maintain a positive outlook for the year ahead.

Measures announced by the UK government in its 2014 budget are significant for the UK investment management sector. In a major change to pension regulations, UK individuals will no longer be required to use their pension fund to purchase an annuity to fund their retirement. They will instead be free to utilise the assets of their fund as they choose upon retirement. This presents a significant opportunity for investment management businesses, as individuals are now free to continue to invest in risk-based assets throughout their retirement as a means of seeking greater returns from their pension savings. In a further positive development for UK investment management businesses, the amount which individuals can invest each year into their tax exempt Individual Savings Account (ISA) has been increased significantly and greater flexibility has also been introduced.

The regulatory environment continues to place increasing obligations on UK investment management businesses and this has been a driver to the latest wave of consolidation in the UK industry. It may also have contributed to the change of strategic focus by some in the UK market, which has given rise to greater opportunities to recruit experienced investment managers.

The strength of our offering means we are well placed to take advantage of the potential for growth which these opportunities present and look to recruit additional experienced investment managers who understand our philosophy and core values.

With its political and economic stability, Switzerland continues to be one of the preferred private client financial centres and forms part of our international strategy.

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

A We have continued to expand our business across the UK, but most notably in Scotland with the recruitment of a total of nine experienced investment managers across our Glasgow and Edinburgh offices. We now have a substantial presence in both of these key strategic locations which provides a strong platform for future growth in the Scottish marketplace.

Our investment management service is well suited to a wide range of levels of wealth. The strength of our offering presents an opportunity to capture a greater share of the higher net worth market. We have recently launched our Private Office service, which draws on those elements of our service which can be targeted to fulfil the requirements of higher net worth individuals.

We are committed to maintaining the high standard of service we provide and see the continuous development of our offering to our existing clients as the foundation on which future growth will be achieved. To this end, we have continued to invest in our systems and processes.

Our offering to international clients has been expanded during the year with the launching of our Channel Islands business, which provides investment management and custody services from our office in Guernsey.

Key to our International expansion will be a focus on Southern and East Africa. The group has an established business within Hong Kong/Asia and we are considering opportunities within these areas. We will continue to enhance and expand our offering to higher net worth clients utilising our well established platforms with international capabilities and investment management expertise.

It was a period of significant change and integration for Wealth & Investment in Ireland. The business was rebranded from NCB to Investec Wealth & Investment in May 2013.

What are your strategic objectives in the coming year?

A The personal service we provide to our clients is fundamental to our business. However, client preferences change over time and we are mindful that an increasing number of our clients prefer to receive communications and other aspects of our service electronically. A strong digital capability also provides an opportunity to reach sectors of the market that would not comprise part of our traditional client base. Advancing our digital strategy is a key priority in order to ensure that we continue to meet the changing needs of our current and future clients.

As noted above, we have recently launched our offshore business in the Channel Islands and our Private Office service to higher net worth clients. We will be working during the coming year to take advantage of the opportunities which these offerings provide.

We believe we are well positioned in Ireland to become one of the preferred wealth and investment management providers within our high net worth target market.

There continue to be opportunities to recruit experienced investment managers. We continue to attract candidates who are drawn to our working environment and culture and our strong, well resourced, investment process and operating platforms from which we service our clients. We will to pursue opportunities to recruit investment managers of the appropriate calibre who share our values.

We are committed to promoting, for the clients of Wealth & Investment and Private Banking, a truly seamless banking and investment experience across the business, as appropriate to the market.

What is your outlook for the coming year?

A The volatility in the equity markets in the first few months of 2014 is a reminder that risks remain in both the economic and political arenas that have the potential to unsettle investor confidence. Whilst these factors cannot be ignored and may drive further volatility during the year ahead, we believe that the overall outlook for investors remains positive, given the traction that is now being gained in the developed economies, the relative strength of corporate balance sheets and the desire by governments and policymakers to maintain demand.

The investment we have made, and continue to make, in developing the business and our offering leaves us well placed to continue to build on the growth we have achieved over the last financial year.

Ongoing initiatives in the digital and online channels should support revenue improvements and business efficiencies.

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

A Investec Wealth & Investment has 15 offices spread across the UK. This presents an opportunity for the business to become involved in communities across a wide geographical area. We positively encourage our teams across the UK to become involved in their communities and staff have used their volunteering days to get involved in charitable, environmental and educational projects across the regions.

We also provide financial support to charitable projects initiated by our staff.

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

Questions and answers

David van der Walt

Geographical business leader — United Kingdom

Specialist Banking…

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

A Since the beginning of the financial year the operating environment has improved steadily, and for the first time in a long while feels 'normal'. During the year, pipelines have built steadily and are now quite strong as board decisions start to translate into activity.

Equity and IPO markets have been robust. We were, however, slow to take advantage of these conditions due to internal restructuring at the beginning of the year, since then momentum has built and this has allowed us to be selective with our transactions; we are confident of a high quality pipeline.

The cost of liquidity improved substantially in the first half of the year and has continued to improve albeit at a slower pace. This has allowed us to reprice and remain competitive in most areas as margins have also started to tighten.

The regulatory environment remains challenging although the pace of change has begun to slow. While there are still a fair amount of regulatory changes to be implemented, most of the changes can be anticipated, giving greater certainty as to the impact and helping to plan accordingly. Regulatory change continues to affect costs, driving them higher.

The unrest in Ukraine is on the radar but has not to date affected the operating environment.

In summary, it has been an improving environment during the year and we are now in a healthy position to take advantage of more buoyant activity levels.

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

A We have continued with our theme of building our core business but, at the same time, simplifying our operating model.

Regarding simplification, we have closed our financial markets group and reduced our secondary market and principle credit activities. We have sold our trust businesses in Jersey and Switzerland. We integrated our Investment Banking and Securities business into our Corporate and Institutional Banking business. We have co-located the NCB business with our Irish branch in Dublin. The banking and securities business of NCB has been integrated into our Irish branch and no longer operates as a separate legal entity.

We have reduced pricing on deposit accounts and closed a number of non-core accounts to reduce the overall drag on liquidity. We have sold a leasing business, Lease Direct Finance, and are in the process of disposing of the Kensington mortgage business. We have separately identified our legacy assets and are actively managing these exposures.

On the theme of building out, we have continued to grow and expand our Asset Finance business. We have added overdrafts to our Voyage private client card and transactional banking offering aimed at high net worth individuals. We have launched our Private Bank Account targeting professionals, high income and South African clients banking abroad. We have focused the business back on primary client activity and building our franchise. We have launched an aircraft leasing fund out of Hong Kong with U$750 million of committed equity. We are steadily gaining market share in our chosen areas.

Overall, it has been a busy year with a number of initiatives delivered to plan.

What are your strategic objectives for the coming year?

A Our overall objective is to continue to build a significant client franchise while maintaining our expertise in niche specialist areas. Outside of this we have the following objectives:

- Successfully launch and rollout the Private Bank Account to our selected client base
- Digitise our private client offering
- Progress with the potential sale of Kensington (a subsidiary of Investec plc)
- Manage down the legacy portfolio
- Integrate the Irish business operationally with the UK business
- Continue to manage down the cost of funds
- Grow our client base and embed a consistent client culture and experience within the business.

What is your outlook for the coming year?

A On the basis that the environment continues to be good, we expect the core business to grow off the current base. We will work hard to get the majority of the drag of the legacy portfolio behind us which may mean that we sacrifice some income in the short term for long-term benefit. As a result of the pending sale of some of our businesses in Australia, our capital position will be comfortable and we will target moderate loan growth from our core client base. Quality of income should continue to improve and overall we are anticipating an improved performance.

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

A We continue to receive recognition for our efforts in operating an effective environmental management system. Our Gresham Street head office waste management programme made history by becoming the first organisation in the Clean City Awards Scheme's 20-year history to win the Chairman's Cup for a second time. They were also awarded the ISO 14001 certification and the Energy Reduction Verification (ERV) Kitemark. Our social investment programmes enjoyed a solid commitment from staff who volunteered 2 300 hours to the Arrival Education programme and participated in a number of events throughout the year. Our Guernsey office was awarded the Employer of the Year 2013 award with specific acknowledgement of its successful social investment programmes, for engaging employees and for carrying out great work in the community.

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

Questions and answers

Ciaran Whelan (acting)

Geographical business leader Australia

Specialist Banking…

Can you give us an overview of the recent strategic development?

A Following a strategic review of the business, on 11 April 2014, the group announced that it had entered into a definitive agreement with Bank of Queensland (BOQ) to sell its Professional Finance business, Asset Finance and Leasing businesses and its deposit book. The transaction is structured as a sale of IBAL and is subject to approval from the Australian Prudential Regulation Authority which is expected to be received between June and September 2014.

Tell us a little more about the deal

A The value of the deal was a premium of A$210 million, over book value of the businesses. About A$2.4 billion loans and A$2.7 billion deposits are being sold, with a total of about 310 people transferring to BOQ. The agreement with BOQ represents a significant opportunity for both the Professional Finance and Asset Finance Bank & Leasing businesses to pursue their next phase of growth.

What of Investec's presence in Australia remains?

A Following the sale, we will retain a significant business in Australia focusing on our core strengths across Corporate and Institutional Banking, Investment Banking and Property Fund Management. We are thus left with a non-bank subsidiary in Australia, with the business being serviced by approximately 90 staff members. The assets and liabilities relevant to the businesses that remain will be transferred to the balance sheets of either the UK or South Africa. New business written will be written on either of the two balance sheets. The Australian business will focus on entrenching its position as a boutique operation, providing strong cross-border and local opportunities for the greater Investec group.

What is the outlook for Investec Australia going forward?

A We have an experienced leadership team with a focused business backed by a strong global balance sheet and parent. We are in a good position to concentrate on what we do best within our specialist niches and to demonstrate our distinctive approach. The business that remains will form part of Investec's global operations. The lower cost structure and different regulatory environment means that there are high hopes for this business going forward.

Three

Risk management and
corporate governance

Group Risk Management objectives are to:

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

Overview of disclosure requirements

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

On pages 27 to 105 with further disclosures provided within the financial statements on pages 129 to 217.

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

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

The Risk disclosures comprise the majority of the bank's Pillar III disclosures as required under the Capital Requirements Regulation pertaining to banks in the UK.

Statement from the chairman of the Investec plc board risk and capital committee

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 has specialist divisions in the UK and Australia and smaller risk divisions in other regions to promote sound risk management practices.

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.

We believe that the risk management systems and processes we have in place are adequate to support the group's strategy and allow the group to operate within its risk appetite tolerance as set out on page 31.

This section of our integrated annual report, explains in detail our approach to managing our business within our risk appetite tolerance, across all main aspects of risk.

A summary of the year in review from a risk perspective

The bank remained within the majority of its risk appetite limits/targets across the various risk disciplines. Our risk appetite framework as set out on page 31 continues to be assessed in light of prevailing market conditions and group strategy.

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 during the year in review:

- 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 displaying sound financial strength and integrity, a core competency and an established track record
- The core loan book has grown moderately in home currencies. The legacy portfolios continue to be managed down and we are starting to see some opportunities in exiting deals in this book. However, we remain cautiously optimistic in this regard and our view is that the legacy book will still take three to five years to wind down
- Our core loan book remains diversified with commercial rent producing property loans comprising approximately 17% of the book, other lending collateralised by property 13%, HNW and private client lending 33% and corporate lending 37% (with most industry concentrations well below 5%). We anticipate that future growth in our core loan portfolios will largely come from professional mortgages, commercial rent producing property transactions, asset finance, fund finance and power and infrastructure finance. These asset classes have historically reported low default ratios and provide good gross asset margins
- Impairments on loans and advances decreased from £110.4 million to £97.5 million. Impairments in the UK were much improved whilst Australia reported an increase. Since 31 March 2013 gross defaults have improved from £502.7 million to £457.0 million. The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounted to 3.22% (2013: 3.76%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.13 times (2013: 1.15 times)
- Limited exposure to structured credit; representing approximately 2.1% of total assets
- Limited private client and corporate client exposures to peripheral Europe amounting to approximately 1.2% of total assets. In addition the bank has certain branch related and subsidiary activities in Ireland, with total assets representing 1.7% of the bank's assets
- A low gearing ratio of 10.5 times
- A low level of net assets and liabilities exposed to the volatility of IFRS fair value accounting; with level 3 assets amounting to 5.2% of total assets
- Low equity and investment risk exposure with total investments comprising 2.8% of total assets. Our investment portfolio continues to perform well
- Modest proprietary market risk within our trading portfolio. Value at risk and stress testing scenarios remain at prudent levels
- Potential losses that could arise in our trading book portfolio when stress tested under extreme market conditions (i.e. per extreme value theory) amount to less than 0.4% of total operating income
- A high level of readily available, high quality liquid assets; cash and near cash of £4.3 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
- Sound and stable retail franchise
- Healthy capital and leverage ratios; we have always held capital in excess of regulatory requirements and we intend to perpetuate this philosophy. All our banking subsidiaries meet current internal targets. Investec Bank plc already achieves a common equity tier 1 ratio above 10%
- Geographical and operational diversity with a high level of recurring income (amounting to 59.8% of total operating income) which continues to support sustainability of operating profit
- We continue to spend much time and effort focusing on operational, reputational, conduct, recovery and resolution risks. We need to assess the impact of cyber risk in greater detail, particularly given our focus on enhancing and expanding our digitilisation strategies. In the forthcoming year, we will also increase our focus on stress testing and have appointed an external adviser to assist in this regard. The key is to understand potential threats to our sustainability and profitability and thus a number of risk scenarios will be developed and assessed.

Conclusion

The current regulatory and economic environment continues to prove challenging to our business, however, we are comfortable that we have robust risk management processes and systems in place which provide a strong foundation to the board and the business to manage and mitigate risks within our risk appetite tolerance framework.

Signed on behalf of the board

Stephen Koseff

Chief executive officer of the Investec group and chairman of the board risk and capital committee

20 June 2014

Geographic summary of the year in review from a risk perspective

This section should be read in conjunction with, and against the background provided in, the overview of the operating environment section on pages 12 to 14.

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

Refer to pages 74 and 85, with a high level geographic summary of the most salient aspects provided below.

UK and Other

Credit risk

Our focus over the past few years to realign and rebalance our portfolios in line with our risk appetite framework is reflected in the relative changes in asset classes on our balance sheet. We have identified legacy and ongoing portfolios to differentiate current lending practices from pre-financial crisis transactions. The overall exposure to lending collateralised by property, as a proportion of our net core loan exposures has reduced, from 39% to 35%.

Non-property collateralised lending has increased in the year to 31 March 2014. Core loans and advances increased by 7.3% from £6.0 billion at 31 March 2013 to £6.5 billion at 31 March 2014, largely as a result of solid growth in our residential owner-occupied mortgage portfolios, and steady growth in our Asset Finance business.

Default loans (net of impairments) have decreased from 4.35% to 3.77% of core loans and advances. The credit loss ratio is at 0.97% (2013: 1.32%).

Traded market risk

In London, there has been ongoing growth in client activity across the Interest Rate and Foreign Exchange Corporate Sales desks. The Structured Equity desk's retail product sales have remained strong and they continue to develop both their product range and distribution capacity. Equity market making has continued to expand its coverage of stocks.

Balance sheet risk

The bank entered the year with a strong surplus liquidity position. This was reduced somewhat during the first half of the year, primarily through reductions in short-term retail deposits, prior to being built back up to opening levels with strategic longer-term secured funding activity. Funding rates continued to be driven down throughout the year as market liquidity and improved funding conditions persisted. This cost reduction was complemented by strategic initiatives including amendment to retail product terms. The overall impact led to a reduced funds transfer pricing rate for assets. Cash and near cash balances at 31 March 2014 amounted to £3.8 billion (2013: £3.9 billion) with total customer deposits remaining flat year-on-year at £9.4 billion. We continue to meet Basel liquidity requirements.

Australia

Credit risk

Core loans and advances decreased by 3.3% from A$3.2 billion at 31 March 2013 to A$3.1 billion at 31 March 2014. Default loans (net of impairments) decreased from 2.13% to 1.12% of core loans and advances, with the credit loss ratio deteriorating slightly from 0.85% to 1.12% (largely as a result of two larger deals being written off).

Over the past financial year there have been continued reductions in the levels of Investec Australia's defaulted loans across the legacy property book and also in loans originated in the Growth and Acquisition Finance business.

Traded market risk

Australian trading activity remains modest, with limited appetite for traded market risk exposures. Client activity continues to increase on the back of improved deal activity and a broader product offering.

Balance sheet risk

Investec Australia maintained a strong liquidity position well in excess of regulatory and internal policy requirements throughout the year, with average cash and near cash balances amounting to A$1 billion. Total customer deposits grew by 11.6% from 1 April 2013 to A$2.7 billion at 31 March 2014, following the launch of various new banking products and services. The strategic changes announced in respect of the operation of Investec Australia have at present had no material impact on Investec Australia's funding ability or liquidity position relative to target levels.

Salient features

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

Year to 31 March	2014	2013^
Net core loans and advances (£'million)	8 201	8 237
Gross defaults as a % of gross core loans and advances	5.44%	5.96%
Defaults (net of impairments) as a % of net core loans and advances	3.22%	3.76%
Net defaults (after collateral and impairments) as a % of net core loans and advances	–	–
Credit loss ratio*	1.00%	1.20%
Structured credit as a % of total assets	2.11%	2.43%
Banking book investment and equity risk exposures as a % of total assets	2.77%	2.70%
Traded market risk: one-day value at risk (£'million)	0.8	0.8
Cash and near cash (£'million)	4 253	4 543
Customer accounts (deposits) (£'million)	11 096	11 355
Core loans to equity ratio	4.3x	4.4x
Total gearing ratio**	10.5x	11.4x
Loans and advances to customers to customer deposits	69.9%	68.2%
Capital adequacy ratio	15.7%°	16.1%
Tier 1 ratio	10.7% °	11.1%
Common equity tier 1/core tier 1 ratio	10.7% °	11.1%
Leverage ratio	7.2% °	n/a
Return on average assets^^	0.37%	0.31%

* *Income statement impairment charge on core loans as a percentage of average advances.*
** *Total assets to total equity.*
^ *Restated.*
^^ *Earnings attributable to shareholders (before goodwill, acquired intangibles, non-operating items and after non-controlling interests) divided by average on-balance sheet assets.*
° *Takes into account the deduction of foreseeable dividends as discussed on page 102.*

Overall group risk appetite

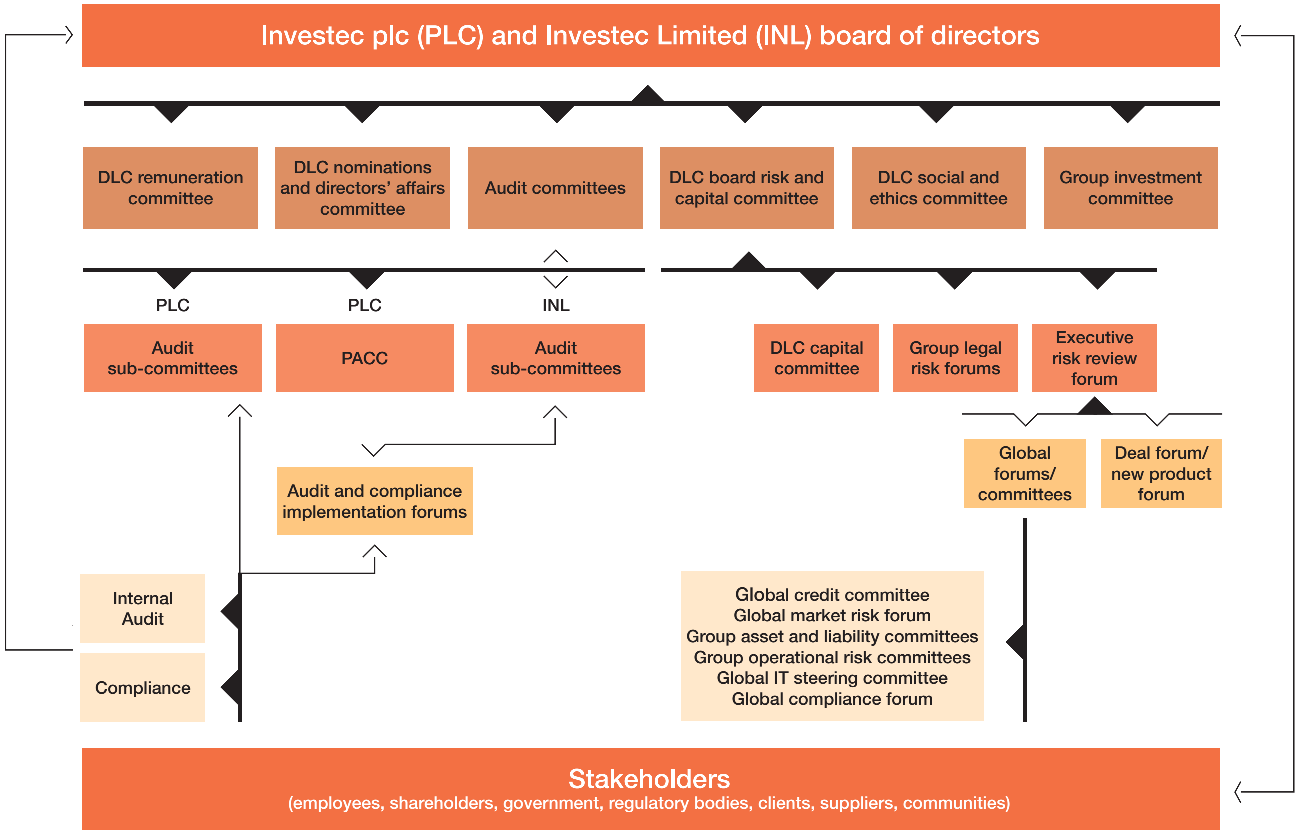
The group has a number of board-approved risk appetite statements and policy documents covering our risk tolerance and approach to all aspects of risk. In addition, a number of committees and forums identify and manage risk at a group level. The table below provides a high level summary of the group's overall risk tolerance framework.

Risk appetite and tolerance metrics	Positioning at 31 March 2014
• We seek to maintain an appropriate balance between revenue earned from capital light and capital intensive activities. Ideally the split in revenue should be 50:50, dependent on prevailing market conditions	Capital light activities contributed 46% to total operating income and capital intensive activities contributed 54%
• We have a solid recurring income base supported by diversified revenue streams, and target a recurring income ratio in excess of 65%	Recurring income amounted to 59.8% of total operating income
• We seek to maintain a strict control over fixed costs and target a cost to income ratio of below 70%	The cost to income ratio amounted to 76.1%
• We aim to build a sustainable business generating a sufficient return to shareholders over the longer term, and target a long-term return on equity ratio range of between 12% and 16% for the Investec group and a return on risk-weighted assets in excess of 1.2%	The return on equity of the Investec group amounted to 10.1% and our return on risk-weighted assets for the Investec group amounted to 1.14%
• We are a lowly leveraged firm and target a leverage ratio in all our banking subsidiaries in excess of 6%	We achieved this internal target, refer to page 102 for further information
• We intend to maintain a sufficient level of capital to satisfy regulatory requirements and our internal target ratios. We target a capital adequacy ratio range of between 14% and 17% on a consolidated basis and we target a minimum tier 1 ratio of 10.5% (11.0% by March 2016) and a common equity tier 1 ratio above 10.0% (by March 2016)	We meet current capital targets, refer to page 102 for further information
• We target a diversified loan portfolio lending to clients we know and understand. We limit our exposure to a single/connected individual or company to 7.5% of tier 1 capital (up to 10% if approved by the relevant board committee). We also have a number of risk tolerance limits and targets for specific asset classes	We maintained this risk tolerance level in place throughout the year
• There is a preference for primary exposure in the group's main operating geographies (i.e. UK and Australia). The group will accept exposures where we have a branch/banking business. The group will also tolerate exposures to other countries where it has core capabilities	Refer to page 44 for further information
• The level of defaults and impairments continues to improve and we target a credit loss charge on core loans of less than 0.5% of average core advances (less than 1.5% under a weak economic environment/stressed scenario), and we target defaults net of impairments less than 2% of total core loans (less than 4% under a weak economic environment/stressed scenario)	The credit loss charge on core loans amounted to 1.00% and defaults net of impairments amounted to 3.2% of total core loans. Refer to page 51 for further information
• We carry a high level of liquidity in all our banking subsidiaries in order to be able to cope with shocks to the system, targeting a minimum cash to customer deposit ratio of 20.0%	Total cash and near cash balances amounted to £4.3 billion, representing 32.5% of our liability base
• We have very modest market risk as our trading activities primarily focus on supporting client activity. Appetite for proprietary trading is limited and we set a tolerance level of a 1 day 95% VaR of less than £5 million	We meet these internal limits, refer to page 70 for further information
• We have moderate appetite for investment risk, and set a risk tolerance of less than 27.5% of tier 1 capital for our unlisted principal investment portfolio	Our unlisted investment portfolio is £277 million, representing 19.9% of total tier 1 capital. Refer to page 66 for further information
• Our Operational Risk Management team focuses on improving business performance and compliance with regulatory requirements, through review, challenge and escalation	Refer to page 86 to 89 for further information
• We have a number of policies and practices in place to mitigate reputational, legal and conduct risks	Refer to page 90 and 91 for further information

Risk management framework, committees and forums

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

Governance framework



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

ALCO	Asset and liability committee
APRA	Australian Prudential Regulation Authority
BoE	Bank of England
BRCC	Board risk and capital committee
ECB	European Central Bank
ERRF	Executive risk review forum
FCA	Financial Conduct Authority
FSB	Financial Services Board
PACC	Prudential audit and conduct committee
PRA	Prudential Regulation Authority
RBA	Reserve Bank of Australia

An overview of key risks

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

These risks have been highlighted on page 15.

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

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

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.

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

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

Credit and counterparty risk governance structure

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

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

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

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

Credit and counterparty risk appetite

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

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

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

Furthermore we have very little appetite for unsecured debt and ensure that good quality collateral is provided in support of obligations (refer to page 63 for further information).

Target clients include high net worth individuals, certain professionally qualified individuals, high-income earning individuals, corporate institutions, 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 67 to 69 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 Corporate Social Investment (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 by private and corporate clients, although some credit and counterparty risk does arise in other businesses.

Lending collateralised by property

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

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

An analysis of the lending collateralised by property portfolio and asset quality information is provided on pages 58 and 61.

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 58 to 61.

Corporate Client activities

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

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

Our trading portfolio consists of positions in interest rates, foreign exchange, 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, fund finance, debt origination, credit investments and securitisation activities. There are approved limits specifying the maximum exposure to each individual counterparty and industry limits, to minimise concentration risk. Facilities are secured on the assets of the underlying entity. The credit appetite for each counterparty is based on the financial strength of the principal borrower, underlying cash flow and security. Political risk insurance is taken where deemed appropriate. There is also strong adherence to prudent country risk limits to manage concentration risk on an ongoing basis.

Assets we are involved in are diverse and centre around our areas of expertise including, 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
- 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

- Corporate Loans: provides senior loans to mid-cap companies. Credit risk is assessed against debt service coverage from the robustness of the cash generation for the business based on historic and forecast information. These loans are predominantly in the UK and we act as transaction leader or arranger. We have a close relationship with management and the sponsor, as well as having negotiation influence over legal documentation and a meaningful voting percentage in the company
- 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 for 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
- Fund Finance: provides bespoke credit facilities to segregated funds to facilitate investment opportunities prior to institutional cash calls which the Fund has on irrevocable commitments. Fund Finance will also support management companies in their co-investment requirements
- Structured Credit Exposure: in the primary markets where we retain portions of the securities of our own securitisations and secondary market exposures mostly for accrual and to a lesser extent arbitrage purposes, generating annuity margin income and investment income
- Securitisation: structuring and sale of financial assets, mostly in the form of sale to special purpose entities which issue securities to investors.

An analysis of the corporate client loan portfolio and asset quality information is provided on pages 58 to 61.

Corporate Advisory and Investment Banking Activities

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

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

Wealth & Investment

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

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

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

Asset quality analysis – credit risk classification and provisioning policy

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 financial statements, credit losses and impairments are reported in accordance with International Financial Reporting Standards (IFRS).

Regulatory and economic capital classification	IFRS impairment treatment	Arrears, default and recoveries classification category	Description
Performing assets	For assets which form part of a homogeneous portfolio, a portfolio impairment is required which recognises asset impairments that have not been individually identified. The portfolio impairment takes into account past events and does not cover impairments to exposures arising out of uncertain future events. By definition, this impairment is only calculated for credit exposures which are managed on a portfolio basis and only for assets where a loss trigger event has occurred.	Past due	An account is considered to be past due when it is greater than zero and less than or equal to 60 days past due the contractual/credit agreed payment due date. Management however is not concerned and there is confidence in the counterparty's ability to repay the past due obligations.
		Special mention	The counterparty is placed in special mention when that counterparty is considered to be experiencing difficulties that may threaten the counterparty's ability to fulfil its credit obligation to the group (i.e. watchlist committee is concerned) for the following reasons: • Covenant breaches • There is a slowdown in the counterparty's business activity • An adverse trend in operations that signals a potential weakness in the financial strength of the counterparty • Any restructured credit exposures until appropriate watchlist committee decides otherwise. Ultimate loss is not expected, but may occur if adverse conditions persist. Supplementary reporting categories: • Credit exposures overdue 1 – 60 days • Credit exposures overdue 61 – 90 days.

Risk management (continued)

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, 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.

Investec has limited appetite for unsecured debt, preferring to mitigate risk through good quality tangible collateral

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 63.

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 financial statements where:

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

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

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

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

Investec places minimal reliance on credit derivatives in its credit risk mitigation techniques. Periodically the bank in the UK will enter into Credit Default Swaps (CDS) in order to hedge a specific asset held or to create a more general or macro-hedge against a group of exposures in one industry or geography, in these instances, the bank is deemed to be 'buying protection' against the assets. Depending on the perceived risk, or 'spread', of the underlying exposure, the CDS will fluctuate in value; increasing in value when the asset has become more risky and decreasing when risk has reduced. Occasionally, the bank will enter into trading/investment CDS positions where we buy protection or sell protection without owning the underlying asset. The total amount of net credit derivatives outstanding at 31 March 2014 amounts to £8.6 million, of which £1.9 million is used for credit mitigation purposes and the balance for trading and investment. Total protection bought amounts to £14.6 million (£6.6 million relating to credit derivatives used in credit mitigation) and total protection sold amounts to £6 million (£4.7 million relating to credit derivatives used in credit mitigation).

Further information on credit derivatives is provided on page 74.

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/or maturity haircuts discussed above.

Forbearance

Forbearance measures refer to concessions such as modification of the terms of conditions or the refinancing that have been granted to a debtor in financial difficulties. These modifications are on terms that would be more advantageous compared with what other debtors with a similar risk profile could have obtained from the bank. The Credit committee will assess each application to determine whether the proposed modifications will be considered as forbearance. Forbearance will be distinguished from commercial renegotiations which take place as part of normal business activity and standard banking practice. The amount of loans forborne represents a negligible percentage of the overall loan portfolio in our UK book.

Credit and counterparty risk year in review

UK and Other

Our focus over the past few years to realign and rebalance our portfolios in line with our risk appetite framework is reflected in the relative changes in asset classes on our balance sheet. We have identified legacy and ongoing portfolios to differentiate current lending practices from pre-financial crisis transactions. The overall exposure to property collateralised assets, as a proportion of our total loan exposures has reduced, in line with our risk appetite statement. In particular, it is pleasing to report that exposure to higher risk property collateralised assets in the planning and development category has reduced by 41% from 2010 to 31 March 2014.

With respect to our lending activity in our structured property finance business, we continued to actively manage this portfolio down and replace legacy assets with higher quality lower loan to value transactions supported by good quality clients with unblemished track records through the financial crisis. Lending supported by proven cash flows rather than asset value propositions continues to be favoured. Most property collateralised assets are located in the UK. Our exposure to Irish domiciled property has been under intensive management for the past five years and the non-performing assets have been substantially impaired (with a coverage ratio of 47% at 31 March 2014 which we consider to be prudent and adequate). Non-property collateralised lending as a percentage of gross credit exposures has increased from 59.3% in March 2013 to 63.3% in March 2014. The economic position in Ireland is improving and Ireland successfully exited the 2010 €85 billion bailout plan in February 2014.

Further information is provided in the economic section on pages 28 to 31 in volume one of the Investec group's integrated annual report.

Core loans and advances increased by 7.3% from £6.0 billion at 31 March 2013 to £6.5 billion at 31 March 2014 largely as a result of solid growth in our residential owner-occupied mortgage portfolios, and steady growth in our Asset Finance business. Default loans (net of impairments) have decreased from 4.35% to 3.77% of core loans and advances. The credit loss ratio is at 0.97% (2013: 1.32%).

Private Client (lending collateralised by property) gross default loans (before collateral and impairments) increased marginally year-on-year largely due to a handful of clients experiencing financial difficulty with no other major changes in general trends reflected in the private client portfolio. The assets affected by adverse financial conditions are predominantly pre-2009 transactions. Assets written post-2009 are of a far better quality both in loan to value terms and underlying cash flows.

Defaults in corporate loans were lower for the year end 2014. Due to an improved economic and market outlook, the Private Equity, Bond and IPO markets have reopened leading to a greater frequency of repayments. Activity and corporate leverage, however, still remain below pre-recession levels. Restructuring of legacy loans is still ongoing in volatile markets such as directories and retail. Investec's legacy loan book has been managed down through secondary sales and repayments. New corporate loans written in recent years are performing well to date.

The group risk division has continued to work closely with the business units to manage the impact of the increased risks in the market and resultant pressure on our lending portfolios. The key focus of the group risk division has been on proactive book management (together with the business units), repositioning some of our portfolio's asset mixes as well as taking advantage of opportunities that have arisen as a result of dislocated markets. Ongoing and increasing regulation remains a key focus of the group risk division as resources are channelled into ensuring compliance with new and changing rules is adopted throughout the group.

Australia

Core loans and advances decreased by 3.3% from A$3.2 billion at 31 March 2013 to A$3.1 billion at 31 March 2014. Default loans (net of impairments) decreased from 2.13% to 1.12% of core loans and advances, with the credit loss ratio deteriorating slightly from 0.85% to 1.12% (largely as a result of two larger deals being written off).

Over the past financial year there have been continued reductions in the levels of Investec Australia's defaulted loans across the legacy property book and also in loans originated in the Growth and Acquisition Finance business.

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

Investec Australia's Asset Finance business continued to show strong growth. This granular asset finance book is well diversified and continues to show relatively low levels of defaults.

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

Credit risk regulatory considerations

The UK regulatory environment has continued to evolve during the year, notably with the adoption of the Capital Requirements Directive IV (CRD IV) by the European Commission in June 2013. The CRD IV rules took effect in the UK on 1 January 2014 with changes to credit and counterparty risk capital requirements applying immediately. Increases in credit and counterparty risk are primarily attributable to an increase in the risk weight applied to deferred tax assets that rely on future profitability of a bank to be realised and which arise from temporary differences, due to the application of the threshold exemption approach and due to the expansion of the definition of the 'high risk' exposure category. The increases are partly offset by the ability to reduce the capital requirements applied to small and medium enterprise (SME) lending and the CRD IV approach to allocating portfolio impairments to underlying exposures, where they meet the definition of specific credit risk adjustments. Although not impacting credit and counterparty risk requirements, CRD IV introduced a new capital requirement for credit valuation adjustment (CVA) risk, which applies to all OTC derivative instruments and is used to capture the risk of default or variation in the credit quality of counterparties.

The impact of the new capital requirements on Investec Bank plc, can be found on page 100.

In the UK, we continue to monitor regulatory changes proposed by the PRA and the BIS. Furthermore we expect a significant number of technical standards to be issued by the European Banking Authority during 2014. These standards will need to be adopted by the European Commission, before they are binding on the UK banks.

Credit and counterparty risk information

Pages 27 to 41 describe where and how credit risk is assumed in our operations.

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

An analysis of gross credit and counterparty exposures

Credit and counterparty exposures decreased by 3.9% to £17.4 billion largely as a result of the depreciation of the Australian Dollar against Pounds Sterling and a decrease of 6.4% in cash and near cash balances to £4.3 billion. Cash and near cash balances are largely reflected in the following line items in the table below: cash and balances at central banks, loans and advances to banks, sovereign debt securities.

At 31 March £'000	2014	2013**	% change	Average*
Cash and balances at central banks	1 735 333	1 372 812	26.4%	1 554 072
Loans and advances to banks	1 105 205	1 140 479	(3.1%)	1 122 842
Reverse repurchase agreements and cash collateral on securities borrowed	1 215 500	1 528 593	(20.5%)	1 372 046
Sovereign debt securities	1 232 415	1 660 377	(25.8%)	1 446 396
Bank debt securities	371 182	455 201	(18.5%)	413 191
Other debt securities	218 190	183 812	18.7%	201 001
Derivative financial instruments	525 218	692 675	(24.2%)	608 946
Securities arising from trading activities	419 408	468 000	(10.4%)	443 704
Loans and advances to customers (gross)	7 945 593	7 938 213	(0.1%)	7 941 904
Own originated loans and advances to customers securitised (gross)	448 255	491 753	(8.8%)	470 004
Other loans and advances (gross)	879 773	1 268 102	(30.6%)	1 073 938
Other securitised assets (gross)	159 030	27 544	>100%	93 287
Other assets	137 665	61 291	>100%	99 478
Property and equipment	–	4 726	(>100%)	2 363
Total on-balance sheet exposures	16 392 767	17 293 578	(5.2%)	16 843 172
Guarantees^	187 686	208 357	(9.9%)	198 022
Contingent liabilities, committed facilities and other	859 984	650 918	32.1%	755 451
Total off-balance sheet exposures	1 047 670	859 275	21.9%	953 473
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	17 440 437	18 152 853	(3.9%)	17 796 645

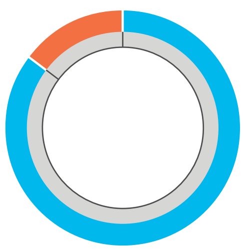
* *Where the average is based on a straight-line average for the period.*
^ *Excludes guarantees provided to clients which are backed/secured by cash on deposit with the bank.*
** *Restated.*

An analysis of gross credit and counterparty exposures by geography

At 31 March £'000	UK and Other 2014	UK and Other 2013	Australia 2014	Australia 2013	Total 2014	Total 2013**
Cash and balances at central banks	1 706 283	1 228 289	29 050	144 523	1 735 333	1 372 812
Loans and advances to banks	1 041 713	1 055 303	63 492	85 176	1 105 205	1 140 479
Reverse repurchase agreements and cash collateral on securities borrowed	1 215 500	1 528 593	–	–	1 215 500	1 528 593
Sovereign debt securities	946 004	1 365 463	286 411	294 914	1 232 415	1 660 377
Bank debt securities	234 728	275 173	136 454	180 028	371 182	455 201
Other debt securities	210 025	161 306	8 165	22 506	218 190	183 812
Derivative financial instruments	474 988	618 462	50 230	74 213	525 218	692 675
Securities arising from trading activities	419 408	459 731	–	8 269	419 408	468 000
Loans and advances to customers (gross)	6 652 682	6 207 293	1 292 911	1 730 920	7 945 593	7 938 213
Own originated loans and advances to customers securitised (gross)	–	–	448 255	491 753	448 255	491 753
Other loans and advances (gross)	879 773	1 268 102	–	–	879 773	1 268 102
Other securitised assets (gross)	159 030	27 544	–	–	159 030	27 544
Other assets	137 665	61 291	–	–	137 665	61 291
Property and equipment	–	4 726	–	–	–	4 726
Total on-balance sheet exposures	14 077 799	14 261 276	2 314 968	3 032 302	16 392 767	17 293 578
Guarantees^	155 725	169 282	31 962	39 075	187 686	208 357
Contingent liabilities, committed facilities and other	637 388	488 157	222 596	162 761	859 984	650 918
Total off-balance sheet exposures	793 112	657 439	254 558	201 836	1 047 670	859 275
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	14 870 911	14 918 715	2 569 526	3 234 138	17 440 437	18 152 853

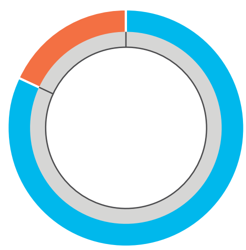
^ *Excludes guarantees provided to clients which are backed/secured by cash on deposit with the bank.*
** *Restated.*

An analysis of gross credit and counterparty exposures by geography



31 March 2014
£17 440 million

UK and Europe	85.3%
Australia	14.7%



31 March 2013
£18 153 million

UK and Europe	82.2%
Australia	17.8%

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

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

£'000	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note refer-ence	Total balance sheet
At 31 March 2014				
Cash and balances at central banks	1 735 333	7 272		1 742 605
Loans and advances to banks	1 105 205	–		1 105 205
Reverse repurchase agreements and cash collateral on securities borrowed	1 215 500	–		1 215 500
Sovereign debt securities	1 232 415	–		1 232 415
Bank debt securities	371 182	–		371 182
Other debt securities	218 190	11 038		229 228
Derivative financial instruments	525 218	257 729		782 947
Securities arising from trading activities	419 408	167 298		586 706
Investment portfolio	–	341 360	1	341 360
Loans and advances to customers	7 945 593	(192 686)	2	7 752 907
Own originated loans and advances to customers securitised	448 255	(617)	2	447 638
Other loans and advances	879 773	629 941	3	1 509 714
Other securitised assets	159 030	852 227	4	1 011 257
Interest in associated undertakings	–	16 637		16 637
Deferred taxation assets	–	97 614		97 614
Other assets	137 665	876 751	5	1 014 416
Property and equipment	–	63 487		63 487
Investment properties	–	61 715		61 715
Goodwill	–	296 247		296 247
Intangible assets	–	156 703		156 703
Total on-balance sheet exposures	16 392 767	3 642 716		20 035 483

1. *Largely relates to exposures that are classified as equity risk in the banking book.*
2. *Largely relates to impairments and the impact of hedge accounting.*
3. *Largely intergroup lending which is deemed to have no credit exposure.*
4. *Whilst the group manages all risks (including credit risk) from a day-to-day operational perspective, 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 do not hold legal credit risk or have no legal credit exposure'.*
5. *Other assets include settlement debtors where we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

£'000	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note reference	Total balance sheet
At 31 March 2013*				
Cash and balances at central banks	1 372 812	2 842		1 375 654
Loans and advances to banks	1 140 479	–		1 140 479
Reverse repurchase agreements and cash collateral on securities borrowed	1 528 593	–		1 528 593
Sovereign debt securities	1 660 377	–		1 660 377
Bank debt securities	455 201	–		455 201
Other debt securities	183 812	5 447		189 259
Derivative financial instruments	692 675	255 914		948 589
Securities arising from trading activities	468 000	205 763		673 763
Investment portfolio	–	333 291	1	333 291
Loans and advances to customers	7 938 213	(192 630)	2	7 745 583
Own originated loans and advances to customers securitised	491 753	(559)	2	491 194
Other loans and advances	1 268 102	484 786	3	1 752 888
Other securitised assets	27 544	1 077 486	4	1 105 030
Interest in associated undertakings	–	16 989		16 989
Deferred taxation assets	–	112 172		112 172
Other assets	61 291	1 140 439	5	1 201 730
Property and equipment	4 726^	81 877		86 603
Investment properties	–	11 500		11 500
Goodwill	–	326 841		326 841
Intangible assets	–	175 478		175 478
Total on-balance sheet exposures	17 293 578	4 037 636		21 331 214

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

* *Restated.*

1. *Largely relates to exposures that are classified as equity risk in the banking book.*
2. *Largely relates to impairments and the impact of hedge accounting.*
3. *Largely intergroup lending which is deemed to have no credit exposure.*
4. *Whilst the group manages all risks (including credit risk) from a day-to-day operational perspective, 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'.*
5. *Other assets include settlement debtors where we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

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

£'000	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	1 735 333	–	–	–	–	–	1 735 333
Loans and advances to banks	1 105 205	–	–	–	–	–	1 105 205
Reverse repurchase agreements and cash collateral on securities borrowed	1 215 500	–	–	–	–	–	1 215 500
Sovereign debt securities	572 183	20 488	59 706	–	103 752	476 286	1 232 415
Bank debt securities	20 946	30 656	13 487	159 247	146 846	–	371 182
Other debt securities	–	–	–	20 270	54 242	143 678	218 190
Derivative financial instruments	245 379	33 646	44 814	148 462	18 522	34 395	525 218
Securities arising from trading activities	351 426	–	2 556	31 061	25 701	8 664	419 408
Loans and advances to customers (gross)	1 538 825	874 846	772 375	3 373 943	560 260	825 344	7 945 593
Own originated loans and advances to customers securitised (gross)	20 143	14 822	36 255	347 883	17 129	12 023	448 255
Other loans and advances (gross)	4 185	–	–	5 523	–	870 065	879 773
Other securitised assets (gross)	–	–	–	–	–	159 030	159 030
Other assets	137 542	123	–	–	–	–	137 665
Total on-balance sheet exposures	6 946 667	974 581	929 193	4 086 389	926 452	2 529 485	16 392 767
Guarantees^	34 260	1 207	4 076	148 002	141	–	187 686
Contingent liabilities, committed facilities and other	314 644	18 128	92 999	342 191	17 390	74 632	859 984
Total off-balance sheet exposures	348 904	19 335	97 025	490 193	17 531	74 632	1 047 670
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	7 295 571	993 916	1 026 268	4 576 582	943 983	2 604 117	17 440 437

^ *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

£'000	HNW and other professional individuals	Lending collate-ralised by property largely to private clients	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business service	Finance and insurance
At 31 March 2014							
Cash and balances at central banks	–	–	–	–	1 735 333	–	–
Loans and advances to banks	–	–	–	–	–	–	1 105 205
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	–	–	1 215 500
Sovereign debt securities	–	–	–	–	1 232 415	–	–
Bank debt securities	–	–	–	–	–	–	371 182
Other debt securities	–	–	–	–	–	–	185 739
Derivative financial instruments	5 598	–	34	10 277	4 863	14 603	422 055
Securities arising from trading activities	–	–	–	–	361 830	–	57 463
Loans and advances to customers (gross)	2 327 713	2 538 625	21 326	349 371	186 485	252 460	486 882
Own originated loans and advances to customers securitised (gross)	448 255	–	–	–	–	–	–
Other loans and advances (gross)	–	–	–	–	–	–	77 652
Other securitised assets (gross)	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	18 072	103 702
Total on-balance sheet exposures	2 781 566	2 538 625	21 360	359 648	3 520 926	285 135	4 025 380
Guarantees	14 397	368	–	–	–	631	2 396
Contingent liabilities, committed facilities and other	331 081	166 522	2 519	66 695	6 751	34 643	57 708
Total off-balance sheet exposures	345 478	166 890	2 519	66 695	6 751	35 274	60 104
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	3 127 044	2 705 515	23 879	426 343	3 527 677	320 409	4 085 484
At 31 March 2013							
Cash and balances at central banks	–	–	–	–	1 372 812	–	–
Loans and advances to banks	–	–	–	–	–	–	1 140 479
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	–	–	1 528 593
Sovereign debt securities	–	–	–	–	1 660 377	–	–
Bank debt securities	–	–	–	–	–	–	455 201
Other debt securities	–	–	–	–	–	–	130 406
Derivative financial instruments	2 355	–	26	20 846	4 674	6 692	591 864
Securities arising from trading activities	–	–	–	3	458 545	593	8 743
Loans and advances to customers (gross)	1 946 563	2 748 792	9 620	355 389	189 498	416 214	473 013
Own originated loans and advances to customers securitised (gross)	491 753	–	–	–	–	–	–
Other loans and advances (gross)	–	–	–	–	–	–	177 901
Other securitised assets (gross)	–	–	–	–	–	–	27 544
Other assets	–	–	–	24	–	–	56 605
Property and equipment	–	–	–	8	32	2 191	810
Total on-balance sheet exposures	2 440 671	2 748 792	9 646	376 270	3 685 938	425 690	4 591 159
Guarantees	21 427	630	–	118	–	883	150 508
Contingent liabilities, committed facilities and other	102 112	115 512	–	39 442	5 878	54 883	76 330
Total off-balance sheet exposures	123 539	116 142	–	39 560	5 878	55 766	226 838
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	2 564 210	2 864 934	9 646	415 830	3 691 816	481 456	4 817 997

Risk management and corporate governance

03

Retailers and wholesalers	Manufacturing and commerce	Construction	Corporate commercial real estate	Other residential mortgages	Mining and resources	Leisure, entertainment and tourism	Transport	Communication	Total
–	–	–	–	–	–	–	–	–	1 735 333
–	–	–	–	–	–	–	–	–	1 105 205
–	–	–	–	–	–	–	–	–	1 215 500
–	–	–	–	–	–	–	–	–	1 232 415
–	–	–	–	–	–	–	–	–	371 182
–	–	–	–	32 451	–	–	–	–	218 190
24 529	6 977	13 816	1 144	–	1 153	10 962	7 144	2 063	525 218
–	–	–	–	–	–	–	115	–	419 408
346 712	378 194	78 865	72 470	16 074	176 663	160 907	486 845	66 001	7 945 593
–	–	–	–	–	–	–	–	–	448 255
–	–	–	–	802 121	–	–	–	–	879 773
–	–	–	–	159 030	–	–	–	–	159 030
1 572	9 456	–	–	137	–	–	–	4 726	137 665
372 813	394 627	92 681	73 614	1 009 813	177 816	171 869	494 104	72 790	16 392 767
3 585	1 571	56	–	141 221	23 375	86	–	–	187 686
37 528	46 637	23 229	2 208	5 293	6 023	16 828	49 960	6 359	859 984
41 113	48 208	23 285	2 208	146 514	29 398	16 914	49 960	6 359	1 047 670
413 926	442 835	115 966	75 822	1 156 327	207 214	188 783	544 064	79 149	17 440 437
–	–	–	–	–	–	–	–	–	1 372 812
–	–	–	–	–	–	–	–	–	1 140 479
–	–	–	–	–	–	–	–	–	1 528 593
–	–	–	–	–	–	–	–	–	1 660 377
–	–	–	–	–	–	–	–	–	455 201
–	–	7 270	46 136	–	–	–	–	–	183 812
7 676	14 628	24 268	10 712	–	1 993	3 497	3 342	102	692 675
–	–	–	–	–	–	–	116	–	468 000
313 682	453 329	36 964	32 408	–	107 813	128 593	284 393	441 942	7 938 213
–	–	–	–	–	–	–	–	–	491 753
–	–	–	–	1 090 145	–	–	56	–	1 268 102
–	–	–	–	–	–	–	–	–	27 544
–	187	–	3 707	–	593	–	–	175	61 291
528	426	65	248	–	11	1	406	–	4 726
321 886	468 570	68 567	93 211	1 090 145	110 410	132 091	288 313	442 219	17 293 578
687	4 174	–	994	–	28 586	350	–	–	208 357
35 098	48 962	4 002	19 529	–	21 998	6 949	120 223	–	650 918
35 785	53 136	4 002	20 523	–	50 584	7 299	120 223	–	859 275
357 671	521 706	72 569	133 734	1 090 145	160 994	139 390	408 536	442 219	18 152 853

Private client loans account for 33.1% of total gross core loans and advances, as represented by the industry classification 'HNW and professional individuals'

Summary analysis of gross credit and counterparty exposures by industry

A description of the type of private client lending we undertake is provided on page 36, and a more detailed analysis of the private client loan portfolio is provided on pages 58 to 61.

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

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

A description of the type of corporate client lending we undertake, is provided on pages 36 and 37, and a more detailed analysis of the corporate client loan portfolio is provided on pages 58 to 61.

At 31 March	Gross core loans and advances		Other credit and counterparty exposures		Total	
£'000	2014	2013	2014	2013	2014	2013
HNW and professional individuals	2 775 968	2 438 316	351 076	125 894	3 127 044	2 564 210
Lending collateralised by property – largely to private clients	2 538 625	2 748 792	166 890	116 142	2 705 515	2 864 934
Agriculture	21 326	9 620	2 553	26	23 879	9 646
Electricity, gas and water (utility services)	349 371	355 389	76 972	60 441	426 343	415 830
Public and non-business services	186 485	189 498	3 341 192	3 502 318	3 527 677	3 691 816
Business service	252 460	416 214	67 949	65 242	320 409	481 456
Finance and insurance	486 882	473 013	3 598 602	4 344 984	4 085 484	4 817 997
Retailers and wholesalers	346 712	313 682	67 214	43 989	413 926	357 671
Manufacturing and commerce	378 194	453 329	64 641	68 377	442 835	521 706
Construction	78 865	36 964	37 101	35 605	115 966	72 569
Corporate commercial real estate	72 470	32 408	3 352	81 326	75 822	113 734
Other residential mortgages	16 074	–	1 140 253	1 090 145	1 156 327	1 090 145
Mining and resources	176 663	107 813	30 551	53 181	207 214	160 994
Leisure, entertainment and tourism	160 907	128 593	27 876	10 797	188 783	139 390
Transport	486 845	284 393	57 219	124 143	544 064	408 536
Communication	66 001	441 942	13 148	277	79 149	442 219
Total	8 393 848	8 429 966	9 046 589	9 722 887	17 440 437	18 152 853

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 £'000	2014	2013
Loans and advances to customers as per the balance sheet	7 752 907	7 745 583
Add: own originated loans and advances securitised as per the balance sheet	447 638	491 194
Net core loans and advances to customers	8 200 545	8 236 777

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

An overview of developments during the financial year is provided on pages 41 and 42.

£'000	31 March 2014	31 March 2013
Gross core loans and advances to customers	8 393 848	8 429 966
Total impairments	(193 303)	(193 189)
Portfolio impairments	(16 437)	(6 694)
Specific impairments	(176 866)	(186 495)
Net core loans and advances to customers	8 200 545	8 236 777
Average gross core loans and advances to customers	8 411 907	8 153 153
Current loans and advances to customers	7 797 897	7 767 954
Past due loans and advances to customers (1 – 60 days)	124 033	131 348
Special mention loans and advances to customers	14 941	27 943
Default loans and advances to customers	456 977	502 721
Gross core loans and advances to customers	8 393 848	8 429 966
Current loans and advances to customers	7 797 897	7 767 954
Default loans that are current and not impaired	43 508	8 005
Gross core loans and advances to customers that are past due but not impaired	147 216	177 909
Gross core loans and advances to customers that are impaired	405 227	476 098
Gross core loans and advances to customers	8 393 848	8 429 966
Total income statement charge for core loans and advances	(84 327)	(97 729)
Gross default loans and advances to customers	456 977	502 721
Specific impairments	(176 866)	(186 495)
Portfolio impairments	(16 437)	(6 694)
Defaults net of impairments	263 674	309 532
Collateral and other credit enhancements	297 114	356 321
Net default loans and advances to customers (limited to zero)	–	–
Ratios		
Total impairments as a % of gross core loans and advances to customers	2.30%	2.29%
Total impairments as a % of gross default loans	42.30%	38.43%
Gross defaults as a % of gross core loans and advances to customers	5.44%	5.96%
Defaults (net of impairments) as a % of net core loans and advances to customers	3.22%	3.76%
Net defaults as a % of gross core loans and advances to customers	–	–
Credit loss ratio (i.e. income statement impairment charge as a % of average core gross loans and advances)	1.00%	1.20%

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

£'000	UK and Other 31 March 2014	UK and Other 31 March 2013	Australia 31 March 2014	Australia 31 March 2013	Total group 31 March 2014	Total group 31 March 2013
Gross core loans and advances to customers	6 652 683	6 207 293	1 741 165	2 222 673	8 393 848	8 429 966
Total impairments	(182 066)	(175 562)	(11 237)	(17 627)	(193 303)	(193 189)
Portfolio impairments	(15 045)	(4 998)	(1 392)	(1 696)	(16 437)	(6 694)
Specific impairments	(167 021)	(170 564)	(9 845)	(15 931)	(176 866)	(186 495)
Net core loans and advances to customers	6 470 617	6 031 731	1 729 928	2 205 046	8 200 545	8 236 777
% of total	78.9%	73.2%	21.1%	26.8%	100.0%	100.0%
% change since 31 March 2013	7.3%		(21.5%)*		(0.4%)	
Average gross core loans and advances to customers	6 429 988	6 061 535	1 981 919	2 091 618	8 411 907	8 153 153
Current loans and advances to customers	6 105 944	5 628 594	1 691 953	2 139 360	7 797 897	7 767 954
Past due loans and advances to customers (1 – 60 days)	106 417	113 723	17 616	17 625	124 033	131 348
Special mention loans and advances to customers	14 011	26 948	930	995	14 941	27 943
Default loans and advances to customers	426 311	438 028	30 666	64 693	456 977	502 721
Gross core loans and advances to customers	6 652 683	6 207 293	1 741 165	2 222 673	8 393 848	8 429 966
Current loans and advances to customers	6 105 944	5 628 594	1 691 953	2 139 360	7 797 897	7 767 954
Default loans that are current and not impaired	43 508	8 005	–	–	43 508	8 005
Gross core loans and advances to customers that are past due but not impaired	121 402	146 014	25 814	31 895	147 216	177 909
Gross core loans and advances to customers that are impaired	381 829	424 680	23 398	51 418	405 227	476 098
Gross core loans and advances to customers	6 652 683	6 207 293	1 741 165	2 222 673	8 393 848	8 429 966
Total income statement charge for core loans and advances	(62 208)	(79 880)	(22 119)	(17 849)	(84 327)	(97 729)
Gross default loans and advances to customers	426 311	438 028	30 666	64 693	456 977	502 721
Specific impairments	(167 021)	(170 564)	(9 845)	(15 931)	(176 866)	(186 495)
Portfolio impairments	(15 045)	(4 998)	(1 392)	(1 696)	(16 437)	(6 694)
Defaults net of impairments	244 245	262 466	19 429	47 066	263 674	309 532
Collateral and other credit enhancements	262 862	306 490	34 252	49 831	297 114	356 321
Net default loans and advances to customers (limited to zero)	–	–	–	–	–	–

* *Impacted by the depreciation of the Australian Dollar against Pounds Sterling. Neutral currency book growth in the Australian book declined by 3.3%.*

	UK and Other		Australia		Total group	
	31 March 2014	31 March 2013	31 March 2014	31 March 2013	31 March 2014	31 March 2013
Ratios						
Total impairments as a % of gross core loans and advances to customers	2.74%	2.83%	0.65%	0.79%	2.30%	2.29%
Total impairments as a % of gross default loans	42.71%	40.08%	36.64%	27.25%	42.30%	38.43%
Gross defaults as a % of gross core loans and advances to customers	6.41%	7.06%	1.76%	2.91%	5.44%	5.96%
Defaults (net of impairments) as a % of net core loans and advances to customers	3.77%	4.35%	1.12%	2.13%	3.22%	3.76%
Net defaults as a % of gross core loans and advances to customers	–	–	–	–	–	–
Credit loss ratio (i.e. income statement impairment charge as a % of average gross core loans and advances)	0.97%	1.32%	1.12%	0.85%	1.00%	1.20%

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

At 31 March £'000	2014	2013
Default loans that are current	416 570	427 013
1 – 60 days	127 864	132 634
61 – 90 days	15 491	29 321
91 – 180 days	8 620	14 379
181 – 365 days	9 050	22 876
>365 days	18 356	35 789
Past due and default core loans and advances to customers (actual capital exposure)	595 951	662 012
1 – 60 days	5 053	10 160
61 – 90 days	508	680
91 – 180 days	3 221	1 913
181 – 365 days	7 959	18 107
>365 days	12 555	23 938
Past due and default core loans and advances to customers (actual amount in arrears)	29 296	54 798

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

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
At 31 March 2014							
Watchlist loans neither past due nor impaired							
Total capital exposure	43 508	–	–	–	–	–	43 508
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	124 420	14 554	6 424	1 117	701	147 216
Amount in arrears	–	4 142	206	2 145	519	701	7 713
Gross core loans and advances to customers that are impaired							
Total capital exposure	373 062	3 444	937	2 196	7 933	17 655	405 227
Amount in arrears	–	911	302	1 076	7 440	11 854	21 583
At 31 March 2013							
Watchlist loans neither past due nor impaired							
Total capital exposure	8 005	–	–	–	–	–	8 005
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	131 544	27 747	13 396	5 057	165	177 909
Amount in arrears	–	9 284	398	1 265	2 566	66	13 579
Gross core loans and advances to customers that are impaired							
Total capital exposure	419 008	1 090	1 574	983	17 819	35 624	476 098
Amount in arrears	–	876	282	648	15 541	23 872	41 219

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

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	124 033	–	–	–	–	124 033
Special mention	–	387	14 554	–	–	–	14 941
Special mention (1 – 90 days)	–	387	25	–	–	–	412
Special mention (61 – 90 days and item well secured)	–	–	14 529	–	–	–	14 529
Default	416 570	3 444	937	8 620	9 050	18 356	456 977
Sub-standard	190 819	–	–	6 424	1 117	701	199 061
Doubtful	85 441	3 376	935	2 128	7 826	15 807	115 513
Loss	140 310	68	2	68	107	1 848	142 403
Total	416 570	127 864	15 491	8 620	9 050	18 356	595 951

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

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	4 136	–	–	–	–	4 136
Special mention	–	6	206	–	–	–	212
Special mention (1 – 90 days)	–	6	2	–	–	–	8
Special mention (61 – 90 days and item well secured)	–	–	204	–	–	–	204
Default	–	911	302	3 221	7 959	12 555	24 948
Sub-standard	–	–	–	2 145	519	701	3 365
Doubtful	–	843	300	1 008	7 333	10 006	19 490
Loss	–	68	2	68	107	1 848	2 093
Total	–	5 053	508	3 221	7 959	12 555	29 296

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

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	131 348	–	–	–	–	131 348
Special mention	–	195	27 748	–	–	–	27 943
Special mention (1 – 90 days)	–	195	398	–	–	–	593
Special mention (61 – 90 days and item well secured)	–	–	27 350	–	–	–	27 350
Default	427 013	1 091	1 573	14 379	22 876	35 790	502 721
Sub-standard	142 770	–	–	13 396	5 057	13 540	174 763
Doubtful	119 190	882	1 573	890	17 793	20 390	160 718
Loss	165 053	209	–	93	26	1 859	167 240
Total	427 013	132 634	29 321	14 379	22 876	35 789	662 012

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

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

An analysis of core loans and advances to customers

£'000	Gross core loans and advances that are neither past due nor impaired	Gross core loans and advances that are past due but not impaired	Gross core loans and advances that are impaired	Total gross core loans and advances (actual capital exposure)	Specific impairments	Portfolio impairments	Total net core loans and advances (actual capital exposure)	Actual amount in arrears
At 31 March 2014								
Current core loans and advances	7 797 897	–	–	7 797 897	–	(16 437)	7 781 460	4 136
Past due (1 – 60 days)	–	124 033	–	124 033	–	–	124 033	–
Special mention	–	14 941	–	14 941	–	–	14 941	212
Special mention (1 – 90 days)	–	412	–	412	–	–	412	8
Special mention (61 – 90 days and item well secured)	–	14 529	–	14 529	–	–	14 529	204
Default	43 508	8 242	405 227	456 977	(176 866)	–	280 111	24 948
Sub-standard	43 308	8 242	147 511	199 061	(36 846)	–	162 215	3 365
Doubtful	–	–	115 513	115 513	(58 591)	–	56 922	19 490
Loss	200	–	142 203	142 403	(81 429)	–	60 974	2 093
Total	7 841 405	147 216	405 227	8 393 848	(176 866)	(16 437)	8 200 545	29 296
At 31 March 2013								
Current core loans and advances	7 767 954	–	–	7 767 954	–	(6 694)	7 761 260	–
Past due (1 – 60 days)	–	131 348	–	131 348	–	–	131 348	9 278
Special mention	–	27 943	–	27 963	–	–	27 943	398
Special mention (1 – 90 days)	–	593	–	593	–	–	593	7
Special mention (61 – 90 days and item well secured)	–	27 350	–	27 350	–	–	27 350	391
Default	8 005	18 618	476 098	502 721	(186 495)	–	316 226	45 122
Sub-standard	6 005	18 618	150 140	174 763	(32 542)	–	142 221	6 024
Doubtful	2 000	–	158 718	160 718	(69 361)	–	91 357	37 073
Loss	–	–	167 240	167 240	(84 592)	–	82 648	2 025
Total	7 775 959	177 909	476 098	8 429 966	(186 495)	(6 694)	8 236 777	54 798

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

£'000	Private client, professional and HNW individuals	Corporate sector	Insurance, financial services (excluding sovereign)	Public and government sector (including central banks)	Total core loans and advances to customers
At 31 March 2014					
Current core loans and advances	4 773 725	2 351 640	486 702	185 830	7 797 897
Past due (1 – 60 days)	114 989	9 044	–	–	124 033
Special mention	14 139	802	–	–	14 941
Special mention (1 – 90 days)	140	272	–	–	412
Special mention (61 – 90 days and item well secured)	13 999	530	–	–	14 529
Default	411 740	44 403	180	654	456 977
Sub-standard	180 246	18 815	–	–	199 061
Doubtful	90 776	23 963	149	625	115 513
Loss	140 718	1 625	31	29	142 403
Total gross core loans and advances to customers	5 314 593	2 405 889	486 882	186 484	8 393 848
Total impairments	(168 010)	(24 937)	(94)	(262)	(193 303)
Specific impairments	(151 573)	(24 937)	(94)	(262)	(176 866)
Portfolio impairments	(16 437)	–	–	–	(16 437)
Net core loans and advances to customers	5 146 583	2 380 952	486 788	186 222	8 200 545
At 31 March 2013					
Current core loans and advances	4 093 983	2 961 845	523 142	188 984	7 767 954
Past due (1 – 60 days)	87 298	44 050	–	–	131 348
Special mention	9 879	18 064	–	–	27 943
Special mention (1 – 90 days)	330	263	–	–	593
Special mention (61 – 90 days and item well secured)	9 549	17 801	–	–	27 350
Default	384 756	117 351	100	514	502 721
Sub-standard	145 993	28 770	–	–	174 763
Doubtful	73 514	86 590	100	514	160 718
Loss	165 249	1 991	–	–	167 240
Total gross core loans and advances to customers	4 575 916	3 141 310	523 242	189 498	8 429 966
Total impairments	(148 994)	(43 804)	(64)	(327)	(193 189)
Specific impairments	(147 298)	(38 806)	(64)	(327)	(186 495)
Portfolio impairments	(1 696)	(4 998)	–	–	(6 694)
Net core loans and advances to customers	4 426 922	3 097 506	523 178	189 171	8 236 777

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

	UK and Other				
£'000	Gross core loans	Gross defaults	Collateral	Balance sheet impair-ments	Income statement impairments
Lending collateralised by property	2 438 703	366 799	229 848	(138 354)	(40 426)
Commercial real estate	1 623 173	128 026	76 647	(52 087)	(24 992)
Commercial real estate – investment	1 396 537	62 723	47 562	(13 684)	(15 634)
Commercial real estate – development	92 787	21 016	11 243	(10 466)	(3 182)
Commercial vacant land and planning	133 849	44 287	17 842	(27 937)	(6 176)
Residential real estate	815 530	238 773	153 201	(86 267)	(15 434)
Residential real estate – investment	327 607	39 344	29 945	(6 765)	(3 350)
Residential – development	382 862	134 763	80 105	(56 463)	(8 387)
Residential vacant land and planning	105 061	64 666	43 151	(23 039)	(3 697)
HNW and other private client lending	1 497 909	21 144	17 605	(5 706)	(10 237)
Mortgages	1 143 043	4 786	6 115	(900)	(678)
HNW and specialised lending	280 874	15 023	10 921	(4 041)	(9 527)
Professional finance	73 992	1 335	569	(765)	(32)
Corporate and other lending	2 716 071	38 368	15 409	(22 961)	(11 545)
Acquisition finance	666 070	11 603	4 133	(7 471)	(2 253)
Asset-based lending	143 703	–	–	–	98
Fund finance	277 771	–	–	–	–
Other corporates and financial institutions and governments	328 133	4 241	2 821	(1 421)	(1 740)
Asset finance	878 934	9 832	5 455	(4 378)	(3 344)
Small ticket asset finance	665 261	7 849	3 472	(4 378)	(4 568)
Large ticket asset finance	213 673	1 983	1 983	–	1 223
Project finance	410 135	12 692	3 000	(9 691)	(4 306)
Resource finance	11 325	–	–	–	–
Portfolio impairments	–	–	–	(15 045)	–
Total	6 652 683	426 311	262 862	(182 066)	(62 208)

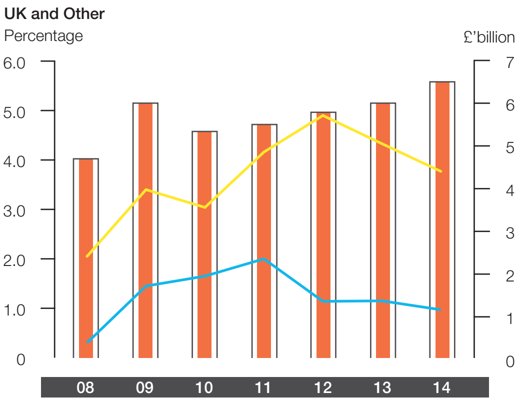
Australia					Total group				
Gross core loans	Gross defaults	Collateral	Balance sheet impair-ments	Income statement impairments	Gross core loans	Gross defaults	Collateral	Balance sheet impair-ments	Income statement impairments
99 922	14 458	10 587	(5 536)	(9 153)	2 538 625	381 257	240 435	(143 890)	(49 579)
39 545	5 196	3 195	(2 002)	(3 395)	1 662 718	133 222	79 842	(54 089)	(28 387)
33 188	5 196	3 195	(2 002)	(3 395)	1 429 725	67 919	50 757	(15 686)	(19 029)
3 285	–	–	–	–	96 072	21 016	11 243	(10 466)	(3 182)
3 072	–	–	–	–	136 921	44 287	17 842	(27 937)	(6 176)
60 377	9 262	7 392	(3 534)	(5 758)	875 907	248 035	160 593	(89 801)	(21 192)
330	193	78	(115)	(120)	327 937	39 537	30 023	(6 880)	(3 470)
46 149	–	–	–	(690)	429 011	134 763	80 105	(56 463)	(9 077)
13 898	9 069	7 314	(3 419)	(4 948)	118 959	73 735	50 465	(26 458)	(8 645)
1 278 059	9 339	19 128	(1 977)	(3 692)	2 775 968	30 483	36 733	(7 683)	(13 929)
16 964	–	–	–	–	1 160 007	4 786	6 115	(900)	(678)
60 591	4 391	15 581	(576)	(455)	341 465	19 414	26 502	(4 617)	(9 982)
1 200 504	4 948	3 547	(1 401)	(3 237)	1 274 496	6 283	4 116	(2 166)	(3 269)
363 184	6 869	4 537	(2 332)	(9 274)	3 079 255	45 237	19 946	(25 293)	(20 819)
78 358	6 024	3 800	(2 224)	(8 728)	744 428	17 627	7 933	(9 695)	(10 981)
–	–	–	–	–	143 703	–	–	–	98
–	–	–	–	–	277 771	–	–	–	–
92 629	–	–	–	–	420 762	4 241	2 821	(1 421)	(1 740)
103 872	845	737	(108)	(556)	982 806	10 677	6 192	(4 486)	(3 900)
85 086	845	737	(108)	(556)	750 347	8 694	4 209	(4 486)	(5 124)
18 786	–	–	–	–	232 459	1 983	1 983	–	1 223
28 506	–	–	–	10	438 641	12 692	3 000	(9 691)	(4 296)
59 819	–	–	–	–	71 144	–	–	–	–
–	–	–	(1 392)	–	–	–	–	(16 437)	–
1 741 165	30 666	34 252	(11 237)	(22 119)	8 393 848	456 977	297 114	(193 303)	(84 327)

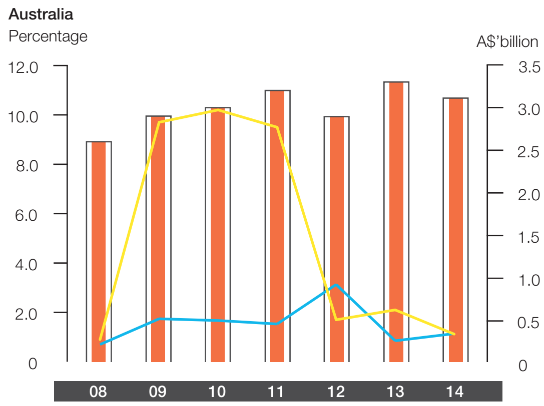
An analysis of core loans and advances by risk category at 31 March 2013

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

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

Asset quality trends

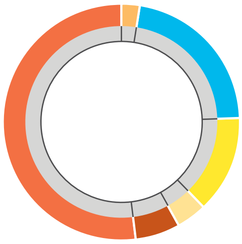




Credit loss ratio (LHS)   Defaults (net of impairments) as a % of core advances (LHS)   Net core loans (RHS)

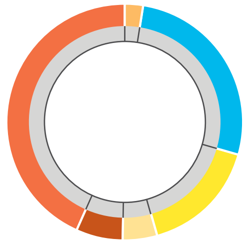
Additional information

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



31 March 2014
£8 394 million

Asia	2.7%
Australia	21.8%
Europe (excluding UK)	13.5%
North America	4.0%
Other	6.3%
United Kingdom	51.8%



31 March 2013
£8 430 million

Asia	2.7%
Australia	27.0%
Europe (excluding UK)	16.1%
North America	4.5%
Other	6.6%
United Kingdom	43.1%

Collateral

A summary of total collateral

£'000	Collateral held against: Core loans and advances	Collateral held against: Other credit and counterparty exposures*	Total
At 31 March 2014			
Eligible financial collateral	407 003	861 779	1 268 782
Listed shares	296 068	95 668	391 736
Cash	110 935	379 300	490 235
Debt securities issued by sovereigns	–	386 811	386 811
Mortgage bonds	4 779 482	494 360	5 273 842
Residential mortgages	2 166 383	494 176	2 660 559
Residential development	636 555	184	636 739
Commercial property development	182 186	–	182 186
Commercial property investments	1 794 358	–	1 794 358
Other collateral	4 128 206	304 944	4 433 150
Unlisted shares	194 838	–	194 838
Bonds other than mortgage bonds	9 295	304 512	313 807
Debtors, stock and other corporate assets	2 822 119	–	2 822 119
Guarantees	492 741	–	492 741
Other	609 213	432	609 645
Total collateral	9 314 691	1 661 083	10 975 774
At 31 March 2013			
Eligible financial collateral	513 644	1 754 519	2 268 163
Listed shares	429 158	596 579	1 025 737
Cash	84 486	824 311	908 797
Debt securities issued by sovereigns	–	333 629	333 629
Mortgage bonds	5 155 339	880 017	6 035 356
Residential mortgages	1 850 593	880 017	2 730 610
Residential development	727 057	–	727 057
Commercial property development	242 977	–	242 977
Commercial property investments	2 334 712	–	2 334 712
Other collateral	3 970 962	11 378	3 982 340
Unlisted shares	281 074	–	281 074
Bonds other than mortgage bonds	34 128	–	34 128
Debtors, stock and other corporate assets	2 437 885	–	2 437 885
Guarantees	587 428	–	587 428
Credit derivatives	–	4 050	4 050
Other	630 447	7 328	637 775
Total collateral	9 639 945	2 645 914	12 285 859

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

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

Equity and investment risk in the banking book

Equity and investment risk description

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

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

Management of equity and investment risk

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

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

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

Valuation and accounting methodologies

For a description of our valuation principles and methodologies refer to pages 141 to 144 and pages 168 to 173 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 5.2% of total assets.

Refer to page 169 for further information.

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

£'000 Country/category	Income (pre-funding costs) Unrealised	Realised	Dividends	Total	Fair value through equity
For the year to 31 March 2014					
Unlisted investments	2 130	30 235	9 084	41 449	10 996
UK and Other	2 130	30 309	9 077	41 516	10 975
Australia	—	(74)	7	(67)	21
Listed equities	(2 034)	7 791	1 571	7 328	(888)
UK and Other	(3 613)	6 509	395	3 291	(1 116)
Australia	1 579	1 282	1 176	4 037	228
Investment and trading properties	(4 260)	10 500	–	6 240	–
UK and Other	(1 084)	10 979	–	9 895	–
Australia	(3 176)	(479)	–	(3 655)	–
Warrants, profit shares and other embedded derivatives	51 962	(200)	–	51 762	–
UK and Other	51 962	(200)	–	51 762	–
Total	47 798	48 326	10 655	106 779	10 108
For the year to 31 March 2013*					
Unlisted investments	4 546	1 130	2 141	7 817	(2 620)
UK and Other	5 050	1 113	2 141	8 304	(2 620)
Australia	(504)	17	–	(487)	–
Listed equities	(8 858)	(38)	1 048	(7 848)	(3 560)
UK and Other	(6 646)	(85)	808	(5 923)	(4 800)
Australia	(2 212)	47	240	(1 925)	1 240
Investment and trading properties	(1 089)	450	–	(639)	–
UK and Other	–	202	–	202	–
Australia	(1 089)	248	–	(841)	–
Warrants, profit shares and other embedded derivatives	29 821	–	–	29 821	–
UK and Other	29 821	–	–	29 821	–
Total	24 420	1 542	3 189	29 151	(6 180)

* *Restated.*

Unrealised revaluation gains through profit and loss are included in tier 1 capital. In line with the Capital Requirements Regulation, for the period ended 31 March 2014, Investec Bank plc will not be allowed to recognise equity revaluation gains that are posted directly to equity in regulatory capital. The 2013 comparatives have not been restated, and include revaluation gains of £8 million in tier 2 capital.

Summary of investments held and stress testing analyses

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

£'000 Country/category	On-balance sheet value of investments 2014	Valuation change stress test 2014*	On-balance sheet value of investments 2013^	Valuation change stress test 2013*^
31 March				
Unlisted investments	277 491	41 624	280 119	42 018
UK and other	272 700	40 905	273 381	41 007
Australia	4 791	719	6 738	1 011
Listed equities	63 869	15 967	53 172	13 293
UK and other	62 212	15 553	48 380	12 095
Australia	1 657	414	4 792	1 198
Investment and trading properties	102 058	8 069	131 040	25 058
UK and other	79 527	3 563	59 439	10 738
Australia	22 530	4 506	71 601	14 320
Warrants, profit shares and other embedded derivatives	111 573	39 051	72 187	25 265
UK and other	111 573	39 051	72 187	25 265
Total	554 991	104 711	536 518	105 634

^ *Restated.*

* *In order to assess our earnings sensitivity to a movement in the valuation of these investments the following stress testing parameters are applied:*

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

Stress testing summary

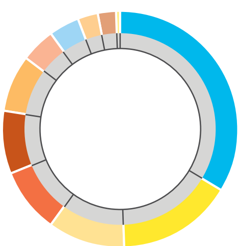
Based on the information at 31 March 2014, as reflected above we could have a £105 million reversal in revenue (which assumes a year in which there is a 'severe stress scenario'). This would not cause the group to report a loss but could have a significantly negative impact on earnings for that period. The probability of all these asset classes in all geographies in which we operate being negatively impacted at the same time is very low, although the probability of listed equities being negatively impacted at the same time is very high.

Capital requirements

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

Refer to page 98 for further detail.

An analysis of the principal investment portfolio by industry of exposure



31 March 2014 (£453 million)

Manufacturing and commerce	33.9%
Finance and insurance	15.8%
Retailer and wholesalers	10.5%
Agriculture	9.0%
Mining and resources	8.4%
Real estate	8.0%
Communication	4.7%
Transport	4.0%
Business services	3.0%
Medical	2.3%
Other	0.5%

Securitisation/structured credit activities exposures

Overview

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

Refer to page 45 for the balance sheet and credit risk classification.

The group applies the standardised approach in the assessment of regulatory capital for securitisation exposures within its banking book and trading book. The trading book exposures 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.

UK and Other

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

The bank has a portfolio of residential mortgages amounting to approximately £789 million, which could be earmarked for securitisation and are included in the numbers as presented on page 68.

The bank has no securitisations backed by revolving exposures.

Fitch Ratings, Moody's, S&P and DBRS have been involved in rating these abovementioned transactions.

During the year we undertook two securitisation transactions. Temese Funding 1 Plc, a £270 million securitisation of finance lease receivables closed in November 2013. 95% of the £228 million A note (AAA rated by S&P/Fitch (sf)), the £16 million B note (AAsf) and £11 million C note (Asf) were sold externally with 5% retained. The whole of the BBB rated D note (£9 million) and the unrated residual interest (£6 million) was retained. RMS27 is a £398 million securitisation of seasoned UK non-conforming residential mortgages which closed in October 2013. There were A notes issued of £272 million (AAA by S&P and Fitch), B notes of £110 million (unrated) and C notes £17 million (unrated), all of which were retained by Investec Bank plc. For regulatory purposes, the group continues to recognise these assets in the consolidated regulatory balance sheet. The group therefore does not apply the securitisation rules to the above originated transactions when calculating risk-weighted assets.

We have also purchased rated structured credit instruments (including resecuritisation exposures). These exposures are largely in the UK and amount to £346 million at 31 March 2014 (31 March 2013: £429 million). This is intended as a hold to maturity profile rather than a trading portfolio. Therefore, since our commercial intention is to hold the assets to maturity, the portfolio will be valued on an amortised cost basis. These investments are risk-weighted for regulatory capital purposes.

Further information is provided on pages 68 and 69.

This portfolio is risk-weighted for regulatory purposes.

Australia

Assets originated by the professional finance business in Australia have been securitised. These amount to A$805 million (31 March 2013: A$715 million). Within these securitisation vehicles loans greater than 90 days in arrears amounted to A$0.7 million and loans less than 90 days in arrears amounted to A$1.5 million.

During the year the Impala Trust No 1 (Sub series 2013-1), an A$278 million asset-backed securitisation was launched in September 2013. The loans securitised were mainly motor vehicles, equipment finance leases, commercial hire purchase agreements, and practice loans offered to medical and accounting professionals. All notes on offer were sold and oversubscribed.

Where applicable these securitisation structures have been rated by S&P. The group has acted as sole originator and sponsor in these securitisation transactions, which are considered to be traditional securitisations and in which a complete transfer of risk has deemed to have occurred for local regulatory capital purposes. The group has retained an investment in all of these transactions. For local regulatory capital purposes, the majority of the positions retained in the securitisation will be treated as capital deductions. The group has no resecuritisation exposures in Australia.

The bank has also purchased in select rated instruments in Australia residential mortgage-backed transactions, totalling A$15 million at 31 March 2014 (31 March 2013: A$22 million). These investments are risk-weighted for regulatory capital purposes.

Accounting policies

Refer to page 224.

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 67.

Credit analysis

In terms of our analysis of our credit and counterparty risk, exposures arising from securitisation/structured credit 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/structured credit 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 £'million	Exposure 2013 £'million	Internal balance sheet and credit risk classification
Structured credit* (gross exposure)	422	513	Other debt securities and other loans and advances
Rated	354	444	
Unrated	68	69	
Loans and advances to customers and third party intermediary originating platforms (mortgage loans) (with the potential to be securitised) (net exposure)	789	941	Other loans and advances

* *Analysed further on page 69.*

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*Analysis of structured rated and unrated credit

At 31 March £'million	2014 Rated**	2014 Unrated	2014 Total	2013 Rated**	2013 Unrated	2013 Total
US corporate loans	15	–	15	18	–	18
UK and European ABS	3	7	10	3	7	10
UK and European RMBS	253	57	310	327	55	382
UK and European CMBS	7	4	11	15	4	19
UK and European corporate loans	68	–	68	66	3	69
Australian RMBS	8	–	8	15	–	15
Total	354	68	422	444	69	513

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

£'million	AAA	AA	A	BBB	BB	B	C and below	Total
US corporate loans	–	–	–	11	4	–	–	15
UK and European ABS	–	–	–	3	–	–	–	3
UK and European RMBS	92	52	34	35	18	1	21	253
UK and European CMBS	–	–	–	7	–	–	–	7
UK and European corporate loans	25	24	14	5	–	–	–	68
Australian RMBS	8	–	–	–	–	–	–	8
Total at 31 March 2014	125	76	48	61	22	1	21	354
Total at 31 March 2013	160	76	57	56	41	30	24	444

Market risk in the trading book

Traded market risk description

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

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

Traded market risk governance structure

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

Management and measurement of traded market risk

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

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

The Market Risk 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) and 11 September 2001. We also consider the impact of extreme yet plausible future economic events on the trading portfolio as well as possible worst case (not necessarily plausible) scenarios. Scenario analysis is done once a week and is included in the data presented to ERRF.

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

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

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

VaR

	31 March 2014				31 March 2013			
	Year end	Average	High	Low	Year end	Average	High	Low
UK and Other 95% (one-day)								
Equities (£'000)	751	908	1 596	467	663	793	1 557	391
Foreign exchange (£'000)	9	15	73	2	11	25	82	5
Interest rates (£'000)	299	412	602	204	426	386	513	265
Consolidated (£'000)*	852	1 055	1 496	522	720	855	1 548	455
Australia 95% (one-day)								
Commodities (A$'000)	–	–	–	–	0.4	–	2.9	–
Foreign exchange (A$'000)	6.8	64.3	279.3	1.2	21.4	34.0	135.5	1.2
Interest rates (A$'000)	46.8	46.6	161.0	13.0	90.4	34.4	130.4	12.0
Consolidated (A$'000)*	45.6	83.5	277.1	16.5	96.9	52.6	149.3	12.2

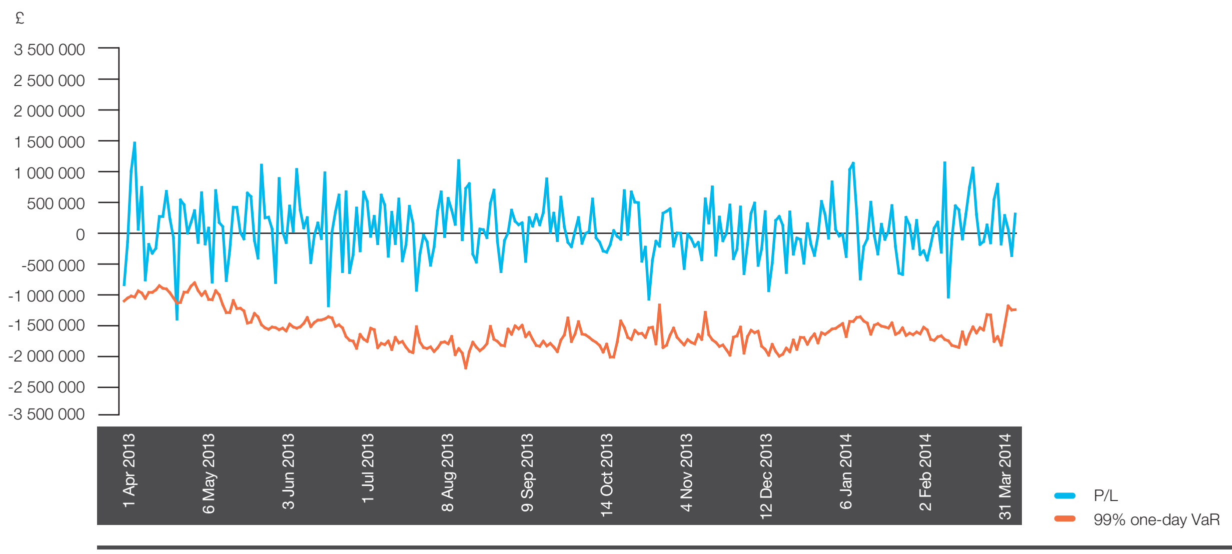
* *The consolidated VaR for each desk and each entity at year end is lower than the sum of the individual VaRs. This arises from the consolidation offset between various asset classes (diversification).*

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

UK and Other

The average VaR utilisation was higher than in 2013, as a result of a slight increase in trading activity across all trading businesses. Using hypothetical (clean) profit and loss data for backtesting resulted in one exception over the year at the 99% confidence level, i.e. where the loss was greater than the 99% one-day VaR. This is less than expected at the 99% level and is largely due to a reduction in market volatility over the past year.

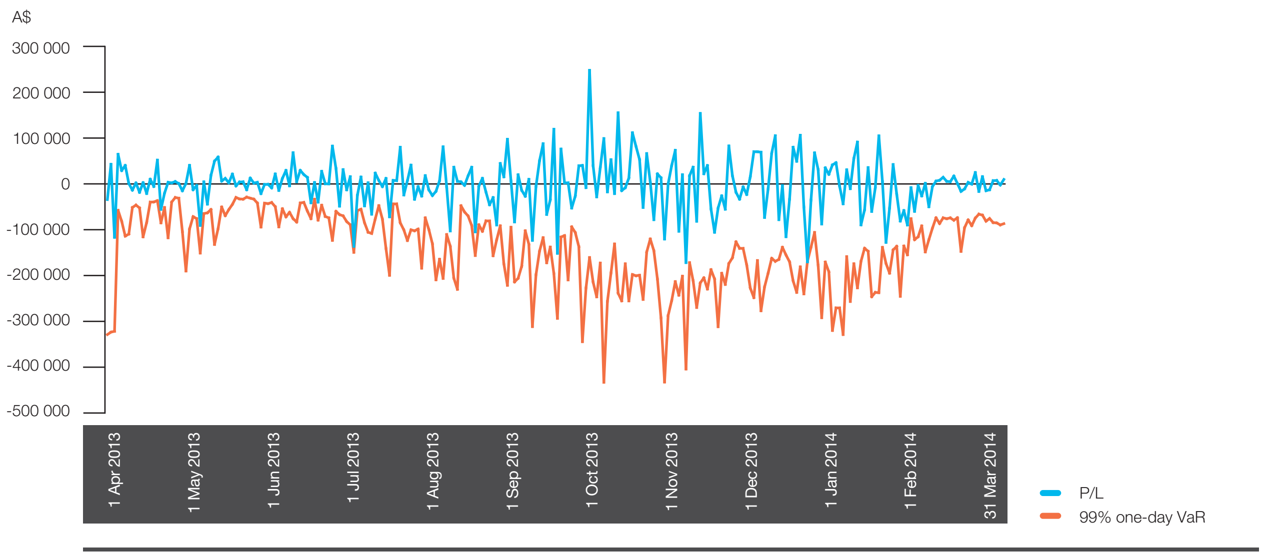
99% one-day VaR backtesting



Australia

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

99% one-day VaR backtesting



ETL

	UK and Other 95% (one-day) £'000	Australia 95% (one-day) A$'000
31 March 2014		
Equities	1 108	–
Foreign exchange	13	8.4
Interest rates	481	72.7
Consolidated*	1 202	72.6
31 March 2013		
Commodities	–	1.1
Equities	877	–
Foreign exchange	20	29.2
Interest rates	635	202.3
Consolidated*	976	207.7

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

Stress testing

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

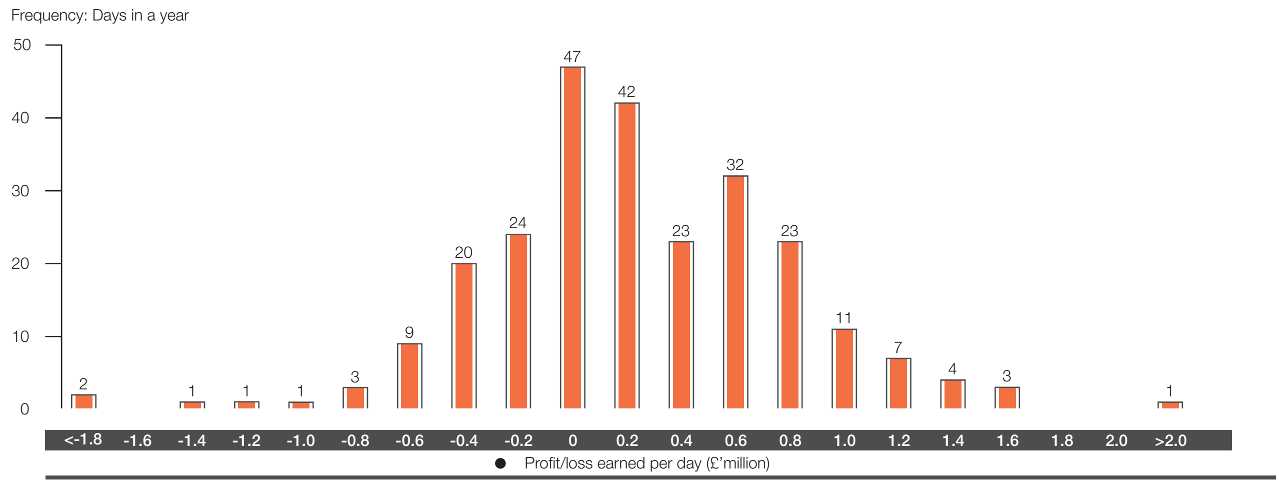
	31 March 2014				31 March 2013
	Year end	Average	High	Low	Year end
UK and Other (using 99% EVT)					
Equities (£'000)	3 844	2 330	4 390	1 454	1 554
Foreign exchange (£'000)	24	30	140	6	45
Interest rates (£'000)	1 457	1 420	2 126	958	1 820
Consolidated (£'000)	3 439	2 557	4 318	1 668	1 813
Australia (using 99% EVT)					
Commodities (A$'000)	–	–	–	–	4.0
Foreign exchange (A$'000)	12.4	167.9	692.7	3.3	75.0
Interest rates (A$'000)	140.3	171.5	908.1	40.6	455.9
Consolidated (A$'000)	137.7	232.4	682.2	58.3	434.8

Profit and loss histograms

UK and Other

The histogram below illustrates the distribution of revenue during the financial year for our trading businesses. The distribution is skewed to the profit side and the graph shows that positive trading revenue was realised on 146 days out of a total of 254 days in the trading business. The average daily trading revenue generated for the year to 31 March 2014 was £132 949 (2013: £102 733).

Profit and loss



Risk management and corporate governance

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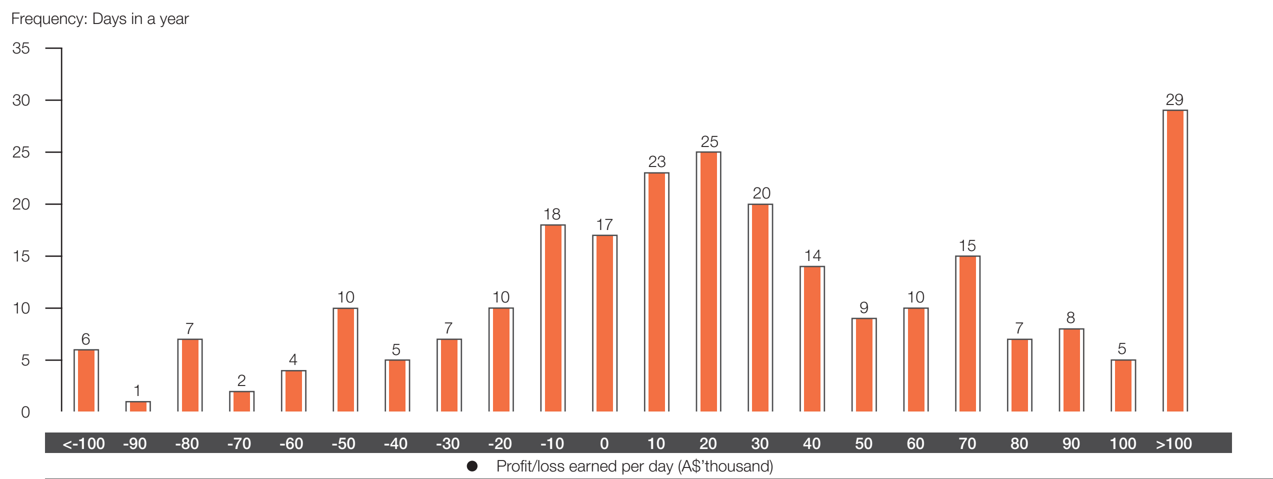
Australia

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

Profit and loss



Traded market risk mitigation

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

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

In London, there has been ongoing growth in client activity across the Interest Rate and Foreign Exchange Corporate Sales desks. The Structured Equity desk's retail product sales have remained strong and they continue to develop both their product range and distribution capacity. Equity market making has continued to expand its coverage of stocks.

Australian trading activity remains modest, with limited appetite for traded market risk exposures. Client activity continues to increase on the back of improved deal activity and a broader product offering.

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 179 and 241.

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 within a board-approved risk appetite.

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

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

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

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

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

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

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

Scenario modelling and rigorous daily liquidity stress tests are designed to measure and manage the liquidity position such that payment obligations can be met under a wide range of normal, company-specific and market-driven stress scenarios. These assume the rate and timing of deposit withdrawals and drawdowns on lending facilities are varied, and the ability to access funding and to generate funds from asset portfolios 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.

Each banking entity within the group maintains a contingency funding plan designed to protect depositors, creditors and shareholders and maintain market confidence during adverse liquidity conditions and pave the way for the group to emerge from a potential funding crisis with the best possible reputation and financial condition for continuing operations. The liquidity contingency plans outline extensive early warning indicators, clear lines of communication, and decisive crisis response strategies.

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

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

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

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

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 optionality risk, as contract breakage penalties on fixed-rate advances specifically cover this risk, while prepayment optionality is restricted to variable rate contracts and has no impact on interest rate risk
- 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 non-trading interest rate risk policy dictates that long-term non-trading interest rate risk is materially eliminated. In accordance with the policy the bank swaps its fixed deposits and loans into variable rate in the wholesale market via interest rate swaps
- Together with the business, the treasurer develops strategies regarding changes in the volume, composition, pricing and interest rate characteristics of assets and liabilities to mitigate the interest rate risk and ensure a high degree of net interest margin stability over an interest rate cycle. These are presented, debated and challenged in the liability product and pricing forum and ALCO
- It is the responsibility of the liability product and pricing forum, a sub-committee of ALCO, to review the liquidity, interest rate and concentration characteristics of all new products and approve their issuance, ensuring that both standard and non-standard deposit products, particularly those designed for the Private Banking customers, both match market curves and can be hedged if necessary
- Pricing for all deposit products (including deposit products offered to the private clients) is set centrally, in so doing we manage access funding at cost-effective levels, considering also the stressed liquidity value of the liabilities
- Balance Sheet Risk Management independently measures and analyses both traditional interest rate repricing mismatch and NPV sensitivity to changes in interest rate risk factors, detailing the sources of interest rate exposure
- The bank maintains an internal funds transfer pricing system based on prevailing market rates which charges out the price of long- and short-term funding to consumers of liquidity and provides long-term stable funding for our asset creation activity
- Daily management of interest rate risk is centralised within Treasury and is subject to independent ALCO review
- Treasury is the primary interface to the wholesale market
- We carry out technical interest rate analysis and economic review of fundamental developments by geography and global trends.

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

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

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

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

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

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

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

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

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

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

The expectation is that Basel will produce consultation documents in the next year on minimum standards for interest rate risk measurement in the banking book. The December 2013 Basel QIS document has called for information used to measure interest rate exposure.

Interest rate sensitivity gap

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

UK and Other – interest rate sensitivity at 31 March 2014

£'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	3 237	–	–	–	–	2	3 239
Investment/trading assets	1 095	55	54	325	593	588	2 710
Securitised assets	868	141	2	–	–	–	1 011
Advances	5 311	552	527	941	164	–	7 494
Non-rate assets	11	4	3	1	–	1 489	1 509
Assets	**10 522**	**752**	**586**	**1 267**	**756**	**2 079**	**15 963**
Deposits – banks	(885)	(73)	(22)	(13)	–	(4)	(997)
Deposits – retail	(7 714)	(702)	(571)	(418)	(2)	–	(9 407)
Negotiable paper	(1 048)	–	(26)	(99)	(35)	–	(1 208)
Securitised liabilities	(604)	(171)	(43)	(112)	–	(32)	(962)
Investment/trading liabilities	(464)	(26)	(25)	(35)	(38)	(92)	(680)
Subordinated liabilities	(28)	–	–	(37)	(565)	–	(630)
Non-rate liabilities	(4)	–	–	–	–	(1 041)	(1 045)
Liabilities	**(10 747)**	**(972)**	**(687)**	**(714)**	**(640)**	**(1 169)**	**(14 929)**
Intercompany loans	(12)	3	38	452	16	68	565
Shareholders' funds	–	–	–	–	–	(1 598)	(1 598)
Balance sheet	**(237)**	**(217)**	**(63)**	**1 005**	**132**	**(620)**	**–**
Off-balance sheet	611	69	585	(771)	(638)	144	–
Repricing gap	**374**	**(147)**	**522**	**235**	**(506)**	**(477)**	**–**
Cumulative repricing gap	374	227	749	983	477	–	

Australia – interest rate sensitivity at 31 March 2014

A$'million	Not >three months	>three months but <six months	>six months but <one year	>one year but <five years	>five years	Non-rate	Total non-trading
Cash and short–term funds – banks	179	–	–	–	–	–	179
Investment/trading assets	738	16	11	5	–	108	878
Securitised assets	211	62	116	410	6	–	805
Advances	1 515	88	97	536	10	60	2 306
Other assets	–	–	–	–	–	246	246
Assets	**2 643**	**166**	**224**	**951**	**16**	**414**	**4 414**
Deposits – non-banks	(1 808)	(560)	(131)	(211)	(12)	(33)	(2 755)
Negotiable paper	(153)	(2)	(34)	–	–	–	(189)
Securitised liabilities	(808)	–	–	–	–	–	(808)
Subordinated loans	(130)	–	–	–	–	(1)	(131)
Other liabilities	–	–	–	–	–	(143)	(143)
Liabilities	**(2 899)**	**(562)**	**(165)**	**(211)**	**(12)**	**(177)**	**(4 026)**
Intercompany loans	**175**	**–**	**–**	**–**	**–**	**(3)**	**172**
Shareholders' funds	**–**	**–**	**–**	**–**	**–**	**(560)**	**(560)**
Balance sheet	**(81)**	**(396)**	**59**	**740**	**4**	**(326)**	**–**
Off-balance sheet	571	106	(97)	(579)	4	(5)	–
Repricing gap	**490**	**(290)**	**(38)**	**161**	**8**	**(331)**	**–**
Cumulative repricing gap	490	200	162	323	331	–	

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.

UK and Other

	Sensitivity to the following interest rates (expressed in original currencies)				
'million	GBP	EUR	ZAR	Other (GBP)	All (GBP)
200bps down	(63.9)	(5.3)	0.3	1.2	(67.7)
200bps up	63.9	5.3	(0.3)	(1.2)	67.7

Australia

'million	AUD
200bps down	2.13
200bps up	(2.13)

Risk management and corporate governance

03

Liquidity risk

Liquidity risk description

Liquidity risk is the risk that we, despite being solvent, 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 assessing and controlling the liquidity risk:

- Our liquidity management processes encompass principles set out by the regulatory authorities in each jurisdiction, namely the PRA, SARB, APRA, 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
- 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
- Geographic 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 disruption
- 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. The growth in retail deposits benefited from the wider macroeconomic trend of expanded money supply, customer deleveraging and below trend loan growth. We also have a number of innovative retail deposit initiatives within our Corporate Banking division and these continued to experience strong inflows during the financial year. On average our fixed and notice customer deposits have amounted to approximately 84% of total deposits since April 2006, respectively, 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.

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 £4.3 billion (£3.8 billion in UK and Other; and A$1.0 billion in Australia).

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

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

Asset encumbrance

An asset is defined as encumbered if it has been pledged as collateral against an existing liability and, as a result, is no longer available to the group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. An asset is categorised as unencumbered if it has not been pledged against an existing liability.

Risk Management monitor and manage total balance sheet encumbrance via a board-approved risk appetite framework. The group holds 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 banks in the respective jurisdictions.

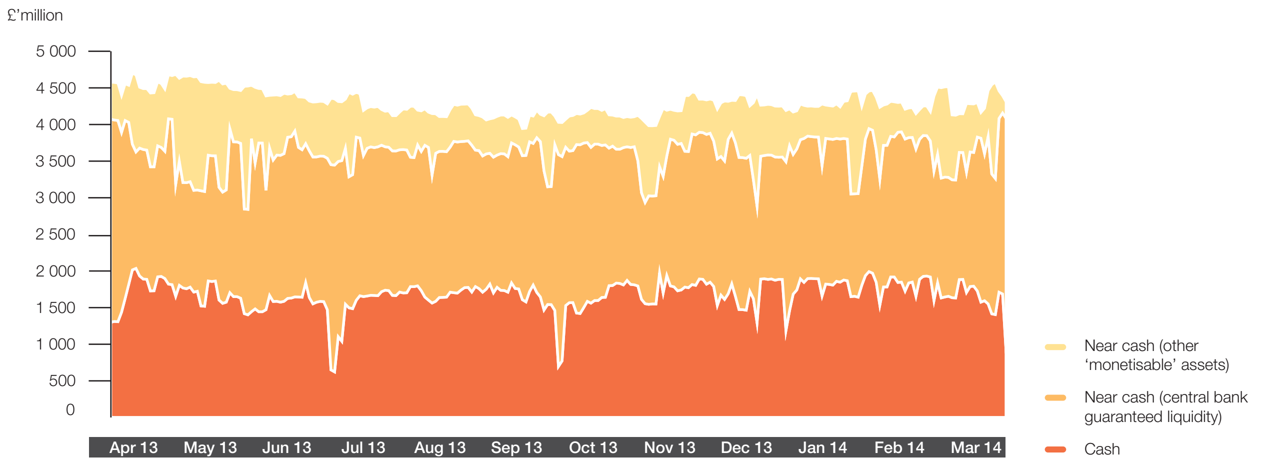
During the year the group in the UK raised external term funding of £242 million from securitisations. Note 27 on page 182 reflects the assets encumbered and external liabilities issued under securitisation transactions. Securitisation notes are also retained by the group, most of which are held to provide a pool of collateral eligible to support central bank liquidity facilities.

At 31 March 2014, in addition to the liquidity buffer, the group held £557 million of unencumbered securitisation notes in the UK that could be used to support potential future funding and collateral needs.

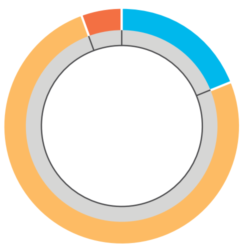
The group uses secured transactions to manage short-term cash and collateral needs. Details of assets pledged through repurchase activity and collateral pledges are reported, by line item of the balance sheet on which they are reflected on page 200. Related liabilities are also reported.

On page 177 we disclose further details of assets that have been received as collateral under reverse repurchase agreements and securities borrowing transactions where the assets are allowed to be resold or pledged.

Cash and near cash trend



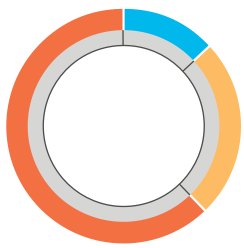
An analysis of cash and near cash at 31 March 2014



Investec Bank plc
£4 253 million

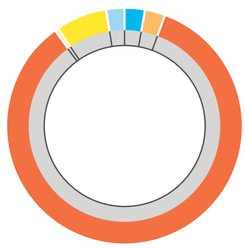
Cash	19.0%
Near cash (central bank guaranteed liquidity)	75.7%
Near cash (other 'monetisable' assets)	5.3%

Bank and non-bank depositor concentration by type at 31 March 2014



UK and Other
£10 840 million

Financial institutions/banks	13.2%
Corporate	24.8%
Private client	62.0%



Australia
A$2 755 million

Financial institutions/banks	3.0%
Corporate	2.6%
Private client	84.7%
Fund managers	0.2%
Public sector	7.2%
Other	2.3%

The liquidity position of the bank remained sound with total cash and near cash balances amounting to £4.3 billion

Liquidity mismatch

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

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

The liquidity position of the group remained sound with total cash and near cash balances amounting to £4.3 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 tables reflect that loans and advances to customers are largely financed by stable funding sources.

With respect to the contractual liquidity mismatch:

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

With respect to the behavioural liquidity mismatch:

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

UK and Other

Contractual liquidity at 31 March 2014

£'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	>Five years	Total
Cash and short-term funds – banks	2 526	940	148	–	–	–	–	3 614
Cash and short-term funds – non-banks	–	13	–	–	–	–	–	13
Investment/trading assets	122	572	164	99	202	317	1 590	3 066
Securitised assets	101	3	2	6	6	84	809	1 011
Advances	14	205	1 081	709	700	2 509	2 276	7 494
Other assets	206	649	45	7	8	69	525	1 509
Assets	2 969	2 382	1 440	821	916	2 979	5 200	16 707
Deposits – banks	(542)	(440)	(113)	(8)	(21)	(190)	(119)	(1 433)
Deposits – retail	(2 000)^	(1 152)	(1 889)	(2 555)	(542)	(1 106)	(163)	(9 407)
Negotiable paper	–	–	(1)	–	(49)	(569)	(589)	(1 208)
Securitised liabilities	–	–	(2)	(23)	(42)	(126)	(769)	(962)
Investment/trading liabilities	(143)	(150)	(130)	(14)	(49)	(211)	(292)	(989)
Subordinated liabilities	–	–	–	–	–	(33)	(597)	(630)
Other liabilities	(164)	(623)	(56)	(32)	(64)	(56)	(50)	(1 045)
Liabilities	(2 849)	(2 365)	(2 191)	(2 632)	(767)	(2 291)	(2 579)	(15 674)
Intercompany loans	(46)	(23)	1	(4)	289	329	19	565
Shareholders' funds	–	–	–	–	–	–	(1 598)	(1 598)
Contractual liquidity gap	74	(6)	(750)	(1 815)	438	1 017	1 042	–
Cumulative liquidity gap	74	68	(682)	(2 497)	(2 059)	(1 042)	–	

Behavioural liquidity

As discussed on page 82.

£'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	1 749	(132)	285	(111)	438	(2 927)	698	–
Cumulative	1 749	1 617	1 902	1 791	2 229	(698)	–	–

^ *The deposits in the demand column at 31 March 2014 reflect cash margin deposits held.*

Australia

Contractual liquidity at 31 March 2014

A$'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	>Five years	Total
Cash and short-term funds – banks	179	–	–	–	–	–	–	179
Investment/trading assets*	747	8	26	7	20	37	33	878
Securitised assets	1	26	67	79	150	475	7	805
Advances**	62	59	181	173	326	1 395	110	2 306
Other assets	–	–	–	–	–	–	246	246
Assets	989	93	274	259	496	1 907	396	4 414
Deposits – non banks	(360)^	(367)	(1 094)	(565)	(135)	(223)	(11)	(2 755)
Negotiable paper	–	(1)	(6)	(2)	(180)	–	–	(189)
Securitised liabilities	(1)	(26)	(67)	(79)	(276)	(357)	(2)	(808)
Investment/trading liabilities	–	(5)	(10)	(6)	(14)	(29)	(15)	(79)
Subordinated liabilities	–	–	–	–	(20)	(111)	–	(131)
Other liabilities	–	–	–	–	–	–	(64)	(64)
Liabilities	(361)	(399)	(1 177)	(652)	(625)	(720)	(92)	(4 026)
Intercompany loans	(4)	51	–	–	50	75	–	172
Shareholders' funds	–	–	–	–	–	–	(560)	(560)
Contractual liquidity gap	624	(255)	(903)	(394)	(79)	1 262	(256)	–
Cumulative liquidity gap	624	369	(534)	(927)	(1 006)	256	–	–

Note: contractual liquidity adjustments

As discussed on page 82.

A$'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	>Five years	Total
* Investment/trading assets	50	233	143	33	132	231	56	878
**Advances	105	58	179	167	314	1 373	110	2 306

Behavioural liquidity

As discussed on page 82.

A$'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	>Five years	Total
Behavioural liquidity gap	932	(306)	(865)	(564)	(197)	1 254	(254)	–
Cumulative	932	626	(239)	(803)	(1 000)	254	–	–

^ *Includes call deposits of A$342 million 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.

UK and Other

The bank entered the year with a strong surplus liquidity position. This was reduced somewhat during the first half of the year, primarily through reductions in short-term retail deposits, prior to being built back up to opening levels with strategic longer-term secured funding activity.

The bank utilised a range of secured funding options to diversify funding by tapping wholesale demand and to increase the maturity profile of the liability book. Transactions included a £270 million UK equipment lease securitisation, a retained £398 million UK residential mortgage securitisation and signing up to the BoE's Funding for Lending scheme.

Funding rates continued to be driven down throughout the year as market liquidity and improved funding conditions persisted. This cost reduction was complemented by strategic initiatives including amendment to retail product terms. The overall impact led to a reduced funds transfer pricing rate for assets.

Cash and near cash balances at 31 March 2014 amounted to £3.8 billion (2013: £3.9 billion) with total customer deposits remaining flat year-on-year at £9.4 billion. We continue to meet Basel liquidity requirements.

During the year the bank upgraded the measurement of non-traded interest rate risk in the banking book, and refined and augmented the risk metrics, allowing a more integrated and holistic risk management across the balance sheet.

Australia

Investec Australia maintained a strong liquidity position well in excess of regulatory and internal policy requirements throughout the year, with average cash and near cash balances amounting to A$1 billion. Total customer deposits grew by 11.6% from 1 April 2013 to A$2.7 billion at 31 March 2014, following the launch of various new banking products and services.

The strategic changes announced in respect of the operation of Investec Australia have at present had no material impact on Investec Australia's funding ability or liquidity position relative to target levels.

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

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

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

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.

UK and Other

In June 2013, the European Union published legislation to implement within the EU Basel III, the international regulatory framework for banks via CRD IV. This requires the reporting of the LCR and the NSFR from March 2014. The LCR will be introduced on 1 January 2015 with a minimum requirement of 60% increasing to 100% by January 2018 as stated in the regulation document. However, individual member states can require a higher standard. We anticipate that the PRA will set the initial requirement at 80% from January 2015.

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

Australia

The Australian Prudential Regulation Authority (APRA) introduced its Basel III Capital reforms effective 1 January 2013, While a number of the measures involve a progressive transition of standards to 1 January 2015, APRA remains conservative in both its limited usage of the national discretion provided under the Basel III framework and in terms of the timelines it has adopted for its local implementation.

During the year APRA finalised its reforms to meet Basel III Liquidity standards, with the new requirements coming into effect from 1 January 2014. As per the Capital reforms, APRA remains conservative in its interpretation and implementation of the Basel III reforms. However, it is notable that in response to the limited availability of High Quality Liquid Assets in Australia, APRA will allow banks to have access to a secured committed liquidity facility with the RBA (subject to certain requirements).

During the year APRA also introduced a cross-industry Prudential Standard for Risk Management and enhanced its standard on Governance covering authorised deposit-taking institutions, life insurers and general insurers. The reforms have the aim of ensuring the consistent application of APRA's risk management and governance requirements across its regulated industries and reflecting APRA's heightened expectations in this area, with APRA much more focused on the quality of an institution's risk governance and its risk culture. These reforms will come into effect from 1 January 2015.

Investec Australia remains committed and on track to continue to meet these evolving regulatory requirements.

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 practices.

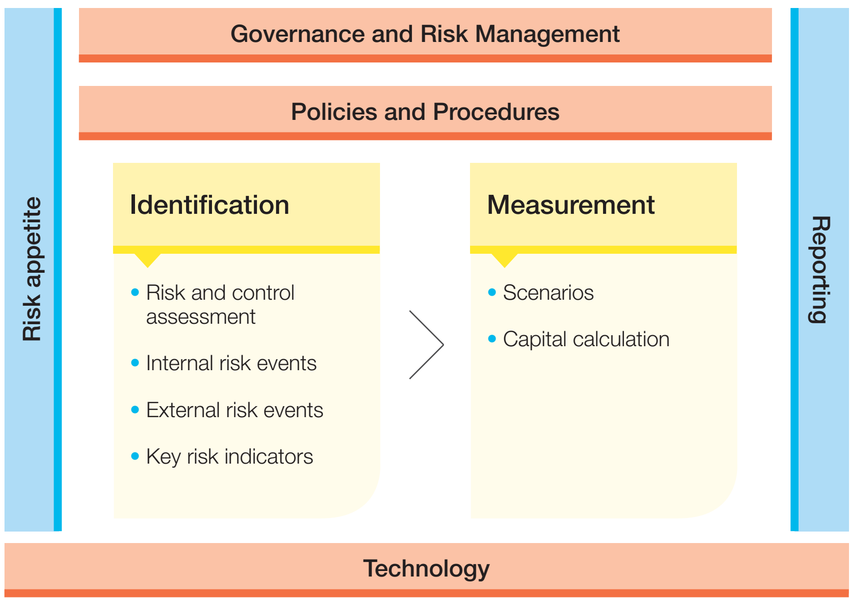
Operational risk management framework

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

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.



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:

Board and board committees

- Review and approval of the overall risk management strategy, including determination of the risk appetite and tolerance for the bank
- Monitor and review the operational risk exposures and metrics.

External assurance and supervision

- External assessment of operational risk environment
- Onsite reviews by the FCA and PRA.

Internal assurance

- Independent review of framework and its effectiveness
- Audit findings integrated into operational risk management process.

Group operational risk management

- Challenge and review business unit operational practices and data
- Maintain operational risk framework and policy
- Report to board and board committees on operational risk exposures, events and emerging issues.

Business unit management

- Identify, own and mitigate operational risk
- Establish and maintain an appropriate operational risk and control environment.

Assurance

Reliance

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.

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

Operational risk practices

The following practices are used for the management of operational risk as illustrated in the diagram below:

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 in UK and South Africa) • 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.

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

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.

Pension risk

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

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

Primary sources at risk include:

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

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

Further information is provided on pages 88 to 91 in volume three of the Investec group integrated annual report.

Legal risk management

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

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

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

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

The legal risk policy is implemented through:

- Identification and ongoing review of areas where legal risk is found to be present

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

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

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

Conduct risk

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

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

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

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

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 following provides a brief outline of the regulatory environment relevant to the bank's capital management framework.

Regulatory capital

Current regulatory framework

Since 1 April 2013, Investec Bank plc has been authorised by the PRA and is regulated by the FCA and the PRA on a solo-consolidation basis. In July 2013, the European Commission adopted the final Capital Requirements Directive IV (CRD IV) package which transposed the Basel III rules into EU law. The CRD IV rules came into effect on 1 January 2014. The package is split into a regulation and a directive. The regulation is directly binding on Investec Bank plc, whilst the directive and various other national discretions had to be transposed into UK law to take effect.

The PRA issued its final rules and discretions in December 2013, with the decision to introduce the final definition of common equity tier 1 (CET1) capital from 1 January 2014 and did not adopt most of the transitional provisions available in CRD IV. Despite the acceleration of the CET1 definition and the restriction on the types of instruments that qualify as tier 1 and tier 2 capital, having an effect on the capital available to support the increased minimum capital requirements, we continue to hold capital in excess of the new minimum requirements.

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

Various subsidiaries of Investec Bank plc are subject to additional regulation covering various activities or implemented by local regulators in other jurisdictions. For capital management purposes, it is the prevailing rules applied to the consolidated Investec plc and Investec Bank plc groups, that are monitored 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, Investec plc and Investec Bank plc have always held capital in excess of regulatory requirements and the group continues to remain well capitalised. Accordingly, the group 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

In the UK, the leverage ratio is a non-risk based measure, with public disclosure applicable from 1 January 2015. The leverage ratio is subject to a monitoring period from 1 January 2014 to 30 June 2016, at which point the European Banking Authority (EBA) will report to the European Commission suggesting adequate calibration and appropriate adjustments to the capital and total exposure measure.

In January the Basel Committee issued its final Basel III leverage ratio framework and public disclosure requirements which are applicable from 1 January 2015. The CRD IV rules will require amendment, in order for the UK to comply with the finalised Basel III framework. Time frames for the adoption of the finalised requirements in the EU are not yet clear.

Leverage ratio target

Investec is currently targeting a leverage ratio above 6%, but will continue to reassess this target for appropriateness pending the outcome of the EBA's report.

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 calculated, analysed and understood at all levels of reporting.

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
- Provide protection to depositors against losses arising from risks inherent in the business
- Provide sufficient capital surplus to ensure that the group is able to retain its going concern basis under relatively severe operating conditions
- Inform the setting of minimum regulatory capital through the Supervisory Review Process (SREP).

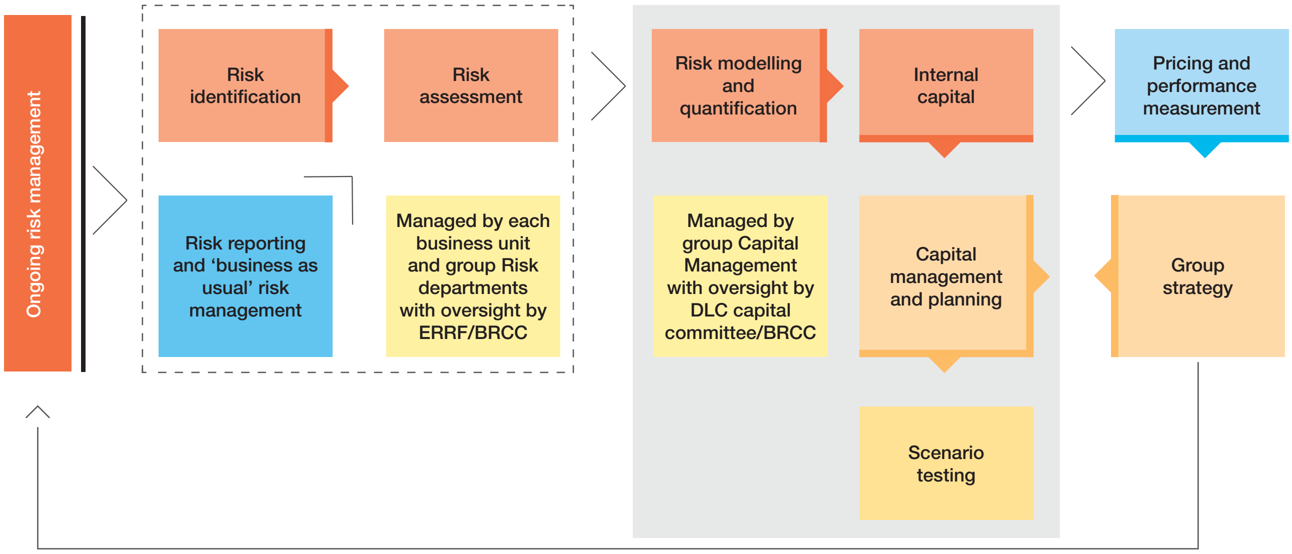
The DLC capital committee seeks to optimise the balance sheet such that capital held is in excess of internal capital. Internal capital performs a critical role in:

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

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

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

The (simplified) integration of risk and capital management



Risk assessment and reporting

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

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

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

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

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

Risk modelling and quantification (internal capital)

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

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

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

Capital planning and stress/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.

Accounting and regulatory treatment of group subsidiaries

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

Basis of consolidation

The regulatory basis of consolidation differs from the basis of consolidation used for financial reporting purposes.

The financial accounting position of the Investec Bank plc group is reported under

International Financial Reporting Standards (IFRS) and is described on pages 138 and 139 of the annual financial statements.

The regulatory consolidation includes all financial sector subsidiaries, the majority of which are wholly owned by the relevant parent company. Investments in financial sector associates are equity accounted in the financial accounting consolidation, whereas their exposures are proportionally consolidated for regulatory purposes. Subsidiaries and associates engaged in non-financial activities are excluded from the regulatory consolidation. In addition special purpose entities (SPEs) are not consolidated for regulatory purposes, where significant credit risk has been transferred to third parties. The positions the firm continues to hold in these securitisation SPEs will either be risk-weighted and/or deducted from CET1 capital.

The principal SPEs excluded from the regulatory scope of consolidation are as follows:

- Landmark Mortgage Securities No. 1 plc
- Landmark Mortgage Securites No. 2 plc
- Pangaea ABS 2007 – 1 BV
- Tamarin Securities Limited
- Glacier Securities Limited

Investec Bank plc, a regulated subsidiary of Investec plc, applies the provisions laid down in article 9 of the Capital Requirements Regulation (Solo-consolidation waiver) and reports to the PRA on a solo-consolidation basis. Investec Bank plc has two solo-consolidation subsidiaries namely Investec Finance plc and Investec Investments (UK) Limited.

There are no current or foreseen material practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities among the parent undertaking and its subsidiary undertakings.

The table which follows reconciles the Investec Bank plc group's financial accounting balance sheet to the regulatory scope balance sheet.

The alphabetic references included in the reconciliation provide a mapping of the balance sheet items to elements included in the capital structure table, set out on page 98.

The regulatory capital requirements are driven by the regulatory balance sheet and not the financial accounting balance sheet. A detailed list of subsidiaries and associates included in the financial accounting scope of consolidation are disclosed on pages 207 to 209.

Reconciliation of the financial accounting balance sheet to the regulatory scope of consolidation

Investec Bank plc

At 31 March 2014	Ref^	Accounting balance sheet £'million	Decon-solidation of non-financial/ other entities £'million	Consolidation of banking associates £'million	Regulatory balance sheet £'million
Cash and balances at central banks		1 743	–	–	1 743
Loans and advances to banks		1 105	(25)	6	1 086
Reverse repurchase agreements and cash collateral on securities borrowed		1 215	–	–	1 215
Sovereign debt securities		1 232	–	–	1 232
Bank debt securities		371	–	–	371
Other debt securities		229	(11)	–	218
Derivative financial instruments		783	(10)	–	773
Securities arising from trading activities		587	–	–	587
Investment portfolio		341	12	–	353
Loans and advances to customers		7 753	–	–	7 753
Own originated loans and advances to customers securitised		448	–	–	448
Other loans and advances		1 510	(107)	–	1 403
Other securitised assets		1 011	(389)	–	622
Capital invested in insurance and other entities		–	3	–	3
Interests in associated undertakings		17	–	(13)	4
Deferred taxation assets		98	(2)	–	96
of which:					
– relates to losses carried forward	a	38	–	–	38
Other assets		1 014	(17)	17	1 014
Property and equipment		63	(17)	–	46
Investment property		62	–	–	62
Goodwill	b	296	–	7	303
Intangible assets	b	157	–	–	157
Total assets		20 035	(563)	17	19 489

^ *The references identify balance sheet components which are used in the calculation of regulatory capital.*

Reconciliation of the financial accounting balance sheet to the regulatory scope of consolidation
(continued)

Investec Bank plc

At 31 March 2014	Ref^	Accounting balance sheet £'million	Decon-solidation of non-financial/other entities £'million	Consolidation of banking associates £'million	Regulatory balance sheet £'million
Deposits by banks		835	(69)	–	766
Derivative financial instruments		669	–	–	669
Other trading liabilities		392	–	–	392
Repurchase agreements and cash collateral on securities lent		615	–	–	615
Customer accounts (deposits)		11 096	75	–	11 171
Debt securities in issue		1 316	(236)	–	1 080
Liabilities arising on securitisation of own originated loans and advances		449	30	–	479
Liabilities arising on securitisation of other assets		962	(333)	–	629
Current taxation liabilities		103	–	–	103
Deferred taxation liabilities		38	(5)	–	33
of which:					
– in respect of acquired intangibles	b	29	–	–	29
Other liabilities		981	4	17	1 002
Subordinated liabilities		670	–	–	670
of which:					
– term subordinated debt included in tier 2 capital	c	670	–	–	670
Total liabilities		18 126	(534)	17	17 609
Shareholders' equity excluding minority interests	d	1 912	(29)	–	1 883
Non-controlling interests	e	(3)	–	–	(3)
Total equity		1 909	(29)	–	1 880
Total liabilities and equity		20 035	(563)	17	19 489

^ *The references identify balance sheet components which are used in the calculation of regulatory capital.*

Regulatory capital and requirements

For regulatory capital purposes, our total regulatory capital is divided into three main categories, namely CET1, tier 1 and tier 2 capital as follows:

- CET1 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
- Other tier 1 capital includes qualifying capital instruments, which are capable of being fully and permanently written down or converted fully into CET1 capital 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 composition of our regulatory capital under a Basel III/CRD IV basis is provided in the table below. The 2013 capital information for Investec Bank plc is based on Basel II capital requirements applicable in the UK in 2013. The 2013 capital information for Investec Bank (Australia) Limited is reported on a Basel III basis.

Capital Requirements Country-by-Country Reporting

HM Treasury has transposed the requirements set out under CRD IV and issued the Capital Requirements Country-by-Country Reporting Regulations 2013, effective 1 January 2014. The legislation requires the bank to publish certain additional information in respect of the year ended 31 March 2014, by 1 July 2014. This information will be available before this date on the Investec group website.

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 197 and 198.

The transitional own funds disclosure template and capital instruments' main features template, prescribed by the Capital Requirements Regulation, will be available on the Investec group website.

At 31 March 2014	Ref**	IBP*^º £'million	IBAL* A$'million
Tier 1 capital			
Shareholders' equity		1 851	539
Shareholders' equity per balance sheet	d	1 912	539
Foreseeable dividends		(32)	–
Deconsolidation of special purpose entities	d	(29)	–
Non-controlling interests		(3)	–
Non-controlling interests per balance sheet	e	(3)	–
Regulatory adjustments to the accounting basis		(11)	–
Unrealised gains on available-for-sale equities		(7)	–
Additional value adjustments		(11)	–
Cash flow hedging reserve		7	–
Deductions		(480)	(152)
Goodwill and intangible assets net of deferred tax	b	(431)	(73)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	a	(38)	–
Unconsolidated investments		–	(18)
Securitisation positions		(3)	(42)
Connected funding of a capital nature		(8)	–
Excess of deductions from additional tier 1		–	(19)
Common equity tier 1 capital		1 357	387
Tier 1 capital		1 357	387
Tier 2 capital		637	125
Tier 2 instruments	c	642	27
Phase out of non-qualifying tier 2 instruments		(3)	98
Non-qualifying surplus capital attributable to non-controlling interests		(2)	–
Total regulatory capital		1 994	512
Risk-weighted assets		12 668	3 185
Capital ratios			
Common equity tier 1 ratio		10.7%	12.2%
Tier 1 ratio		10.7%	12.2%
Total capital ratio		15.7%	16.1%

* *Where: IBP is Investec Bank plc consolidated. IBAL is Investec Bank (Australia) Limited. The information for IBP includes IBAL.*

^ *The 2013 capital information for IBP was based on Basel II capital requirements. The 2013 capital information for IBAL was based on Basel III capital requirements. 2014 capital information is based on Basel III capital requirements, as currently applicable in the UK and Australia, respectively.*

º *The capital adequacy disclosures for IBP include the deduction of foreseeable dividends when calculating CET1 capital as now required under the Capital Requirements Regulation and European Banking Authority technical standards. These disclosures are different to the capital adequacy disclosures included in the 2014 integrated annual report of the Investec group, which follow our normal basis of presentation and do not include the deduction of foreseeable dividends when calculating CET1 capital. IBP's CET1 ratio will be 30bps higher on this basis.*

** *The references refer to these in the reconciliation of the regulatory scope balance sheet set out on pages 96 and 97.*

Capital management and allocation (continued)

Capital structure and capital adequacy (continued)

At 31 March 2013	IBP*^ £'million	IBAL*^ A$'million
Tier 1 capital		
Shareholders' equity	1 889	596
Shareholders' equity per balance sheet	1 884	596
Deconsolidation of special purpose entities	5	–
Non-controlling interests	(5)	–
Non-controlling interests per balance sheet	(5)	–
Regulatory adjustments to the accounting basis	(10)	2
Unrealised losses on available-for-sale debt securities	2	–
Unrealised gains on available-for-sale equities	(8)	2
Additional value adjustments	(16)	–
Cash flow hedging reserve	12	–
Deductions	(476)	(193)
Goodwill and intangible assets net of deferred tax	(472)	(105)
Unconsolidated investments	–	(23)
Securitisation positions	(2)	(55)
Excess of deductions from additional tier 1	(2)	(10)
Core tier 1/common equity tier 1 capital	1 398	405
Tier 1 capital	1 398	405
Tier 2 capital		
Total qualifying tier 2 capital before deductions	685	135
Unrealised gains on available-for-sale equities	8	–
Collective impairment allowances	20	–
Tier 2 instruments	657	25
Phase out of non-qualifying tier 2 instruments	–	110
Deductions	(4)	–
Unconsolidated investments	(2)	–
Securitisation positions	(2)	–
Total tier 2 capital	681	135
Total capital deductions	(54)	–
Investments that are not material holdings or qualifying holdings	(48)	–
Connected lending of a capital nature	(6)	–
Total regulatory capital	2 025	540
Risk-weighted assets	12 606	3 421
Capital ratios		
Core tier 1/common equity tier 1 ratio	11.1%	11.8%
Tier 1 ratio	11.1%	11.8%
Total capital ratio	16.1%	15.8%

* *Where: IBP is Investec Bank plc consolidated. IBAL is Investec Bank (Australia) Limited. The information for IBP includes IBAL.*

^ *The 2013 capital information for IBP was based on Basel II capital requirements. The 2013 capital information for IBAL was based on Basel III capital requirements. 2014 capital information is based on Basel III capital requirements, as currently applicable in the UK and Australia.*

Capital management and allocation (continued)

Capital requirements

At 31 March 2014	IBP*^ £'million	IBAL*^ A$'million
Capital requirements	1 014	412
Credit risk – prescribed standardised exposure classes	787	344
Corporates	294	95
Secured on real estate property	154	12
Short-term claims on institutions and corporates	–	3
Retail	102	194
Institutions	38	15
Other exposure classes	189	25
Securitisation exposures	10	–
Equity risk – standardised approach	21	–
Listed equities	5	–
Unlisted equities	16	–
Counterparty credit risk	22	9
Credit valuation adjustment risk	16	–
Market risk	52	7
Interest rate	21	7
Foreign exchange	5	–
Securities underwriting	1	–
Equities	22	–
Options	3	–
Operational risk – standardised approach	116	52
At 31 March 2013		
Capital requirements	1 007	446
Credit risk – prescribed standardised exposure classes	795	380
Corporates	279	142
Secured on real estate property	224	16
Short-term claims on institutions and corporates	–**	3
Retail	102	154
Institutions	31	9
Other exposure classes	145	55
Securitisation exposures	14	1
Equity risk – standardised approach	28	–
Listed equities	4	–
Unlisted equities	24	–
Counterparty credit risk	26	9
Market risk	61	6
Interest rate	22	6
Foreign exchange	13	–
Equities	24	–
Options	2	–
Operational risk – standardised approach	97	51

* *Where: IBP is Investec Bank plc consolidated. IBAL is Investec Bank (Australia) Limited. The information for IBP includes IBAL.*

^ *The 2013 capital information for IBP was based on Basel II capital requirements. The 2013 capital information for IBAL was based on Basel III capital requirements. 2014 capital information is based on Basel III capital requirements, as currently applicable in the UK and Australia.*

** *Short-term claims on institutions and corporates reclassified to exposure classes corporates and institutions as we have no short-term credit assessment available for these claims.*

Capital management and allocation (continued)

Risk-weighted assets

At 31 March 2014	IBP*^ £'million	IBAL*^ A$'million
Risk-weighted assets (banking and trading)	12 668	3 185
Credit risk – prescribed standardised exposure classes	9 844	2 659
Corporates	3 683	729
Secured on real estate property	1 923	94
Short-term claims on institutions and corporates	–	25
Retail	1 278	1 496
Institutions	473	118
Other exposure classes	2 364	194
Securitisation exposures	123	3
Equity risk – standardised approach	267	–
Listed equities	62	–
Unlisted equities	205	–
Counterparty credit risk	271	70
Credit valuation adjustment risk	194	–
Market risk	648	54
Interest rate	262	52
Foreign exchange	57	2
Securities underwriting	13	–
Equities	276	–
Options	40	–
Operational risk – standardised approach	1 444	402
At 31 March 2013		
Risk-weighted assets (banking and trading)	12 606	3 421
Credit risk – prescribed standardised exposure classes	9 952	2 914
Corporates	3 489	1 092
Secured on real estate property	2 799	122
Short-term claims on institutions and corporates	–**	20
Retail	1 276	1 184
Institutions	393	69
Other exposure classes	1 814	423
Securitisation exposures	181	4
Equity risk – standardised approach	349	–
Listed equities	47	–
Unlisted equities	302	–
Counterparty credit risk	330	68
Market risk	767	46
Interest rate	275	43
Foreign exchange	166	3
Equities	296	–
Options	30	–
Operational risk – standardised approach	1 208	393

* *Where: IBP is Investec Bank plc consolidated. IBAL is Investec Bank (Australia) Limited. The information for IBP includes IBAL.*

^ *The 2013 capital information for IBP was based on Basel II capital requirements. The 2013 capital information for IBAL was based on Basel III capital requirements. 2014 capital information is based on Basel III capital requirements, as currently applicable in the UK and Australia.*

** *Short-term claims on institutions and corporates reclassified to exposure classes corporates and institutions as we have no short-term credit assessment available for these claims.*

A summary of capital adequacy and leverage ratios

At 31 March 2014	IBP^°	IBAL^
Common equity tier 1 (as reported)	10.7%	12.2%
Common equity tier 1 ('fully loaded')^^	10.8%	12.2%
Tier 1 (as reported)	10.7%	12.2%
Total capital adequacy ratio (as reported)	15.7%	16.1%
Leverage ratio** – permanent capital	7.2%	11.2%
Leverage ratio** – current	7.2%	11.2%
Leverage ratio** – 'fully loaded'^^	7.3%	11.2%

^ *Where: IBP is Investec Bank plc consolidated. IBAL is Investec Bank (Australia) Limited. The information for IBP includes IBAL.*

° *The capital adequacy disclosures for IBP include the deduction of foreseeable dividends when calculating CET1 capital as now required under the Capital Requirements Regulation and European Banking Authority technical standards. These disclosures are different to the capital adequacy disclosures included in the 2014 integrated annual report of the Investec group, which follow our normal basis of presentation and do not include the deduction of foreseeable dividends when calculating CET1 capital. IBP's CET1 ratio will be 30bps higher on this basis.*

^^ *Based on the group's understanding of current and draft regulations. 'Fully loaded' is based on Basel III capital requirements as fully phased in by 2022.*

** *The leverage ratios are calculated on an end-quarter basis so as to show a consistent basis of calculation across the jurisdictions in which the group operates.*

Investec Bank plc

Movement in risk-weighted assets

Total risk-weighted assets (RWAs) have remained relatively flat over the period, however, there are movements within the underlying risk categories.

Credit risk RWAs

For Investec Bank plc consolidated reporting, we have adopted the standardised approach for calculating credit risk RWAs. Credit risk RWAs, which include equity risk, decreased by £190 million. The decrease is attributable to exchange rate differences, primarily reflecting the depreciation of the Australian Dollar against the Pounds Sterling and reductions in securitisation positions, reflecting sales, restructuring and amortisation of assets. The decrease was partly offset by a net increase in RWAs of £149 million, arising on the implementation of CRD IV. The key CRD IV changes impacting our business include:

- The high risk exposure class was expanded to include investments in private equity firms and speculative immovable property financing. These transactions attract a risk weight of 150%
- Deferred tax assets that rely on future profitability of the bank to be realised and which arise from temporary differences are subject to the threshold exemption approach. Amounts which individually and in aggregate fall below 10% and 15% of our CET1 capital thresholds are now risk-weighted at 250%, whilst under Basel II these assets attracted a risk weight of 100%
- Portfolio impairments meet the definition of specific credit risk adjustments and have been allocated to single exposures within the portfolio proportionally to the risk-weighted exposure amounts. No portfolio impairments have been recognised in tier 2 capital
- SME lending is subject to a reduced capital requirement due to the application of the reduction factor of 0.7691, provided the total exposure owed by the enterprise does not exceed €1.5 million.

Counterparty credit risk RWAs and Credit Valuation Risk

Counterparty credit risk RWAs, reduced by £59 million primarily due to a decrease in securities financing transactions. CRD IV introduced a new capital requirement for credit valuation adjustment (CVA) risk, which increases RWAs by £194 million. This charge applies to all OTC derivative instruments and is used to capture the risk of default or variation in the credit qualify of counterparties. We have applied the standardised approach to calculate the CVA capital requirement. Transactions with non-financial counterparties have been exempted from our CVA charge, on the basis that those transactions do not exceed the clearing thresholds mandated by EU regulations governing OTC derivatives, central counterparties and trade repositories.

Market risk RWAs

Market risk RWA, calculated using the standardised approach, decreased by £119 million and is primarily attributable to a decrease in capital held for foreign exchange risk.

Operational risk RWAs

Operational risk RWAs are calculated using the standardised approach and increased by £236 million. The increase is due to a higher three-year average operating income.

Movement in total regulatory capital

The table below analyses the movement in common equity tier 1, additional tier 1 and tier 2 capital during the year.

Total regulatory capital flow statement

At 31 March 2014	IBP £'million*^	IBAL A$'million*^
Opening core tier 1/common equity tier 1 capital	1 398	405
New capital issues	20	20
Profit after tax	53	(72)
Movement in other comprehensive income	(42)	3
Goodwill and intangible assets (deduction net of related tax liability)	41	24
Deferred tax that relies on future profitability (excluding those arising from temporary differences)	(38)	–
Deconsolidation of special purpose entities	(34)	–
Foreseeable dividends	(32)	–
Other, including regulatory adjustments and transitional arrangements	(9)	7
Closing common equity tier 1 capital	1 357	387
Closing tier 1 capital	1 357	387
Opening tier 2 capital	681	135
Amortisation adjustments	(15)	–
Collective impairment allowances	(20)	–
Other, including regulatory adjustments and transitional arrangements	(9)	(10)
Closing tier 2 capital	637	125
Opening other deductions from total capital	(54)	–
Connected funding of a capital nature	6	–
Investments that are not material holdings or qualifying holdings	48	–
Closing other deductions from capital	–	–
Closing total regulatory capital	1 994	512

* *Where: IBP is Investec Bank plc consolidated. IBAL is Investec Bank (Australia) Limited. The information for IBP includes IBAL.*

^ *The 2013 capital information for IBP was based on Basel II capital requirements. The 2013 capital information for IBAL was based on Basel III capital requirements. 2014 capital information is based on Basel III capital requirements, as currently applicable in the UK and Australia.*

Total regulatory capital flow statement (continued)

At 31 March 2013	IBP £'million*^	IBAL A$'million*^
Restated opening core tier/common equity tier 1 capital**	1 319	434
New capital issues	159	–
Dividends	(13)	–
Profit after tax	30	7
Acquisition of non-controlling interest	(4)	–
Movement in other comprehensive income	6	–
Goodwill and intangible assets (deduction net of related tax liability)	(93)	(4)
Deconsolidation of special purpose entities	(15)	–
Other, including regulatory adjustments and transitional arrangements	9	(32)
Closing core tier 1/common equity tier 1 capital	1 398	405
Closing tier 1 capital	1 398	405
Opening tier 2 capital	627	91
New tier 2 capital issues	35	50
Amortisation adjustments	(6)	–
Collective impairment allowances	13	–
Other, including regulatory adjustments and transitional arrangements	12	(6)
Closing tier 2 capital	681	135
Restated opening other deductions from total capital**	(53)	–
Connected funding of a capital nature	4	–
Investments that are not material holdings or qualifying holdings	(5)	–
Closing other deductions from total capital	(54)	–
Restated closing total regulatory capital	2 025	540

* *Where: IBP is Investec Bank plc consolidated. IBAL is Investec Bank (Australia) Limited. The information for IBP includes IBAL.*

^ *The 2013 capital information for IBP was based on Basel II capital requirements. The 2013 capital information for IBAL was based on Basel III capital requirements. 2014 capital information is based on Basel III capital requirements, as currently applicable in the UK and Australia.*

** *Restated to reflect the implementation of IFRS 10.*

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

Internal audit

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

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.

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

The heads of internal audit report at each audit committee meeting and have a direct reporting line to the chairman of the audit committee. They operate independently of executive management but have regular access to their local chief executive officer and to BU executives. The heads of internal audit are responsible for coordinating internal audit efforts to ensure coverage is global and departmental skills are leveraged to maximise efficiency. For administrative purposes the heads of internal audit also report to the global head of corporate governance and compliance. The functions comply with the International Standards for the Professional Practice of Internal Auditing, and are subject to an independent Quality Assurance Review (QAR) at appropriate intervals. The recent QAR benchmarked the functions 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. 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

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.

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.

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

Conduct Risk

At 1 April 2013 the UK Regulator was split into two organisations focusing primarily on prudential and conduct matters. The Prudential Regulation Authority (PRA) is now responsible for prudentially supervising large banks and insurance firms, whilst the Financial Conduct Authority (FCA) supervises all firms on conduct matters, as well as being prudentially responsible for firms not supervised by the PRA.

Since the official split, the conduct regulator (FCA) has been focusing on outlining its conduct risk agenda and the expectation that firms should have a conduct risk framework in place. The FCA's objective of consumer protection is a continuing theme throughout all regulatory initiatives such as; reviews into suitability of advice and firms' conflict management arrangements, as well as the way firms incentivise front line sales staff and protect client assets.

The FCA aim is to ensure that clients' interests are at the forefront of firms' agendas and that their needs are placed at the heart of the firms' strategy. Firms are also expected to behave appropriately in the wholesale markets in which they operate. UK firms have been asked to respond to this agenda and Investec has enhanced existing controls and governance arrangements in order to better demonstrate how seriously we take our commitment to the needs of all our clients and markets.

Notwithstanding the heavy regulatory focus on outcomes for retail clients, the FCA has a markedly differing approach to consumer protection to its predecessor, the FSA. This has become apparent in FCA's more pronounced focus on the wholesale markets and outcomes for clients irrespective of their categorisation as either retail or professional. For example, the investigations into the Libor and FX rates fixing scandals, with which we are not involved, ensures that the FCA will continue to look at wholesale markets with the same vigour as it has done at the retail markets, for the foreseeable future.

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

Banking Standards and reforms to approved person's regime

Specific focus and attention is being given to improving cultural and ethical standards within the Banking sector. Sir Richard Lambert has been given a mandate to create an independent body that will promote high standards of competence and behaviour across the UK banking industry. Currently consulting on the structure and objectives of this new body, the regime is certain to complement the approved person's regime and the reforms currently being proposed jointly by the PRA and the FCA on responsibilities of significant influence functions.

Structural Banking Reform

The Financial Services (Banking Reform) Act 2013 (Banking Reform Act) received Royal Assent on 18 December 2013. The Act will ultimately give the UK authorities the powers to implement key recommendations of the Independent Commission on Banking (ICB) on banking reform, including:

- Retail ring-fence: this involves the ring-fencing of UK retail banking activities of a universal bank into a legally distinct, operationally separate and economically independent entity within the same group
- Higher capital and loss absorbency requirements
- Introduction of retail depositor preference in the UK
- A bail-in stabilisation option for the UK Special Resolution Regime
- A new regime for key individuals in the banking sector, replacing the existing approved persons regime
- Criminal offence for reckless misconduct for senior bankers
- Competition-related reforms to the FCA and the PRA
- A new Payment Systems Regulator
- A special administration regime for systemically important inter-bank and securities settlement systems.

The Act contains a *de minimis* exemption from the requirement to ring-fence, which is relevant to all but the largest UK deposit takers. Investec falls within this *de minimis* exemption and is therefore out of scope from the ring-fencing requirement.

Regulatory landscape in the coming year

Going forward, the Regulator has announced an intention to develop its links with the international regulators and to work in a more collegiate fashion towards ensuring regulatory standards are harmonised globally. The first of these initiatives is focused on harmonised practices within Europe and the review of the Markets in Financial Instruments Directive (MIFID), know as MIFID 2. The market abuse regime is also being reviewed with Market Abuse Regulation (MAR) due to be implemented late 2015 and early 2016. Investec will need to begin work on assessing the impact of these new regulations in order to ensure timely implementation.

On the domestic front, the FCA is taking over the consumer credit regime, which means that from 1 April 2014 unregulated lending became subject to the FCA supervision. Firms, including Investec, will need to apply for authorisation and ensure that all regulatory requirements under the FCA regime are implemented in respect of its lending businesses going forward.

Chairman's introduction

Introduction

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

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

Investec Bank plc is a major subsidiary of Investec plc and due to the DLC operational structure, compliance with many of the specific corporate governance requirements is at the group DLC level.

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

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

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

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 Investec Limited, and in this regard, George Alford will not offer himself for re-election at the August 2014 annual general meetings of Investec plc and Investec Limited. George will step down from the board of Investec Bank plc 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 appointment to the board.

Governance framework

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

Board committees

A diagram of the group's governance framework can be found on page 32 and reports of the various board committees can be found in the corporate governance section of Investec group's 2014 integrated annual report.

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

The DLC remuneration committee acts as the remuneration committee for the group (including Investec Bank plc) and the statement of the remuneration committee, explaining the group's policies and processes, as well as required disclosures can be found on pages 116 to 127.

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

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

Our culture and values

Underpinning legislative, regulatory and best practice requirements are Investec's values and philosophies which provide the framework against which we measure behaviour and practices so as to assess the characteristics of good governance. Our values require that directors and employees act with integrity and conduct themselves in order to promote and maintain trust.

Sound corporate governance is therefore implicit in our values, culture, processes, functions and organisational structure. Structures are designed to ensure that our values remain embedded in all businesses and processes. We continually refine these structures and a written statement of values serves as our code of ethics.

As noted, we operate under a DLC structure, and consider the corporate governance principles and regulations

Sound corporate governance is implicit in our values, culture, processes, functions and organisational structure. Structures are designed to ensure that our values remain embedded in all businesses and processes. We continually refine these structures and a written statement of values serves as our code of ethics

of both the UK and South Africa before adopting the appropriate rule for the group.

Conclusion

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

Sir David J Prosser
Chairman

20 June 2014

Board statement

The composition of the board of Investec Bank plc is set out on page 114.

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

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

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

Board committees

In exercising control of the bank, the directors are empowered to delegate to various board and executive committees.

The committees have specific terms of reference, appropriately skilled members and access to specialist advice when necessary.

Financial reporting and going concern

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

- Budgeting and forecasts
- Profitability
- Capital
- Liquidity.

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

Our financial statements are prepared on a going concern basis.

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

Further information on our liquidity and capital position is provided on pages 79 to 86 and pages 91 to 104.

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

Management and succession planning

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

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

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

The NOMDAC received a detailed presentation from the executive regarding senior management succession and as 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.

More information on risk management can be found on pages 27 to 104.

Internal control

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

Internal control is designed to mitigate, not eliminate, significant risks faced.

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

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

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

Internal financial controls

Internal financial controls are based on established policies and procedures.

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

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

Board of directors

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

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

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

Membership

At the end of the year under review, the board comprised six executive directors and six non-executive directors.

Biographical details of the directors are set out on page 114.

During the period under review Alexander Snow resigned as a director on 6 June 2013 and Ian Kantor resigned as a director on 16 July 2013. David Friedland was appointed as chairman of the Investec plc and Investec Bank plc audit committee from 8 August 2013.

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

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

* *A Snow resigned from the board of directors on 6 June 2013.*
** *IR Kantor resigned from the board of directors on 16 July 2013.*
*** *B Kantor and S Koseff were re-designated as executive directors.*

Board meetings

The board of Investec Bank plc 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	
DM van der Walt (chief executive officer)	6
B Kantor*	5
S Koseff*	5
KP McKenna	6
A Snow^	1
IR Wohlman	4
A Zimbler	6

* *B Kantor and S Koseff were re-designated as executive directors.*
^ *A Snow resigned from the board of directors on 6 June 2013 and was therefore only eligible to attend the meeting held on 30 May 2013.*

	Number of meetings attended of the six held during the year
Non-executive directors	
Sir DJ Prosser (chairman)	6
GFO Alford	5
PKO Crosthwaite	5
D Friedland	6
H Fukuda OBE	6
IR Kantor*	1
F Titi	4

* *IR Kantor resigned from the board of directors on 16 July 2013 and was therefore only eligible to attend the meetings held on 30 May 2013 and 16 July 2013.*

Skills, knowledge, experience and attributes of directors

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

Ongoing training and development

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

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

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

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

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

Independent advice

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

Remuneration

Details of the directors' remuneration and remuneration process are set out on pages 123 to 125.

Chairman and chief executive officer

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

Details of the chairman's external directorships are set out in the Investec group's 2014 integrated annual report.

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

Further disclosures

Refer to the Investec group's 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
- Board committees – including the report prepared by the chairmen of the board committees,

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

The report by the chairman of the audit committee can be found in the Investec group's 2014 integrated annual report on pages 90 to 94.

Directorate

Investec Bank plc

(details at the date of this report)

An indirect subsidiary of Investec plc

Sir David J Prosser (70)

Non-executive chairman
BSc (Hons), FIA

David M van der Walt (49)

Chief executive officer
BCom (Hons), CA(SA)

George FO Alford (65)

BSc (Econ), FCIS, FIPD

Perry KO Crosthwaite (65)

MA (Hons)

David Friedland (60)

BCom, CA(SA)

Haruko Fukuda OBE (67)

MA (Cantab), DSc

Bernard Kantor (64)

CTA

Stephen Koseff (62)

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

Kevin P McKenna (47)

BCom, BAcc

Fani Titi (51)

BSc (Hons), MA, MBA

Ian R Wohlman (59)

ACIB

Allen Zimbler (64)

BA (Hons), MBA, PhD

FOUR

Remuneration
report

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

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

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

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
- Certain of our Prudential Regulation Authority (PRA) Code staff receive fixed monthly cash Code staff allowances and a commensurate reduction of variable short-term incentive in order to comply with the two times cap in terms of the Capital Requirements Directive IV (CRD IV).

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, charactersied 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 other than in respect of PRA Code staff (as discussed on page 118).

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

Our policy with respect to the remuneration of employees has remained unchanged during the 2014 financial year. There will be minor changes made in the 2015 financial year to incorporate the impact of CRD IV (as discussed on page 118).

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.

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 FTSE 350 General Finance sector has offered the most appropriate benchmark
- In order to avoid disproportionate packages across areas of the bank and between executives, adjustments may be made at any extremes to ensure broad internal consistency. Adjustments may also be made to the competitive positioning of pay components for individuals, in cases where a higher level of investment is needed in order to build or grow or sustain either a business unit or our capability in a geography.

The following section outlines our remuneration policy in more detail for each element of total compensation as it applies to employees:

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 or PRA Code staff allowances, are pensionable.

Proposed changes to PRA Code staff remuneration for the 2015 financial year as a result of CRD IV

CRD IV is EU regulation that has been effective from 1 January 2014. CRD IV essentially focuses on the application of a cap on variable pay that can be paid to PRA Code staff including executive directors. The Investec group remuneration committee is seeking approval at the group's annual general meeting in 2014 for the maximum CRD IV pay ratio of 2:1. The maximum ratio will apply to variable remuneration awarded in respect of the 2015 performance year awards. Investec currently has 39 PRA Code staff which represents a very small proportion of total employees. Excluding the executive and non-executive directors, we have 33 PRA Code staff. Approximately half of these employees receive variable remuneration that amounts to less than two times their fixed remuneration. The balance, who historically received higher levels of variable remuneration, will have structural amendments made to ensure compliance with the two times cap. This will be in the form of a fixed monthly cash Code staff allowance and a commensurate reduction in the levels of variable remuneration. The impact of CRD IV on the remuneration arrangements of Stephen Koseff (chief executive officer of the Investec group) and Bernard Kantor (managing director of the Investec group), who are also directors of Investec Bank plc, is discussed in detail in the Investec group's 2014 integrated annual report.

Variable short-term incentive: annual bonus

All employees are eligible to be considered for a discretionary annual bonus subject, *inter alia,* to the factors set out above in the section dealing with the determination of remuneration levels. The structure of short-term incentives varies between employees of our two operating divisions; Wealth & Investment and the Specialist Bank. This reflects differing regulatory requirements on the different legal entities and also differing competitive pressures in each distinct market.

Specialist Banking: variable short-term incentive

Risk-weighted returns form basis for variable remuneration levels

In our ordinary course of business we face a number of risks that could affect our business operations, as highlighted on page 15.

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

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

The BRCC (comprising both executive and non-executive directors) sets the overall risk appetite for the bank and determines the categories of risk, the specific types of risks and the extent of such risks which the group 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 through ensuring that the bonus pools are based on actual realised risk-adjusted profits.

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

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

- The profitability of each operating business unit is determined as if they are a standalone 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 91 to 104.

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

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

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

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

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

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

The group remuneration committee specifically reviews and approves the individual remuneration packages of the executive directors, persons discharging managerial responsibilities, and PRA Code staff. The committee also reviews the salaries and performance bonuses awarded to a number of other senior and higher paid employees across the group. 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: other than UK PRA Code staff within the Specialist Bank

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

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

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

Investec Wealth & Investment: variable short-term incentive

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

IW&I operates the following performance-related discretionary bonus schemes:

- Incentive Scheme – for those in client facing roles and administrative staff who support them directly
- Bonus Scheme – for those in non-client facing, central support functions
- Additional New Business Incentive Scheme – for staff primarily in client facing roles who are direct generators of income. During the year, this scheme was replaced by the Growth Plan.

Funding is at the discretion of the remuneration committee. Under the Incentive Scheme a bonus pool is derived from a formula that is directly related to the profitability of a team or business unit. The pool is distributed to the members of the team or business unit on a discretionary basis. Funding for the Bonus Scheme is related to the profitability of overall business and awarded to individuals on a discretionary basis.

The Additional New Business Incentive Scheme rewards revenue attributed to individuals who acquire new client assets and retain them for three years following the end of the year in which the new business is gained. The replacement Growth Plan (effective 1 September 2013) reflects growth in revenue net of market movement. Awards made through the original and replacement schemes relate to performance for the year to 28 February, are payable in cash and deferred over the three-year period. Payments do not attract employer pension contributions.

For the Incentive and Bonus Schemes, awards relate to performance for the financial years ending 31 March. An interim payment on account of the annual award is considered at the half-year. Non-financial performance is reviewed, and where individuals fall below the standards expected, awards may be deferred or forfeited, in part or in full. Payments are made entirely in cash and do not attract employer pension contributions. The award may be paid directly to the individual (subject to the deduction of income tax and national insurance) or, at IW&I's discretion, as an additional pension contribution.

IW&I executive directors either participate in the Bonus Scheme, or where the role is primarily client facing, that director may be eligible to participate in the Incentive and Growth Schemes.

Other information on deferred awards and clawback provisions within the bank

Employees who leave the employment of Investec prior to vesting of deferred incentive awards will lose their EVA forfeitable shares other than as a result of retirement, subject to the bank's normal good leaver provisions and approval process in exceptional cases.

The deferred share awards for PRA Code staff are subject to malus adjustment of unpaid EVA. The assessment of whether any malus adjustment should be made to an individual's unvested award will be undertaken within the following framework:

- Where there is reasonable evidence of employee misbehaviour
- Where the firm or operating business unit suffers a material downturn in its financial performance
- Where the firm or business unit suffers a material failure of risk management.

In these cases, management and the remuneration committee will take into account the following factors in determining the extent (if any) to which the quantum of deferred awards should be subject to clawback:

- The extent to which the individual had control over the outcome
- Failure of internal control systems
- The impact of the risk profile of the relevant member of the bank or business unit
- Any violation of the bank's culture and values
- The long-term impact of the outcome on the bank or relevant business unit
- External factors including market conditions
- Any other relevant factors.

Specifically for EVA share awards, where profits used to determine the original EVA bonus are materially reduced after the bonus determination, the awards will be recalculated for such reduction and consideration given to clawback (if any) to the extent that the prior period's EVA pool is reduced and the extent to which it affected each employee.

Long-term incentive: share awards

We have a number of share option and long-term share incentive plans that are designed to align the interests of employees with those of shareholders and long-term organisational interests, and to build material share ownership over the long term through share awards. These share option and incentive plans are also used in appropriate circumstances as a 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 for non-PRA Code staff are subject to 75% vesting at the end of four years and the final 25% at the end of the fifth year, which we believe is appropriate for our business requirements. LTIP awards to PRA Code staff are subject to 75% vesting at the end of three and a half years and the final 25% at the end of four and a half years, and are then subject to a six-month retention period. The awards are forfeited on termination, but 'good leaver' discretion is applied in exceptional circumstances.

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

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

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

Other remuneration structures

Guaranteed variable remuneration

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

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

The remuneration committee at least annually reviews guaranteed variable remuneration payments and the number of guarantees awarded and approves any exceptions.

Retention awards

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

Severance awards

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

Discretionary extended pension benefits policy

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

Governance

Compliance and governance statement

The remuneration report complies with the UK Corporate Governance Code 2012, the UK Companies Act 2006, the UK Financial Conduct Authority listing rules and the PRA Remuneration Code. In addition, the remuneration report of the Investec group complies with the provisions of Schedule 8 of the large and medium-sized companies and groups (annual financial statements and reports) (amendment) regulations 2013.

Scope of our remuneration policy

The bank aims to apply remuneration policies to executive directors and employees that are largely consistent across the bank, but recognises that certain parts of the bank are governed by local regulations that may contain more onerous requirements in certain respects.

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

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

- Investec Wealth & Investment Limited
- Hargreave Hale Limited.

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

Audited information

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

Name	Beneficial and non-beneficial interest Investec plc[2] 1 April 2013	Beneficial and non-beneficial interest Investec plc[2] 31 March 2014	% of shares in issue[1] 31 March 2014	Beneficial and non-beneficial interest Investec Limited[3] 1 April 2013	Beneficial and non-beneficial interest Investec Limited[3] 31 March 2014	% of shares in issue[1] 31 March 2014
Executive directors						
DM van der Walt (chief executive officer)	–	3 800	–	690 140	690 140	0.2%
B Kantor	57 980	57 980	–	4 201 000	4 301 000	1.5%
S Koseff	4 589 355	4 589 355	0.8%	1 809 399	1 809 399	0.6%
KP McKenna	112 147	144 135	–	–	–	–
IR Wohlman	60 172	96 052	–	80 000	80 000	–
A Zimbler	–	–	–	–	–	–
Total number	4 819 654	4 891 322	0.8%	6 780 539	6 880 539	2.3%
Non-executive directors						
Sir DJ Prosser (chairman)	10 000	10 000	–	–	–	–
GFO Alford	10 000	10 000	–	–	–	–
PKO Crosthwaite	132 908	132 908	–	–	–	–
D Friedland	–	–	–	–	–	–
H Fukuda OBE	5 000	5 000	–	–	–	–
F Titi	–	–	–	–	–	–
Total number	157 908	157 908	–	–	–	–
Total number	4 977 562	5 049 230	0.8%	6 780 539	6 880 539	2.3%

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' interests in preference shares at 31 March 2014

Name	Investec plc 1 April 2013	Investec plc 31 March 2014	Investec Limited 1 April 2013	Investec Limited 31 March 2014	Investec Bank Limited 1 April 2013	Investec Bank Limited 31 March 2014
Executive director						
S Koseff	101 198	101 198	3 000	3 000	4 000	4 000

- *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' interests in long-term incentive plans at 31 March 2014

Investec plc shares

Name	Date of grant	Exercise price	Number of Investec plc 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
Executive directors									
DM van der Walt	25 June 2007	Nil	150 000	(150 000)	–	–	£4.07	£610 860	
	25 June 2009	Nil	300 000	(225 000)	–	75 000	£4.32	£974 086	25 June 2014
	1 July 2010	Nil	750 000	–	–	750 000	–	–	75% is exercisable on 1 July 2014 and 25% on 1 July 2015
KP McKenna	25 June 2008	Nil	6 250	(6 250)	–	–	£4.38	£27 398	
	25 June 2009	Nil	100 000	(75 000)	–	25 000	£4 38	£328 779	25 June 2014
	1 July 2010	Nil	75 000	–	–	75 000	–	–	75% is exercisable on 1 July 2014 and 25% on 1 July 2015
	31 May 2011	Nil	50 000	–	–	50 000	–	–	75% is exercisable on 31 May 2015 and 25% on 31 May 2016
IR Wohlman	25 June 2009	Nil	75 000	(56 250)	–	18 750	£4.22	£237 209	25 June 2014
	1 July 2010	Nil	100 000	–	–	100 000	–	–	75% is exercisable on 1 July 2014 and 25% on 1 July 2015
	31 May 2011	Nil	100 000	–	–	100 000	–	–	75% is exercisable on 31 May 2015 and 25% on 31 May 2016
A Zimbler	25 June 2009	Nil	180 000	(135 000)	–	45 000	£4.32	£583 132	25 June 2014
	1 July 2010	Nil	275 000	–	–	275 000	–	–	75% is exercisable on 1 July 2014 and 25% on 1 July 2015

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

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

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

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.

Conditional awards to Code staff at 31 March 2014

Investec plc shares

Name	Date of grant	Exercise price	Number of Investec plc 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
Executive directors									
DM van der Walt	13 June 2013	Nil	–	–	200 000	200 000	–	–	75% is exercisable on 13 December 2016 and subject to six months' retention thereafter and 25% on 13 December 2017 and subject to six months' retention thereafter
KP McKenna	29 May 2012	Nil	40 000	–	–	40 000	–	–	75% is exercisable on 29 November 2015 and subject to six months' retention thereafter and 25% on 29 November 2016 and subject to six months' retention thereafter
	4 June 2013	Nil	–	–	60 000	60 000	–	–	75% is exercisable on 4 December 2016 and subject to six months' retention thereafter and 25% on 4 December 2017 and subject to six months' retention thereafter
IR Wohlman	4 June 2013	Nil	–	–	50 000	50 000	–	–	75% is exercisable on 4 December 2016 and subject to six months' retention thereafter and 25% on 4 December 2017 and subject to six months' retention thereafter
A Zimbler	13 June 2013	Nil	–	–	125 000	125 000	–	–	75% is exercisable on 13 December 2016 and subject to six months' retention thereafter and 25% on 13 December 2017 and subject to six months' retention thereafter

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

The performance conditions will be assessed by the directors, in accordance with the rules and requirements of the PRA from time to time, at the end of each financial year of the performance period (ended 31 March 2013 and ending 31 March 2017). For each year within the performance period that the return on risk-weighted assets for Investec Bank plc is equal to or greater than 0.3%, the performance condition for 25% of the award is satisfied, in which case 25% of the award will vest on the relevant vesting date (subject to clawback).

Additional remuneration disclosures (unaudited)

PRA Remuneration Code disclosures

In terms of the PRA's Chapter on Disclosure Requirements (BIPRU 11.5.18) the bank in the UK is required to make certain quantitative and qualitative remuneration disclosures on an annual basis with respect to PRA Code staff. Code staff are defined as those employees (including directors) whose professional activities could have a material impact on the bank's risk profile. A total of 39 individuals were PRA Code staff in 2014.

The bank's qualitative remuneration disclosures are provided on pages 116 to 122 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 in respect of PRA Code staff for the year ended 31 March 2014.

Aggregate remuneration by remuneration type

£'million	Senior management	Other Code staff	Total
Fixed remuneration	3.9	6.0	9.9
Variable remuneration*			
– Cash	2.4	3.6	6.0
– Deferred cash	0.1	1.9	2.0
– Deferred shares	3.8	5.6	9.4
– Deferred shares – long-term incentive awards	3.0	8.2	11.2
Other			
– Options – long-term incentive awards made in current year**	0.7	1.1	1.8
– Options – long-term incentive awards made in prior years**	2.1	1.2	3.3
Total aggregate remuneration and deferred incentives	16.0	27.6	43.6
Ratio between fixed and variable pay	1:3	1:3	1:3

* *Total number of employees receiving variable remuneration was 32.*

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

Code staff received total remuneration in the following bands:

	Number of Code staff
£800 000 – £1 200 000	3
>£1 200 001 – £1 600 000	1
>£1 600 001 – £2 000 000	5
>£2 000 001 – £2 400 000	1
>£2 400 001 – £2 800 000	–
>£2 800 001 – £3 200 000	1
>£3 200 001 – £3 600 000	–
>£3 600 001 – £4 000 000	1
>£4 000 001 – £4 400 000	1
>£4 400 001 – £4 800 000	2
>£4 800 001 – £5 200 000	–
>£5 200 001	–

Additional disclosure on deferred remuneration

£'million	Senior management	Other Code staff	Total
Deferred unvested remuneration outstanding at the beginning of the year	18.2	18.3	36.5
Deferred unvested remuneration adjustment – employees no longer Code staff	(7.8)	(2.5)	(10.3)
Deferred remuneration awarded in the year	6.9	15.7	22.6
Deferred remuneration reduced in the year through performance adjustments	–	–	–
Deferred remuneration vested in the year	(2.3)	(5.8)	(8.1)
Deferred unvested remuneration outstanding at the end of the year	15.0	25.7	40.7

£'million	Senior management	Other Code staff	Total
Deferred unvested remuneration outstanding at the end of the year			
– Equity	10.4	18.6	29.0
– Cash	2.5	4.3	6.8
– Other	2.1	2.8	4.9
	15.0	25.7	40.7

£'million	Senior management	Other Code staff	Total
Deferred remuneration vested in year			
– For awards made in the 2013 financial year	–	–	–
– For awards made in the 2012 financial year	(0.9)	(1.3)	(2.2)
– For awards made in the 2011 financial year	(1.4)	(4.5)	(5.9)
	(2.3)	(5.8)	(8.1)

Other remuneration disclosures

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

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Annual financial **statements**

Directors' report

The directors present their report and financial statements for the year ended 31 March 2014.

Business and principal activities

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

Review of the business and future developments

A review of the bank's business for the year and future proposed activities can be found in the financial review on pages 12 to 25.

Accounting policies and disclosures

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

These policies are set out on pages 138 to 146.

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

The accounting policies for the bank's own annual financial statements are set out on pages 222 to 228.

Authorised and issued share capital

Details of the share capital at 31 March 2014 are set out in note 41 to the bank's consolidated annual financial statements.

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

Date of issue	Number of ordinary shares	Price per share
28 June 2013	13 000 000	£1.54

Results and dividends

The results for the year are shown on page 132. Movements in reserves are shown in the reconciliation of equity on pages 136 and 137 of the financial statements.

No dividends were paid during the year. An interim dividend of £32 million was declared and paid on 28 May 2014.

Directors and their interests

The directors of the bank for the year ended 31 March 2014 are shown on page 114.

There have been the following changes in the composition of the board:
Alexander Snow resigned as a director on 6 June 2013 and IR Kantor resigned as a director on 16 July 2013.

The interests of the directors are set out in the remuneration report on pages 123 to 125.

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

Environment

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

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

Employees

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

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

Creditor payment policy

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

Going concern

Refer to page 110 for the directors' statement in relation to going concern.

Post-balance sheet events

As announced on 11 April 2014, the board of directors of Investec has entered into a definitive contract with the Bank of Queensland Limited (BOQ) to purchase Investec Bank (Australia) Limited's (IBAL) Professional Finance, Asset Finance and Leasing businesses and its deposit book. The transaction is structured as a sale of IBAL. A total team of over 310 people will be transferring to BOQ. The consideration price has been agreed at an A$210 million premium to tangible net asset value (NAV), for the shares in IBAL. Upon conclusion of the transaction, IBAL will repatriate its entire NAV to Investec Holdings (Australia) Limited. The consideration price for the sale assets is prior to transaction costs and any costs that may arise following the restructure. Furthermore, it is a requirement of the transaction to transfer all non-sale assets and liabilities and contractual agreements out of IBAL prior to conclusion of the sale. The transaction is subject to regulatory approval.

Auditors

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

By order of the board

David Miller
Company secretary

20 June 2014

Directors' responsibility statement

The following statement, which should be read in conjunction with the auditor's report set out on page 131, is made with a view to distinguishing for stakeholders the respective responsibilities of the directors and of the auditors in relation to the consolidated financial statements.

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

To enable the directors to meet these responsibilities:

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

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

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

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

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

It is the responsibility of the independent auditors to report on the consolidated annual financial statements. Their report to the members of the bank is set out on page 131 of this integrated annual report. As far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. All steps which ought to have been taken as directors have been completed in order to be aware of the relevant audit information and to establish that the company's auditors are aware of that information.

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

Approval of financial statements

The directors' report and the financial statements of the bank, which appear on page 129 and pages 132 to 217, were approved by the board of directors on 20 June 2014.

Signed on behalf of the board

David van der Walt
Chief executive officer

20 June 2014

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

We have audited the group financial statements of Investec Bank plc for the year ended 31 March 2014 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity, the accounting policies set out on pages 138 to 146, and the related notes 1 to 55. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement set out on page 130, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion, the group financial statements:

- Give a true and fair view of the state of the group's affairs at 31 March 2014 and of its profit for the year then ended
- Have been properly prepared in accordance with IFRS as adopted by the European Union
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Opinions on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the strategic report (incorporating the financial review, corporate governance and the remuneration report) and the directors' report for the financial year for which the group financial statements are prepared, are consistent with the group financial statements.

Matters on which we are required to report by exception

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

- Adequate accounting records have not been kept or returns adequate for our audit have not been recieved from branches not visited by us, or
- The group financial statements are not in agreement with the accounting records and returns, or
- Certain disclosures of directors' remuneration specified by law are not made, or
- We have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the parent company financial statements of Investec Bank plc for the year ended 31 March 2014.

Ernst & Young LLP

Michael-John Albert
Senior statutory auditor

For and on behalf of Ernst & Young LLP
Statutory Auditor

London
23 June 2014

Notes:

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

Consolidated income statement

For the year to 31 March £'000	Notes	2014	2013*
Interest income	2	723 962	814 084
Interest expense	2	(422 516)	(526 414)
Net interest income		**301 446**	**287 670**
Fee and commission income	3	420 570	411 001
Fee and commission expense	3	(35 041)	(30 563)
Investment income	4	98 491	68 648
Trading income arising from			
– customer flow		77 052	57 867
– balance sheet management and other trading activities		639	13 209
Other operating income	5	12 207	31 345
Total operating income before impairment losses on loans and advances		**875 364**	**839 177**
Impairment losses on loans and advances	26	(97 491)	(110 403)
Operating income		**777 873**	**728 774**
Operating costs	6	(661 263)	(627 772)
Depreciation on operating leased assets	6/31	(6 044)	(16 072)
Operating profit before goodwill and acquired intangibles		**110 566**	**84 930**
Impairment of goodwill	33	(11 233)	(13 409)
Amortisation of acquired intangibles	34	(13 393)	(11 262)
Operating costs arising from integration and restructuring of subsidiaries		(16 911)	(12 462)
Operating profit		**69 029**	**47 797**
Net gain on disposal of subsidiaries		9 653	–
Non-operational costs arising from acquisition of subsidiary		–	(1 219)
Profit before taxation		**78 682**	**46 578**
Taxation on operating profit before goodwill	8	(33 440)	(22 541)
Taxation on acquired intangibles and acquisition/disposal/integration of subsidiaries	8	7 389	5 853
Profit after taxation		**52 631**	**29 890**
(Profit)/loss attributable to non-controlling interests		(1 063)	1 932
Earnings attributable to shareholder		**51 568**	**31 822**

* *As restated for restatements detailed in note 54.*

Consolidated statement of comprehensive income

For the year to 31 March £'000	Note	2014	2013*
Profit after taxation		52 631	29 890
Other comprehensive income/(loss):			
Items that are/may be reclassified to the income statement			
Fair value movements on cash flow hedges taken directly to other comprehensive income**	8	2 799	(1 663)
Gains on realisation of available-for-sale assets recycled through the income statement**	8	(2 898)	407
Fair value movements on available-for-sale assets taken directly to other comprehensive income**	8	1 250	(1 747)
Foreign currency adjustments on translating foreign operations		(43 387)	8 733
Total comprehensive income		10 395	35 620
Total comprehensive income/(loss) attributable to non-controlling interests		1 597	(2 168)
Total comprehensive income attributable to ordinary shareholder		8 798	37 788
Total comprehensive income		10 395	35 620

* *As restated for restatements detailed in note 54.*

** *Net of taxation.*

Consolidated balance sheet

At 31 March £'000	Notes	2014	2013*	2012*
Assets				
Cash and balances at central banks	17	1 742 605	1 375 654	1 835 836
Loans and advances to banks	18	1 105 205	1 140 479	863 664
Reverse repurchase agreements and cash collateral on securities borrowed	19	1 215 500	1 528 593	1 159 138
Sovereign debt securities	20	1 232 415	1 660 377	1 647 271
Bank debt securities	21	371 182	455 201	824 552
Other debt securities	22	229 228	189 259	185 343
Derivative financial instruments	23	782 947	948 589	866 408
Securities arising from trading activities	24	586 706	673 763	372 570
Investment portfolio	25	341 360	333 291	290 275
Loans and advances to customers	26	7 752 907	7 745 583	7 176 992
Own originated loans and advances to customers securitised	27	447 638	491 194	535 008
Other loans and advances	26	1 509 714	1 752 888	2 062 968
Other securitised assets	27	1 011 257	1 105 030	777 228
Interests in associated undertakings	28	16 637	16 989	17 780
Deferred taxation assets	29	97 614	112 172	89 490
Other assets	30	1 014 416	1 201 730	1 116 826
Property and equipment	31	63 487	86 603	126 790
Investment properties	32	61 715	11 500	11 500
Goodwill	33	296 247	326 841	278 574
Intangible assets	34	156 703	175 478	117 525
		20 035 483	21 331 214	20 355 738
Liabilities				
Deposits by banks		834 876	997 439	700 919
Derivative financial instruments	23	669 159	817 689	732 510
Other trading liabilities	36	391 650	372 762	271 627
Repurchase agreements and cash collateral on securities lent	19	614 733	942 396	1 020 670
Customer accounts (deposits)		11 095 782	11 355 475	11 035 470
Debt securities in issue	37	1 316 102	1 713 736	2 046 651
Liabilities arising on securitisation of own originated loans and advances	27	449 083	477 903	526 946
Liabilities arising on securitisation of other assets	27	962 253	850 887	647 657
Current taxation liabilities		103 432	82 630	57 783
Deferred taxation liabilities	29	37 717	44 945	32 487
Other liabilities	38	981 648	1 117 483	938 809
		17 456 435	18 773 345	18 011 529
Subordinated liabilities	40	669 776	678 742	643 162
		18 126 211	19 452 087	18 654 691
Equity				
Ordinary share capital	41	1 186 800	1 173 800	1 070 700
Share premium		143 288	136 268	129 255
Capital reserve		162 789	162 789	114 128
Other reserves		42 797	84 610	76 767
Retained income		376 823	326 212	312 342
Shareholder's equity excluding non-controlling interests		1 912 497	1 883 679	1 703 192
Non-controlling interests in partially held subsidiaries	42	(3 225)	(4 552)	(2 145)
Total equity		1 909 272	1 879 127	1 701 047
Total liabilities and equity		20 035 483	21 331 214	20 355 738

* *As restated for restatements detailed in note 54.*

Consolidated cash flow statement

For the year to 31 March £'000	Notes	2014	2013*
Operating profit adjusted for non-cash items	44	212 938	212 054
Taxation (paid)/repayment		(11 865)	3 399
Decrease/(increase) in operating assets	44	1 466 918	(1 391 647)
(Decrease)/increase in operating liabilities	44	(1 345 706)	605 383
Net cash inflow/(outflow) from operating activities		**322 285**	**(570 811)**
Cash flow on acquisition of group operations	35	–	23 071
Net proceeds on disposal of group operations	35	37 836	–
Cash flow on disposal of non-controlling interests		(270)	(3 813)
Cash flow on acquisition of property, equipment and intangible assets		(21 158)	(26 334)
Cash flow on disposal of property, equipment and intangible assets		19 501	39 467
Cash flow on net (acquisition)/disposal of associates		(296)	3 323
Net cash inflow from investing activities		**35 613**	**35 714**
Dividends paid to ordinary shareholders		–	(12 500)
Proceeds on issue of shares, net of related costs		20 020	20 000
Proceeds from subordinated debt raised		–	31 926
Net cash inflow from financing activities		**20 020**	**39 426**
Effects of exchange rates on cash and cash equivalents		**(7 526)**	**47 693**
Net increase/(decrease) in cash and cash equivalents		**370 392**	**(447 978)**
Cash and cash equivalents at the beginning of the year		2 169 015	2 616 993
Cash and cash equivalents at the end of the year		**2 539 407**	**2 169 015**
Cash and cash equivalents is defined as including:			
Cash and balances at central banks		1 742 605	1 375 654
On demand loans and advances to banks		796 802	793 361
Cash and cash equivalents at the end of the year		**2 539 407**	**2 169 015**

* *As restated for restatements detailed in note 54.*

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

Consolidated statement of changes in equity

£'000	Ordinary share capital	Share premium account
At 31 March 2012 – as previously reported	1 070 700	129 255
Restatements on adoption of IFRS 10	–	–
At 31 March 2012 – as restated	1 070 700	129 255
Movement in reserves 1 April 2012 – 31 March 2013		
Profit after taxation	–	–
Fair value movements on cash flow hedges	–	–
Losses on realisation of available-for-sale assets recycled through the income statement	–	–
Fair value movements on available-for-sale assets	–	–
Foreign currency adjustments on translating foreign operations	–	–
Total comprehensive income for the year	–	–
Dividends paid to ordinary shareholder	–	–
Issue of ordinary shares	103 100	7 013
Issue of equity by subsidiaries	–	–
Movement arising on reduction/acquisition of non-controlling interest	–	–
Transfer to regulatory general risk reserve	–	–
At 31 March 2013	1 173 800	136 268
Movement in reserves 1 April 2013 – 31 March 2014		
Profit after taxation	–	–
Fair value movements on cash flow hedges	–	–
Profits on realisation of available-for-sale assets recycled through the income statement	–	–
Fair value movements on available-for-sale assets	–	–
Foreign currency adjustments on translating foreign operations	–	–
Total comprehensive income for the year	–	–
Issue of ordinary shares	13 000	7 020
Movement arising on reduction/acquisition of non-controlling interest	–	–
Transfer to regulatory general risk reserve	–	–
At 31 March 2014	1 186 800	143 288

Capital reserve account	Other reserves: Available-for-sale reserve	Other reserves: Regulatory general risk reserve	Other reserves: Cash flow hedge reserve	Other reserves: Foreign currency reserves	Retained income	Shareholder's equity excluding non-controlling interests	Non-controlling interests	Total equity
114 128	6 626	14 381	(9 297)	65 057	337 541	1 728 391	(2 145)	1 726 246
–	–	–	–	–	(25 199)	(25 199)	–	(25 199)
114 128	6 626	14 381	(9 297)	65 057	312 342	1 703 192	(2 145)	1 701 047
–	–	–	–	–	31 822	31 822	(1 932)	29 890
–	–	–	(1 663)	–	–	(1 663)	–	(1 663)
–	407	–	–	–	–	407	–	407
–	(1 747)	–	–	–	–	(1 747)	–	(1 747)
–	(91)	849	(549)	8 760	–	8 969	(236)	8 733
–	(1 431)	849	(2 212)	8 760	31 822	37 788	(2 168)	35 620
–	–	–	–	–	(12 500)	(12 500)	–	(12 500)
48 661	–	–	–	–	–	158 774	–	158 774
–	–	–	–	–	–	–	326	326
–	–	–	–	–	(3 575)	(3 575)	(565)	(4 140)
–	–	1 877	–	–	(1 877)	–	–	–
162 789	5 195	17 107	(11 509)	73 817	326 212	1 883 679	(4 552)	1 879 127
–	–	–	–	–	51 568	51 568	1 063	52 631
–	–	–	2 799	–	–	2 799	–	2 799
–	(2 898)	–	–	–	–	(2 898)	–	(2 898)
–	1 250	–	–	–	–	1 250	–	1 250
–	(271)	(3 254)	2 189	(42 585)	–	(43 921)	534	(43 387)
–	(1 919)	(3 254)	4 988	(42 585)	51 568	8 798	1 597	10 395
–	–	–	–	–	–	20 020	–	20 020
–	–	–	–	–	–	–	(270)	(270)
–	–	957	–	–	(957)	–	–	–
162 789	3 276	14 810	(6 521)	31 232	376 823	1 912 497	(3 225)	1 909 272

Basis of presentation

The group financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU) which comply with IFRSs as issued by the International Accounting Standards Board (IASB). At 31 March 2014, IFRS as endorsed by the EU are identical in all material respects to current IFRS applicable to the group, with differences only in the effective dates of certain standards. However the group has early adopted these relevant standards to ensure compliance with both frameworks.

The group 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 financial liabilities held at fair value through profit or loss or subject to hedge accounting.

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 27 to 104.

Certain disclosures required under IAS 24 – Related Party Disclosures have been included in the section marked as audited in the remuneration report on pages 116 to 127.

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 – 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 52.

IFRS 10 – Consolidated Financial Statements

The revised standard on consolidation has been applied retrospectively, with the impact to prior reported periods disclosed in the restatement note on page 213. The application of the single definition of control contained in the standard has resulted in the consolidation of certain special purpose vehicles in which the group has exposure to variable returns (not necessarily the majority thereof) and has the ability to affect such returns by exercising control over the activities of the entity.

IFRS 11 – Joint Arrangements

The new accounting standard came into effect from 1 April 2013 and has not had any material 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. The impact of the standard is further disclosed on pages 208 to 210, with no changes to measurement or recognition requirements.

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 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.

IAS 19 – Employee Benefits

The revisions to the standard have been applied retrospectively. There is no impact for 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 financial statements of the group from the date on which control is obtained until the date the group can no longer demonstrate control.

The group performs a reassessment of consolidation whenever there is a change in the substance of the relationship between Investec and an investee. 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. In circumstances where interests in associated undertakings or joint venture holdings arise in which the group has no strategic intention, these investments are classified as 'venture capital' holdings and are designated as held at fair value through profit or loss.

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

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

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

Segmental reporting

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

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

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

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

Business combinations and goodwill

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

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and the designation in accordance with the contractual terms, economic circumstances and pertinent conditions 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 re-measured until it is finally settled within equity.

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

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

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

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

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

Share-based payments to employees

The group engages in equity-settled share-based payments 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.

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

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

Foreign currency transactions and foreign operations

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

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

Foreign currency transactions are translated into the functional currency of the entity in which the transaction arises based on rates of exchange ruling at the date of the transaction.

At each balance sheet date foreign currency items are translated as follows:

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

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

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

Revenue recognition

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

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

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

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

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

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

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

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

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

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

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

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 take 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 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 trade date.

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

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

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

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

- It eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases
- 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
- 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 in which the group intends to trade, which are classified as held-for-trading and those that the group designates at fair value through profit or loss
- Those that the group designates as available-for-sale
- Those for which the group may not recover substantially all of its initial investment, other than because of credit deterioration, which is accounted for as available-for-sale instruments.

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

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

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

Securitisation/credit investment and trading activities exposures

The group makes use of securitisation vehicles as a source of finance, as a means of risk transfer and to leverage returns through the retention of equity tranches in low default rate portfolios. The group predominantly focuses on the securitisation of residential and commercial mortgages. The group also trades in structured credit investments.

Loans and advances that are originated are transferred to 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 have 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 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 one 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 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 (within the Specialist Banking business segment) that takes into account macro-economic factors, mainly driven by data related to the prevailing credit markets and which indicate incurred but not specifically identified losses across the loan portfolios (that is, exposures in all business segments). Assets specifically identified as impaired are excluded from the collective assessment.

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

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

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

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

Derecognition of financial assets and liabilities

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

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

Reclassification of financial instruments

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

Derivative instruments

All derivative instruments of the group are recorded on the balance sheet at fair value. Positive and negative fair values are reported as assets and liabilities respectively.

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 in the hedge accounting section 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 for trading purposes. Credit derivatives of the group are initially recognised at their fair values, being the transaction price of the derivative. Subsequently the derivatives are carried at fair value, with movements in fair value through profit and loss, based on the current market price or re-measured price.

Hedge accounting

The group applies either fair value or cash flow hedge or hedge of net investments in foreign operations accounting when the transactions meet the specified hedge accounting criteria. To qualify for hedge accounting treatment, the group ensures that all of the following conditions are met:

- At inception of the hedge, the group formally documents the relationship between the hedging instrument(s) and hedged item(s) including the risk management objectives and the strategy in undertaking the hedge transaction. Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item
- A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%
- For cash flow hedges, a forecasted transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit and loss
- The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured
- The hedge effectiveness is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

For qualifying fair value hedges, the change in fair value of the hedging instrument is recognised in the income statement. Changes in fair value of the hedged item that is attributable to the hedged risk are also recognised in the income statement.

For qualifying cash flow hedges in respect of non-financial assets and liabilities, the change in fair value of the hedging instrument, relating to the effective portion is initially recognised directly in other comprehensive income in the cash flow hedge reserve and is included in the initial cost of any asset/liability recognised or in all other cases released to the income statement when the hedged firm commitment or forecasted transaction affects net profit. If the forecast transaction or firm commitment is no longer expected to occur, the balance included in other comprehensive income is reclassified to the income statement immediately and recognised in trading income from balance sheet management and other trading activities.

For qualifying cash flow hedges in respect of financial assets and liabilities, the change in fair value of the hedging instrument, which represents an effective hedge, is initially recognised in other comprehensive income and is released to the income statement in the same period during which the relevant financial asset or liability affects the income statement. Any ineffective portion of the hedge is immediately recognised in the income statement.

Qualifying hedges of a net investment in a foreign operation including a hedge of a monetary item that is accounted for as part of the net investment are accounted for in a way similar to cash flow hedges. Changes in the fair value of the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of any such gain or loss recorded in other comprehensive income is reclassified to the income statement.

Hedge accounting is discontinued when it is determined that the instrument ceases to be highly effective as a hedge; when the derivative expires, or is sold, terminated or exercised; when the hedged item matures or is sold or repaid; when a forecasted transaction is no longer deemed highly probable or when the designation as a hedge is revoked.

Embedded derivatives

To the extent that a derivative may be embedded in a hybrid contract and the hybrid contract is not carried at fair value with changes in fair value recorded in the income statement, the embedded derivative is separated from the host contract and accounted for as a 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;
- 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 issued by subsidiaries of Investec Bank plc are recorded as non-controlling interests on the balance sheet.

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

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

Sale and repurchase agreements (including securities borrowing and lending)

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

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

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

Financial guarantees

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

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

Instalment credit, leases and rental agreements

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

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

Where classified as operating leases, rentals payable/receivable are charged/credited in the income statement on a straight-line basis over the lease term. Contingent rentals 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 property and 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. Leasehold property depreciation rates are determined by reference 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 for group assets are expensed as incurred. Subsequent expenditure is only capitalised if it is probable that future economic benefits associated with the item will flow to the group.

Investment property

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

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

Intangible assets

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

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

Impairment of non-financial assets

At each balance sheet date the group reviews the carrying value of non-financial assets, other than investment property 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. Reversals of impairment losses are recognised in income in the period in which the reversals are identified, to the extent that the carrying value of the asset does not exceed the amount that would have been calculated without impairment.

Trust and fiduciary activities

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

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

Taxation and deferred taxation

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

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

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

Deferred tax assets or liabilities are measured using the tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised.

Items recognised directly in other comprehensive income are net of related current and deferred taxation.

Employee benefits

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

In respect of the defined contribution scheme, all employer contributions are charged to income as incurred, in accordance with the rules of the scheme, and included under staff costs.

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

Borrowing costs

Borrowing costs 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 standards and interpretations, which have been issued but are not yet effective, are applicable to the group. These standards and interpretations have not been applied in these financial statements. The group intends to comply with these standards from the effective dates.

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 although IFRS 9 has not yet been endorsed by the EU.

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 a material impact on the group.

Key management assumptions

In preparation of the financial statements the group makes estimations and applies judgement that could affect the reported amount of assets and liabilities within the next financial year. Key areas in which judgement is applied include:

- Valuation of unlisted investments in the private equity and direct investments portfolios. Key valuation inputs are based on the most relevant observable market inputs, adjusted where necessary for factors that specifically apply to the individual investments and recognising market volatility.

Details of unlisted investments can be found in note 25 with further analysis contained in the risk management section on pages 64 to 66.

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

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

For the year to 31 March £'000	Wealth & Investment	Specialist Banking	Total group
1. Consolidated segmental analysis			
2014			
Segmental business analysis – income statement			
Net interest income	7 987	293 459	301 446
Fee and commission income	219 434	201 136	420 570
Fee and commission expense	(2 020)	(33 021)	(35 041)
Investment income	1 875	96 616	98 491
Trading income arising from			
– customer flow	389	76 663	77 052
– balance sheet management and other trading activities	(72)	711	639
Other operating income	1 232	10 975	12 207
Total operating income before impairment losses on loans and advances	228 825	646 539	875 364
Impairment losses on loans and advances	–	(97 491)	(97 491)
Operating income	228 825	549 048	777 873
Operating costs	(182 759)	(478 504)	(661 263)
Depreciation on operating leased assets	–	(6 044)	(6 044)
Operating profit before goodwill and acquired intangibles	46 066	64 500	110 566
Profit attributable to non-controlling interests	–	(1 063)	(1 063)
Operating profit before goodwill and acquired intangibles and after non-controlling interests	46 066	63 437	109 503
Cost to income ratio	79.9%	74.7%	76.1%
Total assets (£'million)	927	19 108	20 035

For the year to 31 March £'000	Wealth & Investment	Specialist Banking	Total group
1. Consolidated segmental analysis (continued)			
2013*			
Segmental business analysis – income statement			
Net interest income	10 079	277 591	287 670
Fee and commission income	167 027	243 974	411 001
Fee and commission expense	(8 420)	(22 143)	(30 563)
Investment income	555	68 093	68 648
Trading income arising from			
– customer flow	361	57 506	57 867
– balance sheet management and other trading activities	4	13 205	13 209
Other operating income	774	30 571	31 345
Total operating income before impairment losses on loans and advances	170 380	668 797	839 177
Impairment losses on loans and advances	–	(110 403)	(110 403)
Operating income	170 380	558 394	728 774
Operating costs	(137 535)	(490 237)	(627 772)
Depreciation on operating leased assets	–	(16 072)	(16 072)
Operating profit before goodwill and acquired intangibles	32 845	52 085	84 930
Loss attributable to non-controlling interests	–	1 932	1 932
Operating profit before goodwill and acquired intangibles and after non-controlling interests	32 845	54 017	86 862
Cost to income ratio	80.7%	75.1%	76.3%
Total assets (£'million)	866	20 465	21 331

* *As restated for restatements detailed in note 54.*

For the year to 31 March £'000	UK and Other	Australia	Total group
1. Consolidated segmental analysis (continued)			
2014			
Segmental geographic analysis – income statement			
Net interest income	229 931	71 515	301 446
Fee and commission income	386 234	34 336	420 570
Fee and commission expense	(27 956)	(7 085)	(35 041)
Investment income	98 932	(441)	98 491
Trading income arising from			
– customer flow	66 386	10 666	77 052
– balance sheet management and other trading activities	3 418	(2 779)	639
Other operating income	11 939	268	12 207
Total operating income before impairment losses on loans and advances	768 884	106 480	875 364
Impairment losses on loans and advances	(75 372)	(22 119)	(97 491)
Operating income	693 512	84 361	777 873
Operating costs	(563 046)	(98 217)	(661 263)
Depreciation on operating leased assets	(6 044)	–	(6 044)
Operating profit/(loss) before goodwill and acquired intangibles	124 422	(13 856)	110 566
Profit attributable to non-controlling interests	(1 063)	–	(1 063)
Operating profit/(loss) before goodwill and acquired intangibles and after non-controlling interests	123 359	(13 856)	109 503
Impairment of goodwill	–	(11 233)	(11 233)
Amortisation of acquired intangibles	(13 393)	–	(13 393)
Operating costs arising from integration and restructuring of subsidiaries	(1 233)	(15 678)	(16 911)
Net gain on disposal of subsidiaries	9 653	–	9 653
Earnings attributable to shareholder before taxation	118 386	(40 767)	77 619
Taxation on operating profit before goodwill	(33 594)	154	(33 440)
Taxation on acquired intangibles and acquisition/disposal/integration of subsidiaries	7 389	–	7 389
Earnings attributable to shareholder	92 181	(40 613)	51 568
Cost to income ratio	73.8%	92.2%	76.1%
Total assets (£'million)	17 592	2 443	20 035
Number of employees at year end	2 781	440	3 221
Average number of employees over the year	2 851	458	3 309

For the year to 31 March £'000	UK and Other	Australia	Total group
1. Consolidated segmental analysis (continued)			
2013*			
Segmental geographic analysis – income statement			
Net interest income	218 582	69 088	287 670
Fee and commission income	351 570	59 431	411 001
Fee and commission expense	(26 037)	(4 526)	(30 563)
Investment income	68 110	538	68 648
Trading income arising from			
– customer flow	50 921	6 946	57 867
– balance sheet management and other trading activities	13 773	(564)	13 209
Other operating income	29 536	1 809	31 345
Total operating income before impairment losses on loans and advances	706 455	132 722	839 177
Impairment losses on loans and advances	(92 554)	(17 849)	(110 403)
Operating income	613 901	114 873	728 774
Operating costs	(516 300)	(111 472)	(627 772)
Depreciation on operating leased assets	(16 072)	–	(16 072)
Operating profit before goodwill and acquired intangibles	81 529	3 401	84 930
Loss attributable to non-controlling interests	1 932	–	1 932
Operating profit before goodwill and acquired intangibles and after non-controlling interests	83 461	3 401	86 862
Impairment of goodwill	(13 409)	–	(13 409)
Amortisation of acquired intangibles	(11 262)	–	(11 262)
Operating costs arising from integration and restructuring of subsidiaries	(12 462)	–	(12 462)
Non-operational costs arising from acquisition of subsidiary	(1 219)	–	(1 219)
Earnings attributable to shareholder before taxation	45 109	3 401	48 510
Taxation on operating profit before goodwill	(23 971)	1 430	(22 541)
Taxation on acquired intangibles and acquisition/disposal/integration of subsidiaries	5 853	–	5 853
Earnings attributable to shareholder	26 991	4 831	31 822
Cost to income ratio	74.8%	84.0%	76.3%
Total assets (£'million)	18 085	3 246	21 331
Number of employees at year end	2 884	470	3 354
Average number of employees over the year	2 718	460	3 178

* *As restated for restatements detailed in note 54.*

1. Consolidated segmental analysis
(continued)

For the year to 31 March 2014 £'000	Wealth & Investment UK and Other	Specialist Banking UK and Other	Specialist Banking Australia	Specialist Banking Total	Total group UK and Other	Total group Australia	Total group Total
Segmental business and geographic analysis – income statement							
Net interest income	7 987	221 944	71 515	293 459	229 931	71 515	301 446
Fee and commission income	219 434	166 800	34 336	201 136	386 234	34 336	420 570
Fee and commission expense	(2 020)	(25 936)	(7 085)	(33 021)	(27 956)	(7 085)	(35 041)
Investment income	1 875	97 057	(441)	96 616	98 932	(441)	98 491
Trading income arising from							
– customer flow	389	65 997	10 666	76 663	66 386	10 666	77 052
– balance sheet management and other trading activities	(72)	3 490	(2 779)	711	3 418	(2 779)	639
Other operating income	1 232	10 707	268	10 975	11 939	268	12 207
Total operating income before impairment losses on loans and advances	228 825	540 059	106 480	646 539	768 884	106 480	875 364
Impairment losses on loans and advances	–	(75 372)	(22 119)	(97 491)	(75 372)	(22 119)	(97 491)
Operating income	228 825	464 687	84 361	549 048	693 512	84 361	777 873
Operating costs	(182 759)	(380 287)	(98 217)	(478 504)	(563 046)	(98 217)	(661 263)
Depreciation on operating leased assets	–	(6 044)	–	(6 044)	(6 044)	–	(6 044)
Operating profit/(loss) before goodwill and acquired intangibles	46 066	78 356	(13 856)	64 500	124 422	(13 856)	110 566
Profit attributable to non-controlling interests	–	(1 063)	–	(1 063)	(1 063)	–	(1 063)
Operating profit/(loss) before goodwill and acquired intangibles and after non-controlling interests	46 066	77 293	(13 856)	63 437	123 359	(13 856)	109 503
Cost to income ratio	79.9%	71.2%	92.2%	74.7%	73.8%	92.2%	76.1%
Total assets (£'million)	927	16 665	2 443	19 108	17 592	2 443	20 035

For the year to 31 March 2013* £'000	Wealth & Investment UK and Other	Specialist Banking UK and Other	Specialist Banking Australia	Specialist Banking Total	Total group UK and Other	Total group Australia	Total group Total
1. Consolidated segmental analysis (continued)							
Segmental business and geographic analysis – income statement							
Net interest income	10 079	208 503	69 088	277 591	218 582	69 088	287 670
Fee and commission income	167 027	184 543	59 431	243 974	351 570	59 431	411 001
Fee and commission expense	(8 420)	(17 617)	(4 526)	(22 143)	(26 037)	(4 526)	(30 563)
Investment income	555	67 555	538	68 093	68 110	538	68 648
Trading income arising from							
– customer flow	361	50 560	6 946	57 506	50 921	6 946	57 867
– balance sheet management and other trading activities	4	13 769	(564)	13 205	13 773	(564)	13 209
Other operating income	774	28 762	1 809	30 571	29 536	1 809	31 345
Total operating income before impairment losses on loans and advances	170 380	536 075	132 722	668 797	706 455	132 722	839 177
Impairment losses on loans and advances	–	(92 554)	(17 849)	(110 403)	(92 554)	(17 849)	(110 403)
Operating income	170 380	443 521	114 873	558 394	613 901	114 873	728 774
Operating costs	(137 535)	(378 765)	(111 472)	(490 237)	(516 300)	(111 472)	(627 772)
Depreciation on operating leased assets	–	(16 072)	–	(16 072)	(16 072)	–	(16 072)
Operating profit before goodwill and acquired intangibles	32 845	48 684	3 401	52 085	81 529	3 401	84 930
Loss attributable to non-controlling interests	–	1 932	–	1 932	1 932	–	1 932
Operating profit before goodwill and acquired intangibles and after non-controlling interests	32 845	50 616	3 401	54 017	83 461	3 401	86 862
Cost to income ratio	80.7%	72.8%	84.0%	75.1%	74.8%	84.0%	76.3%
Total assets (£'million)	866	17 219	3 246	20 465	18 085	3 246	21 331

* *As restated for restatements detailed in note 54.*

For the year to 31 March 2014 £'000	Notes	UK and Other Balance sheet value	UK and Other Interest income	Australia Balance sheet value	Australia Interest income	Total group Balance sheet value	Total group Interest income
2. Margin analysis							
Cash, near cash and bank debt and sovereign debt securities	1	5 074 145	45 553	592 762	17 336	5 666 907	62 889
Core loans and advances	2	6 470 616	382 332	1 729 929	160 356	8 200 545	542 688
Private client		3 777 505	165 055	1 369 078	102 331	5 146 583	267 386
Corporate, institutional and other clients		2 693 111	217 277	360 851	58 025	3 053 962	275 302
Other debt securities and other loans and advances		1 705 187	74 168	33 755	1 101	1 738 942	75 269
Other interest-earning assets	3	1 011 257	43 116	–	–	1 011 257	43 116
Total interest-earning assets		14 261 205	545 169	2 356 446	178 793	16 617 651	723 962

	Notes	UK and Other Balance sheet value	UK and Other Interest expense	Australia Balance sheet value	Australia Interest expense	Total group Balance sheet value	Total group Interest expense
Deposits by banks and other debt-related securities	4	2 660 094	49 758	105 617	11 611	2 765 711	61 369
Customer accounts		9 563 902	176 709	1 531 880	62 210	11 095 782	238 919
Other interest-bearing liabilities	5	962 252	29 276	449 084	30 638	1 411 336	59 914
Subordinated liabilities		596 834	59 495	72 942	2 819	669 776	62 314
Total interest-bearing liabilities		13 783 082	315 238	2 159 523	107 278	15 942 605	422 516
Net interest income			229 931		71 515		301 446

Notes:

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

For the year to 31 March 2013* £'000	Notes	UK and Other Balance sheet value	UK and Other Interest income	Australia Balance sheet value	Australia Interest income	Total group Balance sheet value	Total group Interest income
2. Margin analysis (continued)							
Cash, near cash and bank debt and sovereign debt securities	1	5 452 906	47 028	707 398	16 076	6 160 304	63 104
Core loans and advances	2	6 031 731	353 625	2 205 046	180 301	8 236 777	533 926
Private client		3 024 629	162 618	1 402 295	112 566	4 426 924	275 184
Corporate, institutional and other clients		3 007 102	191 007	802 751	67 735	3 809 853	258 742
Other debt securities and other loans and advances		1 919 641	99 760	22 506	18 205	1 942 147	117 965
Other interest-earning assets	3	1 105 030	99 089	–	–	1 105 030	99 089
Total interest-earning assets		14 509 308	599 502	2 934 950	214 582	17 444 258	814 084

	Notes	UK and Other Balance sheet value	UK and Other Interest expense	Australia Balance sheet value	Australia Interest expense	Total group Balance sheet value	Total group Interest expense
Deposits by banks and other debt-related securities	4	3 182 882	50 093	470 689	32 436	3 653 571	82 529
Customer accounts		9 662 655	219 180	1 692 820	79 411	11 355 475	298 591
Other interest-bearing liabilities	5	850 887	53 704	477 903	30 486	1 328 790	84 190
Subordinated liabilities		596 122	57 943	82 620	3 161	678 742	61 104
Total interest-bearing liabilities		14 292 546	380 920	2 724 032	145 494	17 016 578	526 414
Net interest income			218 582		69 088		287 670

* *As restated for restatements detailed in note 54.*

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

For the year to 31 March £'000	UK and Other	Australia	Total group
3. Net fee and commission income			
2014			
Wealth management businesses net fee and commission income	217 414	–	217 414
Funds management fees/fees for assets under management	157 565	–	157 565
Private client transactional fees	61 869	–	61 869
Fee and commission expense	(2 020)	–	(2 020)
Specialist Banking net fee and commission income	140 864	27 251	168 115
Corporate and institutional transactional and advisory services	152 268	19 013	171 281
Private client transactional fees	14 532	15 323	29 855
Fee and commission expense	(25 936)	(7 085)	(33 021)
Net fee and commission income	358 278	27 251	385 529
Annuity fees (net of fees payable)	203 826	17 844	221 670
Deal fees	154 452	9 407	163 859
2013*			
Wealth management businesses net fee and commission income	158 607	–	158 607
Funds management fees/fees for assets under management	127 763	–	127 763
Private client transactional fees	39 264	–	39 264
Fee and commission expense	(8 420)	–	(8 420)
Specialist Banking net fee and commission income	166 926	54 905	221 831
Corporate and institutional transactional and advisory services	163 570	49 852	213 422
Private client transactional fees	20 973	9 579	30 552
Fee and commission expense	(17 617)	(4 526)	(22 143)
Net fee and commission income	325 533	54 905	380 438
Annuity fees (net of fees payable)	160 879	26 138	187 017
Deal fees	164 654	28 767	193 421

* *As restated for restatements detailed in note 54.*

Trust and fiduciary fees amounted to £8.1 million (2013: £11.3 million) and is included in private client transactional fees.

For the year to 31 March £'000	UK and Other	Australia	Total group
4. Investment income			
2014			
Realised	52 932	1 028	53 960
Unrealised	35 812	(1 348)	34 464
Dividend income	9 665	1 183	10 848
Funding and other net related income/(costs)	523	(1 304)	(781)
Investment income	98 932	(441)	98 491
2013*			
Realised	28 439	1 752	30 191
Unrealised	35 399	(1 654)	33 745
Dividend income	2 949	240	3 189
Funding and other net related income	1 323	200	1 523
Investment income	68 110	538	68 648

For the year to 31 March £'000	Investment portfolio (listed and unlisted equities)^	Debt securities (sovereign, bank and other)	Other asset categories	Total
2014				
UK and Other				
Realised	36 618	11 452	4 862	52 932
Unrealised	50 479	(13 363)	(1 304)	35 812
Dividend income	9 472	–	193	9 665
Funding and other net related income	–	–	523	523
	96 569	(1 911)	4 274	98 932
Australia				
Realised	1 208	–	(180)	1 028
Unrealised	1 579	–	(2 927)	(1 348)
Dividend income	1 183	–	–	1 183
Funding and other net related costs	–	–	(1 304)	(1 304)
	3 970	–	(4 411)	(441)
Total investment income/(costs)	100 539	(1 911)	(137)	98 491
2013*				
UK and Other				
Realised	1 027	20 972	6 440	28 439
Unrealised	28 226	8 803	(1 630)	35 399
Dividend income	2 949	–	–	2 949
Funding and other net related income	–	–	1 323	1 323
	32 202	29 775	6 133	68 110
Australia				
Realised	64	1 617	71	1 752
Unrealised	(2 716)	–	1 062	(1 654)
Dividend income	240	–	–	240
Funding and other net related income	–	–	200	200
	(2 412)	1 617	1 333	538
Total investment income	29 790	31 392	7 466	68 648

* *As restated for restatements detailed in note 54.*
^ *Including embedded derivatives (warrants and profit shares).*

For the year to 31 March £'000	2014	2013
5. Other operating income		
Rental income from properties	980	1 085
Unrealised gains on other investments	–	867
Income from operating leases	9 336	26 661
Operating income from associates	1 891	2 732
	12 207	31 345

For the year to 31 March £'000	2014	2013
6. Operating costs		
Staff costs	473 949	435 477
– Salaries and wages (including directors' remuneration)*	371 006	338 547
– Training and other costs	15 445	8 848
– Share-based payment expense	34 453	33 592
– Social security costs	33 768	37 083
– Pensions and provident fund contributions	19 277	17 407
Premises expenses (excluding depreciation)	32 843	31 361
Equipment expenses (excluding depreciation)	26 043	25 692
Business expenses**	85 136	94 439
Marketing expenses	27 272	24 300
Depreciation, amortisation and impairment on property, equipment and intangibles	16 020	16 503
	661 263	627 772
Depreciation on operating leased assets	6 044	16 072
	667 307	643 844
The following amounts were paid by the group to the auditors in respect of the audit of the financial statements and for other services provided to the group.		
Ernst & Young fees		
Fees payable to the company's auditors for the audit of the company's annual financial statements	2 545	2 569
Fees payable to the company's auditors and its associates for other services:		
Audit of the company's subsidiaries pursuant to legislation	1 260	1 932
Audit-related assurance services	153	751
Tax compliance services	150	241
Tax advisory services	562	317
Other assurance services	10	42
	4 680	5 852
KPMG fees		
Fees payable to the company's auditors and its associates for other services:		
Audit of the company's subsidiaries pursuant to legislation	238	227
Audit-related assurance services	160	174
Tax compliance services	–	3
Tax advisory services	69	20
	467	424
Total	5 147	6 276

* *Details of the directors' emoluments and pensions are disclosed in note 3 of the parent company annual financial statements. Details of directors' interests are disclosed in the remuneration report on pages 123 to 125.*

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

7. Share-based payments

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

Further information on the group share options and long-term incentive plans is provided on page 121 of the remuneration report and on the group's website.

For the year to 31 March £'000	Wealth & Investment	Specialist Banking	Total group
Share-based payment expense charged to the income statement (included in operating costs):			
2014			
Equity-settled	5 715	28 738	34 453
Total income statement charge	5 715	28 738	34 453
Equity-settled: accelerated charges in respect of subsidiaries sold and restructured	–	1 480	1 480
	5 715	30 218	35 933
2013			
Equity-settled	5 237	28 355	33 592
Total income statement charge	5 237	28 355	33 592

Included in the above income statement charge is an accelerated share-based payment charge as a result of modifications to certain options granted. This expense for the year was £0.3 million (2013: £0.3 million).

For the year to 31 March £'000	2014	2013
Weighted average fair value of options granted in the year		
UK schemes	23 619	26 317

	UK Schemes			
	2014		2013	
Details of options outstanding during the year	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of the year	43 549 331	0.04	37 600 672	0.07
Granted during the year	7 301 989	0.05	11 835 601	0.03
Exercised during the year*	(10 293 787)	0.02	(4 531 508)	0.01
Options forfeited during the year	(2 192 744)	0.28	(1 355 434)	0.62
Outstanding at the end of the year	38 364 789	0.05	43 549 331	0.06
Exercisable at the end of the year	561 720	0.11	544 221	–

* *The weighted average share price during the year was £4.35 (2013: £3.99).*

7. Share-based payments (continued)

Additional information relating to options:	UK Schemes 2014	UK Schemes 2013
Options with strike prices		
Exercise price range	£3.20 – £5.00	£2.05 – £5.00
Weighted average remaining contractual life	2.79 years	3.06 years
Long-term incentive options with no strike price		
Exercise price range	£nil	£nil
Weighted average remaining contractual life	2.58 years	2.73 years
Weighted average fair value of options and long-term incentive grants at measurement date	£3.23	£2.22
The fair values of options granted were calculated using a Black-Scholes option pricing model. For options granted during the year, the inputs into the model were as follows:		
– Share price at date of grant	£4.26 – £4.59	£3.29 – £4.08
– Exercise price	£nil, £4.26 – £4.59	£nil, £3.29 – £4.08
– Expected volatility	30%	30%
– Option life	4.5 – 5.25 years	4.5 – 5.25 years
– Expected dividend yields	4.42% – 5.90%	5.94% – 7.67%
– Risk-free rate	0.98% – 1.44%	0.84% – 1.34%

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

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

For the year to 31 March £'000	2014	2013
8. Taxation		
Current taxation		
UK		
Current tax on income for the year	25 242	33 323
Adjustments in respect of prior years	98	(4 725)
	25 340	28 340
Europe	2 074	924
Australia	–	–
Other	580	(6)
	2 654	918
Total current taxation	27 994	29 516

For the year to 31 March £'000	2014	2013
8. Taxation (continued)		
Deferred taxation		
UK	(1 885)	(11 406)
Europe	96	9
Australia	(154)	(1 431)
Total deferred taxation	(1 943)	(12 828)
Total taxation charge for the year	26 051	16 688
Total taxation charge for the year comprises:		
Taxation on operating profit before goodwill	33 440	22 541
Taxation on acquired intangibles and acquisition/disposal/integration of subsidiaries	(7 389)	(5 853)
	26 051	16 688
Deferred taxation comprises:		
Origination and reversal of temporary differences	(1 377)	(15 923)
Changes in tax rates	3 401	2 471
Adjustment in respect of prior years	(3 967)	624
	(1 943)	(12 828)
The rates of corporation tax for the relevant years are:	%	%
UK	23	24
Europe (average)	10	10
Australia	30	30
Profit before taxation	78 682	46 578
Taxation on profit before taxation	26 051	16 688
Effective tax rate	33.1%	35.8%
The taxation charge on activities for the year is different from the standard rate as detailed below:		
Taxation on profit on ordinary activities before taxation at UK rate of 23% (2013: 24%)	18 097	11 179
Taxation adjustments relating to foreign earnings	(6 033)	(6 063)
Taxation relating to prior years	(3 869)	(4 102)
Goodwill and non-operating items	4 208	3 351
Share options accounting expense	5 709	9 994
Share options exercised during the year	(8 873)	(5 392)
Unexpired share options future tax deduction	2 029	(5 305)
Non-taxable income	(4 309)	(12 614)
Net other permanent differences	15 733	29 503
Unrealised capital losses	789	1 195
Utilisation of brought forward trading losses	(804)	(983)
Utilisation of brought forward capital losses/SSE	(18)	–
Tax losses surrendered by fellow group companies for no charge	(9)	(6 546)
Change in tax rate	3 401	2 471
Total taxation charge as per income statement	26 051	16 688

For the year to 31 March £'000	2014	2013
8. Taxation (continued)		
Other comprehensive income taxation effects		
Fair value movements on cash flow hedges taken directly to other comprehensive income	2 799	(1 663)
Pre-taxation	3 999	(2 376)
Taxation effect	(1 200)	713
Gains on realisation of available-for-sale assets recycled through the income statement	(2 898)	407
Pre-taxation	(3 980)	535
Taxation effect	1 082	(128)
Fair value movements on available-for-sale assets taken directly to other comprehensive income	1 250	(1 747)
Pre-taxation	1 405	(1 964)
Taxation effect	(155)	217

For the year to 31 March £'000	2014	2013
9. Dividends		
Ordinary dividends		
Interim dividend for current year	–	12 500
Total dividend attributable to ordinary shareholder recognised in current financial year	–	12 500

For the year to 31 March £'000	2014	2013
10. Operating lease income and expenses		
Operating lease expenses recognised in operating costs expenses:		
Minimum lease payments	9 706	6 595
	9 706	6 595
Operating lease income recognised in income:		
Minimum lease payments	8 131	28 484
	8 131	28 484

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

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

For the year to 31 March £'000	At fair value through profit or loss: Trading	At fair value through profit or loss: Designated at inception
11. Analysis of income and impairments by category of financial instruments		
2014		
Net interest income/(expense)	(19 711)	14 318
Fee and commission income	40 567	77
Fee and commission expense	(122)	(6 113)
Investment income	–	63 855
Trading income arising from:		
– customer flow	75 411	1 677
– balance sheet management and other trading activities	3 666	(2 441)
Other operating income	–	–
Total operating income/(expense) before impairment losses on loans and advances	99 811	71 373
Impairment losses on loans and advances	–	–
Operating income	99 811	71 373
2013*		
Net interest income/(expense)	(18 410)	18 454
Fee and commission income/(expense)	48 684	785
Fee and commission expense	(84)	–
Investment income	–	50 625
Trading income arising from:		
– customer flow	57 910	(52)
– balance sheet management and other trading activities	3 173	2 502
Other operating income	–	–
Total operating income/(expense) before impairment losses on loans and advances	91 273	72 314
Impairment losses on loans and advances	–	–
Operating income	91 273	72 314

* *As restated for restatements detailed in note 54.*

Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non-financial instruments	Other fee income	Total
4 990	611 499	20 724	(336 806)	–	6 432	301 446
–	71 932	134	3 180	11 235	293 445	420 570
(68)	(2 516)	–	(2 468)	(89)	(23 665)	(35 041)
–	7 082	13 499	–	14 055	–	98 491
–	–	–	(36)	–	–	77 052
–	(709)	154	(31)	–	–	639
–	–	–	–	12 207	–	12 207
4 922	687 288	34 511	(336 161)	37 408	276 212	875 364
–	(97 491)	–	–	–	–	(97 491)
4 922	589 797	34 511	(336 161)	37 408	276 212	777 873
10 612	656 520	44 768	(433 733)	–	9 459	287 670
–	68 540	1 254	–	–	291 738	411 001
–	(5 102)	(433)	(1 398)	(98)	(23 448)	(30 563)
658	10 452	(1 355)	–	8 268	–	68 648
–	–	–	9	–	–	57 867
–	12 501	(925)	(3 600)	–	(442)	13 209
–	–	–	–	31 345	–	31 345
11 270	742 911	43 309	(438 722)	39 515	277 307	839 177
(5 347)	(105 056)	–	–	–	–	(110 403)
5 923	637 855	43 309	(438 722)	39 515	277 307	728 774

At 31 March £'000	At fair value through profit or loss: Trading	At fair value through profit or loss: Designated at inception	Available-for-sale
12. Analysis of financial assets and liabilities by category of financial instruments			
2014			
Assets			
Cash and balances at central banks	7 143	–	–
Loans and advances to banks	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	277 952	–	–
Sovereign debt securities	–	–	1 232 415
Bank debt securities	–	1 928	166 114
Other debt securities	–	72 272	132 358
Derivative financial instruments*	782 947	–	–
Securities arising from trading activities	503 818	82 888	–
Investment portfolio	–	274 178	67 182
Loans and advances to customers	–	48 052	–
Own originated loans and advances to customers securitised	–	–	–
Other loans and advances	–	–	–
Other securitised assets	–	624 245	–
Interests in associated undertakings	–	–	–
Deferred taxation assets	–	–	–
Other assets	48 399	–	–
Property and equipment	–	–	–
Investment properties	–	–	–
Goodwill	–	–	–
Intangible assets	–	–	–
	1 620 259	1 103 563	1 598 069
Liabilities			
Deposits by banks	–	–	–
Derivative financial instruments*	669 159	–	–
Other trading liabilities	391 650	–	–
Repurchase agreements and cash collateral on securities lent	336 246	–	–
Customer accounts (deposits)	–	–	–
Debt securities in issue	–	323 108	–
Liabilities arising on securitisation of own originated loans and advances	–	–	–
Liabilities arising on securitisation of other assets	–	524 222	–
Current taxation liabilities	–	–	–
Deferred taxation liabilities	–	–	–
Other liabilities	42 279	–	–
	1 439 334	847 330	–
Subordinated liabilities	–	–	–
	1 439 334	847 330	–

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

For more information on hedges, please refer to note 48 on pages 204 and 205.

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
7 143	–	1 735 462	–	1 735 462	–	1 742 605
–	–	1 105 205	–	1 105 205	–	1 105 205
277 952	–	937 548	–	937 548	–	1 215 500
1 232 415	–	–	–	–	–	1 232 415
168 042	–	203 140	–	203 140	–	371 182
204 630	–	24 598	–	24 598	–	229 228
782 947	–	–	–	–	–	782 947
586 706	–	–	–	–	–	586 706
341 360	–	–	–	–	–	341 360
48 052	40 234	7 664 621	–	7 704 855	–	7 752 907
–	–	447 638	–	447 638	–	447 638
–	–	1 509 714	–	1 509 714	–	1 509 714
624 245	–	387 012	–	387 012	–	1 011 257
–	–	–	–	–	16 637	16 637
–	–	–	–	–	97 614	97 614
48 399	–	838 992	–	838 992	127 025	1 014 416
–	–	–	–	–	63 487	63 487
–	–	–	–	–	61 715	61 715
–	–	–	–	–	296 247	296 247
–	–	–	–	–	156 703	156 703
4 321 891	40 234	14 853 930	–	14 894 164	819 428	20 035 483
	–	–	834 876	834 876	–	834 876
669 159	–	–	–	–	–	669 159
391 650	–	–	–	–	–	391 650
336 246	–	–	278 487	278 487	–	614 733
–	–	–	11 095 782	11 095 782	–	11 095 782
323 108	–	–	992 994	992 994	–	1 316 102
–	–	–	449 083	449 083	–	449 083
524 222	–	–	438 031	438 031	–	962 253
–	–	–	–	–	103 432	103 432
–	–	–	–	–	37 717	37 717
42 279	–	–	759 438	759 438	179 931	981 648
2 286 664	–	–	14 848 691	14 848 691	321 080	17 456 435
–	–	–	669 776	669 776	–	669 776
2 286 664	–	–	15 518 467	15 518 467	321 080	18 126 211

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

At 31 March £'000	At fair value through profit or loss: Trading	At fair value through profit or loss: Designated at inception	Available-for-sale
2013*			
Assets			
Cash and balances at central banks	–	–	–
Loans and advances to banks	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	321 413	–	–
Sovereign debt securities	–	–	1 660 377
Bank debt securities	–	–	252 123
Other debt securities	1 973	77 771	101 999
Derivative financial instruments**	948 589	–	–
Securities arising from trading activities	673 763	–	–
Investment portfolio	–	257 320	75 971
Loans and advances to customers	–	24 253	–
Own originated loans and advances to customers securitised	–	–	–
Other loans and advances	–	4 612	–
Other securitised assets	–	645 400	–
Interests in associated undertakings	–	–	–
Deferred taxation assets	–	–	–
Other assets	430 276	53 234	–
Property and equipment	–	–	–
Investment properties	–	–	–
Goodwill	–	–	–
Intangible assets	–	–	–
	2 376 014	1 062 590	2 090 470
Liabilities			
Deposits by banks	–	–	–
Derivative financial instruments**	817 689	–	–
Other trading liabilities	372 762	–	–
Repurchase agreements and cash collateral on securities lent	350 308	–	–
Customer accounts (deposits)	1 411	–	–
Debt securities in issue	–	–	–
Liabilities arising on securitisation of own originated loans and advances	–	–	–
Liabilities arising on securitisation of other assets	–	532 106	–
Current taxation liabilities	–	–	–
Deferred taxation liabilities	–	–	–
Other liabilities	428 165	2 366	–
	1 970 335	534 472	–
Subordinated liabilities	–	–	–
	1 970 335	534 472	–

* *As restated for restatements detailed in note 54.*

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

For more information on hedges, please refer to note 48 on pages 204 and 205.

Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
–	–	1 375 654	–	1 375 654	–	1 375 654
–	–	1 140 479	–	1 140 479	–	1 140 479
321 413	–	1 207 180	–	1 207 180	–	1 528 593
1 660 377	–	–	–	–	–	1 660 377
252 123	–	203 078	–	203 078	–	455 201
181 743	7 516	–	–	7 516	–	189 259
948 589	–	–	–	–	–	948 589
673 763	–	–	–	–	–	673 763
333 291	–	–	–	–	–	333 291
24 253	90 054	7 631 276	–	7 721 330	–	7 745 583
–	–	491 194	–	491 194	–	491 194
4 612	–	1 748 276	–	1 748 276	–	1 752 888
645 400	–	459 630	–	459 630	–	1 105 030
–	–	–	–	–	16 989	16 989
–	–	–	–	–	112 172	112 172
483 510	–	497 188	–	497 188	221 032	1 201 730
–	–	–	–	–	86 603	86 603
–	–	–	–	–	11 500	11 500
–	–	–	–	–	326 841	326 841
–	–	–	–	–	175 478	175 478
5 529 074	97 570	14 753 955	–	14 851 525	950 615	21 331 214
–	–	–	997 439	997 439	–	997 439
817 689	–	–	–	–	–	817 689
372 762	–	–	–	–	–	372 762
350 308	–	–	592 088	592 088	–	942 396
1 411	–	–	11 354 064	11 354 064	–	11 355 475
–	–	–	1 713 736	1 713 736	–	1 713 736
–	–	–	477 903	477 903	–	477 903
532 106	–	–	318 781	318 781	–	850 887
–	–	–	–	–	82 630	82 630
–	–	–	–	–	44 945	44 945
430 531	–	–	476 496	476 496	210 456	1 117 483
2 504 807	–	–	15 930 507	15 930 507	338 031	18 773 345
–	–	–	678 742	678 742	–	678 742
2 504 807	–	–	16 609 249	16 609 249	338 031	19 452 087

13. Reclassifications of financial instruments

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

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

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

At 31 March £'000	2014 Carrying value	 Fair value	2013 Carrying value	 Fair value
Trading assets reclassified to loans and receivables	11 400	10 266	20 083	19 348
	11 400	10 266	20 083	19 348

If the reclassifications had not been made, the group's income before tax in 2014 would have reduced by £0.4 million (2013: an increase of £5.3 million).

In the current year the reclassified assets have contributed a £134 000 loss through the margin line and a profit of £79 000 through impairments before taxation. In the prior year, after reclassification, the assets contributed a £17 000 gain through the margin line and a gain of £1.4 million through impairments before taxation.

14. Fair value hierarchy

The table below analyses recurring fair value measurements for financial assets and financial liabilities. These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to the valuation technique used.

The different levels are identified as follows:

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

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

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

Fair value disclosures on investment properties are included in the Investment properties note on page 187.

14. Fair value hierarchy (continued)

At 31 March £'000	Total instruments at fair value	Valuation technique applied Level 1	Level 2	Level 3
2014				
Assets				
Cash and balances at central banks	7 143	7 143	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	277 952	–	277 952	–
Sovereign debt securities	1 232 415	1 232 415	–	–
Bank debt securities	168 042	29 659	138 383	–
Other debt securities	204 630	1 808	130 688	72 134
Derivative financial instruments	782 947	166 734	493 901	122 312
Securities arising from trading activities	586 706	586 706	–	–
Investment portfolio	341 360	69 838	97 086	174 436
Loans and advances to customers	48 052	–	4 899	43 153
Other securitised assets	624 245	–	–	624 245
Other assets	48 399	47 973	426	–
	4 321 891	2 142 276	1 143 335	1 036 280
Liabilities				
Derivative financial instruments	669 159	268 740	389 114	11 305
Other trading liabilities	391 650	391 650	–	–
Repurchase agreements and cash collateral on securities lent	336 246	–	336 246	–
Debt securities in issue	323 108	–	322 492	616
Liabilities arising on securitisation of other assets	524 222	–	–	524 222
Other liabilities	42 279	42 279	–	–
	2 286 664	702 669	1 047 852	536 143
Net assets	2 035 227	1 439 607	95 483	500 137
2013*				
Assets				
Reverse repurchase agreements and cash collateral on securities borrowed	321 413	–	321 413	–
Sovereign debt securities	1 660 377	1 365 463	294 914	–
Bank debt securities	252 123	72 095	180 028	–
Other debt securities	181 743	88 766	58 334	34 643
Derivative financial instruments	948 589	253 742	620 461	74 386
Securities arising from trading activities	673 763	651 768	21 995	–
Investment portfolio	333 291	58 498	79 442	195 351
Loans and advances to customers	24 253	–	18 221	6 032
Other loans and advances	4 612	–	–	4 612
Other securitised assets	645 400	–	–	645 400
Other assets	483 510	482 377	1 133	–
	5 529 074	2 972 709	1 595 941	960 424
Liabilities				
Derivative financial instruments	817 689	205 824	608 580	3 285
Other trading liabilities	372 762	372 762	–	–
Repurchase agreements and cash collateral on securities lent	350 308	–	350 308	–
Customer accounts (deposits)	1 411	–	1 411	–
Liabilities arising on securitisation of other assets	532 106	–	–	532 106
Other liabilities	430 531	428 165	–	2 366
	2 504 807	1 006 751	960 299	537 757
Net assets	3 024 267	1 965 958	635 642	422 667

* *As restated for restatements detailed in note 54.*

Transfers between level 1 and level 2

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

14. Fair value hierarchy (continued)

Level 3 instruments

The following table is a reconciliation from the opening balances to the closing balances for fair value measurements in level 3 of the fair value hierarchy:

At 31 March £'000	Total level 3 financial instruments	Fair value movements through income statement	Fair value movements through comprehensive income
Balance at 1 April 2012 – as previously reported	458 336	446 230	12 106
Adjustment on adoption of IFRS 10	(29 054)	(29 054)	–
Balance at 1 April 2012 – as restated	429 282	417 176	12 106
Total gains or losses	51 651	54 159	(2 508)
In the income statement	53 248	54 159	(911)
In the statement of comprehensive income	(1 597)	–	(1 597)
Purchases	53 168	2 649	50 519
Sales	(59 261)	(24 794)	(34 467)
Settlements	(2 780)	(2 780)	–
Transfers into level 3	130 749	130 173	576
Transfers out of level 3	(184 791)	(184 791)	–
Foreign exchange adjustments	4 649	2 504	2 145
Balance at 31 March 2013	422 667	394 296	28 371
Total gains or losses	48 490	49 807	(1 317)
In the income statement	49 706	49 706	–
In the statement of comprehensive income	(1 216)	101	(1 317)
Purchases	67 611	67 611	–
Sales	(29 716)	(26 639)	(3 077)
Issues	537	537	–
Settlements	(12 417)	(12 411)	(6)
Transfers into level 3	33 965	33 965	–
Transfers out of level 3	(19 240)	(19 831)	591
Foreign exchange adjustments	(11 760)	(11 791)	31
Balance at 31 March 2014	500 137	475 544	24 593

For the year ended 31 March 2014, instruments to the value of £19.2 million (2013: £184.8 million) were transferred from level 3 into level 2. The valuation methodologies were reviewed and observable inputs are used to determine the fair value.

There were transfers from level 2 to the level 3 category to the value of £34.0 million (2013: £130.7 million) because the underlying circumstances of the instrument changed and as a result, the significant valuation inputs became unobservable in the market.

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

For the year to 31 March £'000	2014	2013
Total gains or losses included in the income statement for the year		
Net interest income/(expense)	15 047	(1 342)
Net fee and commission (expense)/income	(485)	5 196
Investment income	37 227	50 330
Trading income arising from customer flow	(1 246)	–
Trading income arising from balance sheet management and other trading activities	(837)	(952)
Other operating income	–	16
	49 706	53 248
Total gains or losses included in other comprehensive income for the year		
Losses on realisation of available-for-sale assets recycled through the income statement	101	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	(1 317)	(1 597)
	(1 216)	(1 597)

For the year ended 31 March 2014, £39.2 million of the total gains and losses recognised in the group are unrealised.

These were transfers from level 2 into the level 3 category to the value of £34.0 million (2013: £130.7 million) because the underlying circumstances of the instruments held has changed and, as a result, the significant valuation inputs become unobservable in the market.

14. Fair value hierarchy (continued)

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

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

At 31 March 2014	Balance sheet value £'000	Significant unobservable input changed	Range which unobservable input has been stressed	Reflected in income statement: Favourable changes £'000	Reflected in income statement: Unfavourable changes £'000
Assets					
Other debt securities	72 134			2 004	(1 688)
		Discount rates	(5%) – 5%	5	(19)
		Credit spreads	(2%) – 3%	1 135	(1 038)
		Other	(6%) – 5%	864	(631)
Derivative financial instruments	122 312	Discount rates, credit spreads, volatilities, cash flows, EBITDA, price earnings multiples		4 754	(2 116)
		Volatilities	(2%) – 2%	601	(698)
		Credit spreads	(6.5bps) – 6.5bps	42	(21)
		Other	(11%) – 10%	4 111	(1 397)
Investment portfolio	149 290	Discount rates,cash flows, EBITDA, price earnings multiple, net asset value, WACC,		17 146	(11 185)
		Volatilities	(10%) – 10%	4	(4)
		EBITDA/price earnings multiple	(10%) – 10% or 5x EBITDA	606	(9 665)
		Other	(10%) – 10%	16 536	(1 516)
Loans and advances to customers	43 153	Cash flows	(5%) – 5%	2 439	(5 616)
		Cash flows	(9%) – 3%	1 337	(4 076)
		Other		1 102	(1 540)
Other securitised assets*	624 245	Credit spreads, prices from illiquid markets	(6.5bps) – 6.5bps	8 122	(8 810)
		CDR curve	– 6 months/+12 month adjustment to CDR curve	8 122	(8 810)
Liabilities					
Derivative financial instruments	11 305	Basis risk and yield curve	(10 bps) – 10bps		
		Volatilities	(4%) – 4%	648	(438)
Debt securities in issue	616	Volatilities	(2%) – 4%	15	(8)
Liabilities arising on securitisation of other assets*	524 222	Credit spreads	(6.5bps) – 6.5bps	6 078	(6 120)
				41 206	(35 981)

* *The sensitivity of the fair value of liabilities arising on securitisation of other assets has been considered together with other securitised assets.*

14. Fair value hierarchy (continued)

At 31 March 2014	Balance sheet value £'000	Valuation method	Significant unobservable input changed	Range which unobservable input has been stressed	Reflected in other comprehensive income: Favourable changes	Reflected in other comprehensive income: Unfavourable changes
Assets						
Investment portfolio	25 146				13 001	(1 007)
		Price earnings multiple	EBITDA	(10%) – 10% or 5x EBITDA	12 769	(891)
			Other	(10%) – 10%	232	(116)

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.

Cash flows

Cash flows relate to the future cash flows which can be expected from the instrument and requires judgement.

EBITDA

A company's earnings before interest, taxes, depreciation and amortisation. This is the main input into a price earnings multiple valuation method.

Level 2 financial assets and financial liabilities

The following table sets out the group's principal valuation techniques at 31 March 2014 used in determining the fair value of its financial assets and financial liabilities that are classified within level 2 of the fair value hierarchy:

	Valuation basis/techniques	Main assumptions
Assets		
Reverse repurchase agreements and cash collateral on securities borrowed	Discounted cash flow model, Hermite interpolation	Discount rates
Bank debt securities	Discounted cash flow model	Discount rates
Other debt securities	External prices, broker quotes	Discount rates
Derivative financial instruments	Discounted cash flow model, Hermite interpolation, Industry standard derivative pricing models including Black-Scholes	Discount rate, risk free rate, volatilities, Forex forward points and spot rates, interest rate swap curves, credit curves
Investment portfolio	Discounted cash flow model, net asset value model	Discount rate, fund unit price
Loans and advances to customers	Discounted cash flow model	Discount rates
Other assets	Discounted cash flow model	Discount rates

14. Fair value hierarchy (continued)

	Valuation basis/techniques	Main assumptions
Liabilities		
Derivative financial instruments	Discounted cash flow model, Hermite interpolation, Industry standard derivative pricing models including Black-Scholes	Discount rate, risk free rate, volatilities, Forex forward points and spot rates, interest rate swap curves, credit curves
Repurchase agreements and cash collateral on securities lent	Discounted cash flow model, Hermite interpolation	Discount rates
Debt securities in issue	Discounted cash flow model	Risk free rate

15. Fair value of financial instruments at amortised cost

At 31 March £'000	Carrying amount	Fair value	Level within the fair value hierarchy Level 1	Level 2	Level 3
2014					
Assets					
Cash and balances at central banks	1 735 462	1 735 458	^	^	^
Loans and advances to banks	1 105 205	1 098 868	1 035 185	63 683	–
Reverse repurchase agreements and cash collateral on securities borrowed	937 548	937 548	^	^	^
Bank debt securities	203 140	203 460	–	203 460	–
Other debt securities	24 598	24 061	–	–	24 061
Loans and advances to customers	7 704 855	7 698 672	49 312	934 067	6 715 293
Own originated loans and advances to customers securitised	447 638	465 235	–	465 235	–
Other loans and advances	1 509 714	1 496 716	182 818	68 970	1 244 928
Other securitised assets	387 012	381 047	87 981	–	293 066
Other assets	838 992	829 757	737 525	79 917	12 315
	14 894 164	14 870 822			
Liabilities					
Deposits by banks	834 876	834 981	328 140	442 010	64 831
Repurchase agreements and cash collateral on securities lent	278 487	278 487	^	^	^
Customer accounts (deposits)	11 095 782	11 076 940	4 596 977	6 479 963	–
Debt securities in issue	992 994	977 045	–	720 555	256 490
Liabilities arising on securitisation of own originated loans and advances	449 083	449 083	–	418 897	30 186
Liabilities arising on securitisation of other assets	438 031	435 886	–	–	435 886
Other liabilities	759 438	746 193	675 482	41 332	29 379
Subordinated liabilities	669 776	666 277	666 277	–	–
	15 518 467	15 464 892			

^Financial instruments for which fair value approximates carrying value

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

At 31 March £'000	Carrying amount	Fair value
15. Fair value of financial instruments at amortised cost (continued)		
2013*		
Assets		
Cash and balances at central banks	1 375 654	1 375 654
Loans and advances to banks	1 140 479	1 146 441
Reverse repurchase agreements and cash collateral on securities borrowed	1 207 180	1 207 180
Bank debt securities	203 078	213 251
Other debt securities	7 516	7 516
Loans and advances to customers	7 721 330	7 714 637
Own originated loans and advances to customers securitised	491 194	501 596
Other loans and advances	1 748 276	1 897 345
Other securitised assets	459 630	451 799
Other assets	497 188	491 738
	14 851 525	15 007 157
Liabilities		
Deposits by banks	997 439	994 887
Repurchase agreements and cash collateral on securities lent	592 088	592 088
Customer accounts (deposits)	11 354 064	11 346 031
Debt securities in issue	1 713 736	1 706 682
Liabilities arising on securitisation of own originated loans and advances	477 903	477 903
Liabilities arising on securitisation of other assets	318 781	350 410
Other liabilities	476 496	476 635
Subordinated liabilities	678 742	742 815
	16 609 249	16 687 451

* *Restated for restatements as detailed in note 54.*

15. Fair value of financial instruments at amortised cost (continued)

Financial instruments for which fair value does not approximate carrying value

The following table sets out the group's principal valuation techniques used in determining the fair value of its financial assets and financial liabilities:

Bank debt securities	Valued using a cash flow model of the bonds, discounted by an observable market credit curve.
Other debt securities	Priced with reference to similar trades in an observable market.
Loans and advances to customers	Calculation of the present value of future cash flows, discounted as appropriate.
Own originated loans and advances to customers securitised	Calculation of the current cash flows of fixed rate loans at current expected interest rates.
Other loans and advances	Calculation of the present value of future cash flows, discounted as appropriate.
Other securitised assets	Calculated using a model based on future cash flows.
Deposits by banks	Calculation of fair value using appropriate funding rates.
Customer accounts (deposits)	Where the deposits are short term in nature carrying amounts are assumed to approximate fair value. Where deposits are of longer-term maturities they are valued using a cash flow model discounted as appropriate.
Debt securities in issue	Where the debt securities are fully collateralised fair value is equal to the carrying value. Other debt securities are valued using a cash flow model discounted as appropriate to the securities for funding and interest rates.
Liabilities arising on securitisation of other assets	Valued using a cash flow model taking into account any hedging and discounted as appropriate.
Subordinated liabilities	Valued with reference to market prices.

Fixed rate financial instruments

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

Certain financial instruments, that would normally be carried at fair value, continue to be recognised at transaction price. This occurs when the fair value would normally be determined using valuation techniques which cannot be relied on due to insufficient external inputs. This results in gains or losses which have not been recognised on balance sheet.

Where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

At 31 March £'000	Carrying value	Fair value adjustment Year to date	Fair value adjustment Cumulative	Change in fair value attributable to credit risk Year to date	Change in fair value attributable to credit risk Cumulative	Maximum exposure to credit risk
16. Designated at fair value: loans and receivables and financial liabilities						
Loans and receivables designated at fair value through profit or loss						
2014						
Loans and advances to customers	48 052	2 582	773	–	–	48 052
Other securitised assets	624 245	26 674	(99 870)	26 674	(123 546)	624 245
	672 297	29 256	(99 097)	26 674	(123 546)	672 297
2013*						
Other debt securities	16 052	–	16 052	–	–	16 052
Loans and advances to customers	24 253	3 111	20 455	–	–	24 253
Other loans and advances	4 612	–	–	–	–	4 612
Other securitised assets	645 400	(66 142)	(145 607)	(43 683)	(83 818)	645 400
Other assets	1 018	–	–	–	–	1 018
	691 335	(63 031)	(109 100)	(43 683)	(83 818)	691 335

At 31 March £'000	Carrying value	Remaining contractual amount to be repaid at maturity	Fair value adjustment Year to date	Fair value adjustment Cumulative	Change in fair value attributable to credit risk Year to date	Change in fair value attributable to credit risk Cumulative
Financial liabilities designated at fair value through profit or loss						
2014						
Debt securities in issue	323 108	308 350	29 977	14 758	3 470	5 229
Liabilities arising on securitisation of other assets	524 222	652 106	42 629	(127 884)	43 209	(118 954)
	847 330	960 456	72 606	(113 126)	46 679	(113 725)
2013*						
Liabilities arising on securitisation of other assets	532 106	723 478	(81 886)	(180 453)	10 241	(88 326)
Other liabilities	2 366	–	846	2 366	–	–
	534 472	723 478	(81 040)	(178 087)	10 241	(88 326)

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.

* *Restated for restatements as detailed in note 54.*

At 31 March £'000	2014	2013
17. Cash and balances at central banks		
The country risk of cash and balances at central banks lies in the following geographies:		
United Kingdom	1 681 917	1 219 546
Europe (excluding UK)	24 490	8 822
Australia and Other	36 198	147 286
Total	1 742 605	1 375 654

At 31 March £'000	2014	2013*
18. Loans and advances to banks		
The country risk of loans and advances to banks lies in the following geographies:		
South Africa	30 559	2 919
United Kingdom	762 132	681 229
Europe (excluding UK)	126 158	329 968
Australia	64 114	75 835
Asia	7 554	7 441
United States of America	114 595	38 737
Other	93	4 350
Total	1 105 205	1 140 479

* *Restated for restatements as detailed in note 54.*

At 31 March £'000	2014	2013
19. Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent		
Assets		
Reverse repurchase agreements	1 104 430	1 390 488
Cash collateral on securities borrowed	111 070	138 105
	1 215 500	1 528 593
As part of the reverse repurchase and securities borrowing agreements the group has received securities that it is allowed to sell or repledge. £602.5 million (2013: £392.0 million) has been resold or repledged to third parties in connection with financing activities or to comply with commitments under short sale transactions.		
Liabilities		
Repurchase agreements	525 588	841 798
Cash collateral on securities lent	89 145	100 598
	614 733	942 396

The assets transferred and not derecognised in the above repurchase agreements are fair valued at £431.0 million (2013: £952.2 million). They are pledged as security for the term of the underlying repurchase agreements.

At 31 March £'000	2014	2013
20. Sovereign debt securities		
Bonds	357 341	595 872
Commercial paper	–	20 462
Treasury bills	826 219	871 525
Floating rate notes	48 855	172 518
	1 232 415	1 660 377
The country risk of sovereign debt securities lies in the following geographies:		
United Kingdom	826 219	1 131 343
Europe (excluding UK)*	119 785	234 120
Australia	286 411	294 914
Total	1 232 415	1 660 377

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

At 31 March £'000	2014	2013
21. Bank debt securities		
Bonds	120 307	246 569
Floating rate notes	248 947	198 377
Liquid asset bills	–	10 255
Other investments	1 928	–
	371 182	455 201
The country risk of bank debt securities lies in the following geographies:		
South Africa	6 042	6 662
United Kingdom	131 382	140 467
Europe (excluding UK)	128 561	143 334
Australia	99 661	141 059
United States of America	–	23 679
Other	5 536	–
Total	371 182	455 201

At 31 March £'000	2014	2013*
22. Other debt securities		
Bonds	40 362	23 099
Floating rate notes	23 105	31 240
Asset-backed securities	154 598	86 811
Residual notes	9 340	46 136
Other investments	1 823	1 973
	229 228	189 259
The risk of other debt securities lies in the following geographies:		
United Kingdom	141 477	93 326
Europe (excluding UK)	55 480	57 177
Australia	8 150	22 704
United States of America	24 121	16 052
Total	229 228	189 259

* *As restated for restatements detailed in note 54.*

23. Derivative financial instruments

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

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

At 31 March £'000	2014 Notional principal amounts	2014 Positive fair value	2014 Negative fair value	2013^ Notional principal amounts	2013^ Positive fair value	2013^ Negative fair value
Foreign exchange derivatives						
Forward foreign exchange contracts	4 222 309	23 491	13 557	4 169 616	28 543	29 777
Currency swaps	6 909 948	92 099	69 703	6 990 553	104 949	134 709
OTC options bought and sold	2 690 830	41 091	40 219	2 206 190	19 804	18 764
Other foreign exchange contracts	14 320	9	15	135 457	33	2 534
OTC derivatives	13 837 407	156 690	123 494	13 501 816	153 329	185 784
Interest rate derivatives						
Caps and floors	685 563	4 660	7 257	764 691	5 566	3 414
Swaps	19 103 318	193 259	97 476	16 717 702	280 201	188 117
Forward rate agreements	454 785	16	63	360 323	30	66
Other interest rate contracts	–	–	–	168 062	–	–
OTC derivatives	20 243 666	197 935	104 796	18 010 778	285 797	191 597
Exchange traded futures	28 636	87	66	48 681	–	233
	20 272 302	198 022	104 862	18 059 459	285 797	191 830
Equity and stock index derivatives						
OTC options bought and sold	2 050 660	33 556	93 273	2 343 310	37 332	78 432
Equity swaps and forwards	177 105	3 832	77	193 194	7 128	17 103
OTC derivatives	2 227 765	37 388	93 350	2 536 504	44 460	95 535
Exchange traded futures	1 748 014	38 531	75 664	1 638 550	71 047	4 683
Exchange traded options	4 789 428	119 093	158 046	5 446 811	147 079	171 468
Warrants	1 018	1 018	–	6 578	34	–
	8 766 225	196 030	327 060	9 628 443	262 620	271 686
Commodity derivatives						
OTC options bought and sold	58 549	118	–	41 347	3 056	1 975
Commodity swaps and forwards	748 682	105 921	107 738	586 580	163 239	162 687
OTC derivatives	807 231	106 039	107 738	627 927	166 295	164 662
Credit derivatives	447 349	14 593	6 005	200 075	8 361	3 727
Embedded derivatives*		111 573	–		72 187	–
Derivatives per balance sheet		782 947	669 159		948 589	817 689

* *Mainly includes profit shares received as part of lending transactions.*
^ *As restated for restatements detailed in note 54.*

At 31 March £'000	2014	2013
24. Securities arising from trading activities		
Listed equities	148 541	124 334
Bonds	76 335	68 023
Floating rate notes	–	3 448
Government securities	361 830	355 480
Treasury bills	–	104 568
Other investments	–	17 910
	586 706	673 763

At 31 March £'000	2014	2013*
25. Investment portfolio		
Listed equities	63 869	53 172
Unlisted equities^	277 491	280 119
	341 360	333 291

* *As restated for restatements detailed in note 54.*

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

At 31 March £'000	2014	2013*
26. Loans and advances to customers and other loans and advances		
Gross loans and advances to customers	7 945 593	7 938 213
Impairments of loans and advances to customers	(192 686)	(192 630)
Net loans and advances to customers	7 752 907	7 745 583
Gross other loans and advances to customers	1 559 069	1 796 612
Impairments of other loans and advances to customers	(49 355)	(43 724)
Net other loans and advances to customers	1 509 714	1 752 888

* *As restated for restatements detailed in note 54.*

For further analysis on loans and advances refer to pages 51 to 63 in the risk management section.

At 31 March £'000	2014	2013*
26. Loans and advances to customers and other loans and advances (continued)		
Specific and portfolio impairments		
Reconciliation of movements in specific and portfolio impairments:		
Loans and advances to customers		
Specific impairment		
Balance at the beginning of the year	186 355	160 237
Charge to the income statement	77 516	111 210
Reversals and recoveries recognised in the income statement	(4 702)	(23 722)
Utilised	(78 267)	(60 858)
Exchange adjustments	(4 313)	(512)
Balance at the end of the year	176 589	186 355
Portfolio impairment		
Balance at the beginning of the year	6 275	2 813
Charge to the income statement	10 068	3 352
Exchange adjustments	(246)	110
Balance at the end of the year	16 097	6 275
Other loans and advances		
Specific impairment		
Balance at the beginning of the year	30 013	29 201
Charge to the income statement	11 171	9 901
Utilised	(6 242)	(3 478)
Exchange adjustments	(997)	(5 611)
Balance at the end of the year	33 945	30 013
Portfolio impairment		
Balance at the beginning of the year	13 711	5 169
Charge to the income statement	1 888	9 304
Transfer to securitised assets	–	(918)
Exchange adjustments	(189)	156
Balance at the end of the year	15 410	13 711
Total specific impairments	210 534	216 368
Total portfolio impairments	31 507	19 986
Total impairments	242 041	236 354

* *As restated for restatements detailed in note 54.*

At 31 March £'000	2014	2013*
26. Loans and advances to customers and other loans and advances (continued)		
Reconciliation of income statement charge:		
Loans and advances to customers	82 882	90 840
Specific impairment charged to income statement	72 814	87 488
Portfolio impairment charged to income statement	10 068	3 352
Securitised assets (refer to note 27)	1 550	358
Specific impairment charged to income statement	1 511	1 131
Portfolio impairment released to income statement	39	(773)
Other loans and advances	13 059	19 205
Specific impairment charged to income statement	11 171	9 901
Portfolio impairment charged to income statement	1 888	9 304
Total income statement charge	97 491	110 403

* *As restated for restatements detailed in note 54.*

At 31 March £'000	2014	2013*
27. Securitised assets and liabilities arising on securitisation		
Gross own originated loans and advances to customers securitised	448 255	491 753
Impairments of own originated loans and advances to customers securitised	(617)	(559)
Net own originated loans and advances to customers securitised	447 638	491 194
Other securitised assets are made up of the following categories of assets:		
Cash and cash equivalents	85 590	60 025
Loans and advances to customers	925 667	1 002 446
Other debt securities	–	42 559
Total other securitised assets	1 011 257	1 105 030
The associated liabilities are recorded on balance sheet in the following line items:		
Liabilities arising on securitisation of own originated loans and advances	449 083	477 903
Liabilities arising on securitisation of other assets	962 253	850 887

* *As restated for restatements detailed in note 54.*

At 31 March £'000	2014	2013*
27. Securitised assets and liabilities arising on securitisation (continued)		
Specific and portfolio impairments		
Reconciliation of movements in group specific and portfolio impairments of assets that have been securitised:		
Specific impairment		
Balance at the beginning of the year	140	892
Charge to the income statement	1 511	1 131
Utilised	(1 525)	(2 174)
Exchange adjustments	215	291
Balance at the end of the year	**341**	**140**
Own originated loans and advances to customers securitised	277	140
Other securitised loans and advances	64	–
Portfolio impairment		
Balance at the beginning of the year	449	397
Charge to the income statement	39	(773)
Transfer from other loans and advances	–	918
Disposal	–	(116)
Exchange adjustments	37	23
Balance at the end of the year	**525**	**449**
Own originated loans and advances to customers securitised	340	419
Other securitised loans and advances	185	30
Total portfolio and specific impairments	**866**	**589**

* *As restated for restatements detailed in note 54.*

At 31 March £'000	2014	2013
28. Interests in associated undertakings		
Interests in associated undertakings consist of:		
Net asset value	9 226	9 578
Goodwill	7 411	7 411
Investment in associated undertakings	16 637	16 989
Analysis of the movement in our share of net assets:		
At the beginning of the year	9 578	10 369
Exchange adjustments	(921)	359
Disposals	–	(3 323)
Acquisitions	296	–
Operating income from associates (included in other operating income)	1 891	2 732
Dividends received	(1 618)	(559)
At the end of the year	9 226	9 578
Analysis of the movement in goodwill:		
At the beginning and the end of the year	7 411	7 411
All associates are unlisted.		

At 31 March £'000	2014	2013
29. Deferred taxation		
Deferred taxation assets	97 614	112 172
Deferred taxation liabilities	(37 717)	(44 945)
Net deferred taxation assets	59 897	67 227
The net deferred taxation assets/(liabilities) arise from:		
Accelerated capital allowances	25 959	21 647
Deferred capital allowances	(906)	(994)
Income and expenditure accruals	7 066	13 506
Asset in respect of unexpired options	21 174	28 052
Unrealised fair value adjustments on financial instruments	515	2 542
Losses carried forward	37 713	39 128
Deferred tax on acquired intangibles	(28 844)	(36 221)
Other temporary differences	(2 780)	(433)
Net deferred taxation assets	59 897	67 227
Reconciliation of net deferred taxation assets/(liabilities):		
At the beginning of the year	67 227	57 003
Credit to income statement – current year taxation	1 943	12 828
Charge directly in equity	390	(561)
Acquired/arising on acquisition of subsidiary undertakings	–	(6 280)
Other	(314)	869
Exchange adjustments	(9 349)	3 368
At the end of the year	59 897	67 227

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 and excess management expenses as crystallisation of capital gains and the eligibility of potential losses is uncertain.

There are trading losses carried forward of £53.8 million, capital losses carried forward of £0.9 million and management expenses of £7.0 million on which deferred tax assets have not been recognised due to uncertainty regarding future profits against which these losses can be utilised.

The Finance Act 2013 reduced the main rate of corporate taxation to 21% with effect from 1 April 2014 and to 20% with effect from 1 April 2015. The effect of these reductions is reflected in the above calculation as the rate was substantively enacted before 31 March 2014.

At 31 March £'000	2014	2013*
30. Other assets		
Settlement debtors	801 382	824 741
Dealing properties	40 343	119 540
Accruals	17 199	16 800
Prepayments	25 962	24 881
Trading initial margin	426	60 651
Deferred consideration	31 679	52 216
Other	97 425	102 901
	1 014 416	1 201 730

* *As restated for restatements detailed in note 54.*

At 31 March £'000	Freehold properties	Leasehold property and improve-ments	Furniture and vehicles	Equipment	Operating leases*	Total
31. Property and equipment						
2014						
Cost						
At the beginning of the year	2 685	62 583	16 265	23 767	63 247	168 547
Exchange adjustments	–	(1 279)	(528)	(503)	–	(2 310)
Disposal of subsidiary undertakings	–	(1 824)	(1 951)	(1 722)	–	(5 497)
Additions	–	6 876	492	3 705	3 428	14 501
Disposals	(26)	(442)	(2 357)	(2 203)	(33 843)	(38 871)
At the end of the year	2 659	65 914	11 921	23 044	32 832	136 370
Accumulated depreciation						
At the beginning of the year	(340)	(21 254)	(11 484)	(16 073)	(32 793)	(81 944)
Exchange adjustments	–	483	145	360	–	988
Disposals of subsidiary undertakings	–	1 379	939	1 443	–	3 761
Disposals	–	301	2 357	2 088	16 279	21 025
Depreciation charge for the year	(43)	(4 895)	(1 631)	(4 100)	(6 044)	(16 713)
At the end of the year	(383)	(23 986)	(9 674)	(16 282)	(22 558)	(72 883)
Net carrying value	2 276	41 928	2 247	6 762	10 274	63 487
2013						
Cost						
At the beginning of the year – as previously reported	3 278	52 286	15 013	20 927	104 675	196 179
Adjustments re IFRS 10	–	4 088	–	–	–	4 088
At the beginning of the year – as restated	3 278	56 374	15 013	20 927	104 675	200 267
Exchange adjustments	339	343	130	194	–	1 006
Acquisition of subsidiary undertakings	–	–	416	664	–	1 080
Additions	–	8 152	1 212	5 541	9 338	24 243
Disposals	(932)	(2 286)	(506)	(3 559)	(50 766)	(58 049)
At the end of the year	2 685	62 583	16 265	23 767	63 247	168 547
Accumulated depreciation						
At the beginning of the year	(138)	(17 465)	(9 589)	(13 696)	(32 589)	(73 477)
Exchange adjustments	(15)	(194)	(113)	(146)	–	(468)
Disposals	99	903	378	1 589	15 868	18 837
Depreciation charge for the year	(286)	(4 498)	(2 160)	(3 820)	(16 072)	(26 836)
At the end of the year	(340)	(21 254)	(11 484)	(16 073)	(32 793)	(81 944)
Net carrying value	2 345	41 329	4 781	7 694	30 454	86 603

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

On 3 December 2010 the group acquired a portfolio of operating leased assets comprising motor vehicles. The operating lease income from this portfolio has been included in other operating income (note 5) and the depreciation on these operating leased assets has been shown separately on the face of the income statement.

32. Investment properties

Investment properties are carried at fair value and are classified as level 3 in the fair value hierarchy.

At 31 March £'000	2014	2013
At the beginning of the year	11 500	11 500
Additions	61 715	–
Disposals	(11 500)	–
At the end of the year	61 715	11 500

Fair value hierarchy – investment property

For all investment property that is measured at fair value, the current use of the property is considered the highest and best use.

Properties are valued under the income capitalisation method and DCF method.

Under the income capitalisation method, a property's fair value is estimated based on the normalised net operating income generated by the property, which is divided by the capitalisation rate.

Under the DCF method, a property's fair value is estimated using explicit assumptions about the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This involves the projection of a series of cash flows and, to this, an appropriate, market-derived discount rate is applied to establish the present value of the income stream.

Valuation techniques used to derive level 3 fair values

For all classes of investment property the significant unobservable inputs listed below are used in the income capitalisation method to determine the fair value measurement at the end of the reporting period:

Significant unobservable inputs	Relationship between unobservable inputs and fair value measurement
Expected rental or usage value (ERV)	Increases/(decreases) in ERV would increase/(decrease) estimated fair value.
Equivalent yield	Increases/(decreases) in the equivalent yield would result in decreases/(increases) in the estimated fair value.

At 31 March £'000	2014	2013
33. Goodwill		
Cost		
At the beginning of the year	346 540	311 602
Acquisition of subsidiaries	–	57 915
Disposal of subsidiaries	(8 148)	–
Written off	(17 327)	(26 536)
Exchange adjustments	(11 213)	3 559
At the end of the year	309 852	346 540
Accumulated impairments		
At the beginning of the year	(19 699)	(33 028)
Income statement amount	(11 233)	(13 409)
Written off	17 327	26 536
Exchange adjustments	–	202
At the end of the year	(13 605)	(19 699)
Net carrying value	296 247	326 841
Analysis of goodwill by line of business and geography:		
UK and Other		
Wealth & Investment	248 850	249 001
Specialist Banking	14 058	22 540
	262 908	271 541
Australia		
Specialist Banking	33 339	55 300
Total group	296 247	326 841

33. Goodwill (continued)

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

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

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

UK, Europe and Australia

The two most significant cash-generating units giving rise to goodwill are Investec Wealth & Investment (IWI), which now includes the business of Williams de Broë (acquired in 2012 as part of the Evolution Group) which was merged with IWI in August 2012, and the Specialist Banking activities of the group's Australian operations.

For IWI goodwill of £248.9 million is supported by the test for impairment on the basis of the cash flow projections for the next three years discounted at 10.3% (2013: 10.4%) which incorporate an expected revenue growth rate of 2% (March 2013: 2%). Sensitivity analysis has been carried out and it has been concluded that no reasonably possible change in the key assumptions would cause an impairment to be recognised.

As announced on 11 April 2014, Investec is selling Investec Bank (Australia) Limited's (IBAL) Professional Finance (Experian), Asset Finance and deposit-taking businesses. The price agreed is a premium of A$210 million (approximately £116 million) to net assets. A significant proportion of the goodwill Investec is carrying in relation to IBAL relates to the Professional Finance and Asset Finance businesses and is supported by the sale premium. The balance of goodwill in Australia mainly relates to the Specialist Banking business and, following an assessment at year end, a partial impairment of A$20 million (£11.2 million) has been taken in respect of this.

Movement in goodwill

2013
Goodwill arising from acquisitions relates to the following acquisitions in 2013 (as detailed in the note 35):

- Neontar Limited (the holding company of the NCB group) – £7.2 million
- Investec Asset Finance & Leasing (Pty) Ltd – £2.6 million
- Williams de Broë Limited – £48.1 million.

34. Intangible assets

At 31 March £'000	Acquired software	Intellectual property	Management contracts	Client relationships	Total
2014					
Cost					
At the beginning of the year	42 530	3 824	822	179 521	226 697
Exchange adjustments	(2 269)	(565)	31	(167)	(2 970)
Additions	2 356	727	–	–	3 083
Disposals	(1 341)	(1 654)	–	–	(2 995)
At the end of the year	41 276	2 332	853	179 354	223 815
Accumulated amortisation and impairments					
At the beginning of the year	(31 475)	(314)	(63)	(19 367)	(51 219)
Exchange adjustments	1 442	60	(2)	12	1 512
Disposals	1 340	–	–	–	1 340
Amortisation	(5 218)	(134)	(134)	(13 259)	(18 745)
At the end of the year	(33 911)	(388)	(199)	(32 614)	(67 112)
Net carrying value	7 365	1 944	654	146 740	156 703
2013					
Cost					
At the beginning of the year	39 818	3 674	–	107 840	151 332
Exchange adjustments	564	200	31	586	1 381
Acquisition of a subsidiary undertaking	–	–	791	71 095	71 886
Additions	2 148	205	–	–	2 353
Disposals	–	(255)	–	–	(255)
At the end of the year	42 530	3 824	822	179 521	226 697
Accumulated amortisation and impairments					
At the beginning of the year	(25 342)	(297)	–	(8 168)	(33 807)
Exchange adjustments	(394)	(17)	–	–	(411)
Amortisation	(5 739)	–	(63)	(11 199)	(17 001)
At the end of the year	(31 475)	(314)	(63)	(19 367)	(51 219)
Net carrying value	11 055	3 510	759	160 154	175 478

Client relationships mainly relate to the acquisition of Rensburg Sheppards plc, Williams de Broë and the NCB group.

35. Acquisitions and disposals

2014

Acquisitions

There were no significant acquisitions of subsidiaries during the year ended 31 March 2014.

Disposals

The net gain in the income statement of £9.7 million on the sale of subsidiaries arises from the sale of Lease Direct Finance Limited and from the sale of Investec Trust (Switzerland) SA and Investec Trust (Jersey) Limited. The net cash inflow on these disposals amounted to £37.8 million.

2013

Acquisitions

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

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

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

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

The operating income before impairment losses on loans and advances of the group would have been £4.7 million higher and operating profit would have been £1.4 million lower, if the acquisition of NCB had been on 1 April 2012 as opposed to 30 July 2012. In addition, the operating income before impairment losses on loans and advances would have been £25.1 million higher and operating profit would have been £1.1 million higher, if the acquisition of WdeB had been on 1 April 2012 as opposed to 23 August 2012.

Disposals

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

At 31 March £'000	2014	2013
36. Other trading liabilities		
Short positions		
– Equities	114 041	110 966
– Gilts	277 609	261 796
	391 650	372 762

At 31 March £'000	2014	2013
37. Debt securities in issue		
Bonds and medium-term notes repayable:		
Less than three months	9 210	33 765
Three months to one year	127 459	72 054
One to five years	121 988	92 029
Greater than five years	34 427	5 638
	293 084	203 486
Other unlisted debt securities in issue repayable:		
Less than three months	11 258	93 749
Three months to one year	38 765	183 750
One to five years	445 850	964 741
Greater than five years	527 145	268 010
	1 023 018	1 510 250
	1 316 102	1 713 736
Analysis by customer type:		
Retail	723 000	712 000
Wholesale	593 102	1 001 736
	1 316 102	1 713 736

At 31 March £'000	2014	2013*
38. Other liabilities		
Settlement liabilities	646 347	838 177
Other creditors and accruals	250 474	201 501
Other non-interest-bearing liabilities	84 827	77 805
	981 648	1 117 483

* *As restated for restatements detailed in note 54.*

At 31 March £'000	2014	2013
39. Pension commitments		
Cost of defined contribution schemes included in staff costs	19 227	17 407

The group operates pension schemes throughout its areas of operation. The majority of the schemes are defined contribution schemes with the exception of two schemes in the UK, being the Guinness Mahon Pension Fund scheme (GM scheme) and the Investec Asset Management Pension scheme (IAM scheme). Both schemes are final salary pension plans with assets held in separate trustee administered funds. The plan is subject to UK regulations, which require the trustees to agree a funding strategy and contribution schedule for the plan. The role of the trustees is to ensure that the schemes are administered in accordance with the scheme rules and relevant legislation, and to safeguard the assets in the best interest of all members and beneficiaries.

The trustees are solely responsible for setting investment policy and for agreeing funding requirements with the employer through the triennial valuation process. The schemes are closed to new members and the accrual of service ceased on 31 March 2002. The schemes have been valued at 31 March 2014 by qualified independent actuaries in accordance with IAS 19. There were no unpaid contributions in relation to the defined contribution schemes outstanding at the year end.

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

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

	2014	2013
The major assumptions used were:		
Discount rate	4.40%	4.40%
Rate of increase in salaries	3.40%	3.40%
Rate of increase in pensions in payment	1.80% – 3.40%	1.80% – 3.30%
Inflation (RPI)	3.40%	3.30%
Inflation (CPI)	2.40%	2.40%
Demographic assumptions		
One of the most significant demographic assumptions underlying the valuation is mortality. The specific mortality rates used are based on the PMA00 MC and PFA00 base tables with allowance for future improvements in line with the medium cohort projection subject to a 1% underpin. The life expectancies underlying the valuation are as follows:	Years	Years
Male aged 65	87.7	87.6
Female aged 65	89.7	89.6
Male aged 45	89.6	89.5
Female aged 45	91.1	91.0

39. Pension commitments (continued)

Sensitivity analysis of assumptions

The sensitivities are only presented for the GM scheme as the equivalent increases or decreases in assumptions for the IAM scheme do not have a material impact.

If the discount rate is 0.25% higher the defined benefit obligations would decrease by £4.9 million, or increase by £5.2 million if the discount rate was 0.25% lower.

If the expected increase in salaries increased by 0.25% the defined benefit obligations would increase by £0.3 million, or decrease by £0.3 million if the increase in salaries decreased by 0.25%.

If the rate of increase in pensions on payment increased by 0.25% the defined benefit obligations would increase by £1.8 million, or decrease by £1.7 million if the rate of increase decreased by 0.25%.

If the deferred revaluation assumption was 0.25% higher the scheme liabilities would increase by £1.0 million, or decrease by £1.0 million if the deferred revaluation assumption decreased by 0.25%.

If the expected mortality assumptions increased by one year for both men and women, the defined benefit obligations would increase by £3.7 million, or decrease by £2.9 million if the life expectancy were to decrease by one year.

The sensitivity analysis has been performed on the basis that the relevant assumption would occur in isolation, holding other assumptions constant.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the same methodology that applied in calculating the defined benefit obligation liability recognised in the balance sheet.

Risk exposures

A description of the risks to which the pension schemes expose Investec can be found in the risk management report on page 90.

The group ultimately underwrites the risks relating to the defined benefit plans. If the contributions currently agreed are insufficient to pay the benefits due, the group will need to make further contributions to the plans.

The plan assets held in the schemes were:

At 31 March £'000	2014	2013
GM scheme		
Equities	–	18 522
Gilts	132 799	116 517
Cash	2 634	2 464
Total market value of assets	135 433	137 503
IAM scheme		
Equities	–	13 872
Gilts	–	2 619
Managed funds	22 280	–
Cash	34	5 453
Total market value of assets	22 314	21 944

There are no assets which are unquoted.

There are none of the group's own assets or properties occupied or used by the group held within the assets of the scheme.

The investment strategy in place for the GM scheme is to switch to gilts over the period to 31 March 2021. At 31 March 2014, the allocation of the GM scheme's invested assets was 100% to gilts and cash. This is ahead of the investment strategy. The higher allocation is due to additional switches from equities to gilts during the first and third quarter of 2013 under the agreed outperformance trigger mechanism. The investment strategy is set out in the GM scheme's Statement of Investment Principles, which the Trustees update as its policy evolves.

The Trustee's current investment strategy is to strike a balance between maximising the returns on the scheme's assets and minimising the risks associated with lower than expected returns.

39. Pension commitments (continued)

At 31 March £'000	2014 GM	2014 IAM	2014 Total	2013 (restated) GM	2013 (restated) IAM	2013 (restated) Total
Recognised in the balance sheet						
Fair value of fund assets (restated)	135 433	22 314	157 747	137 503	21 944	159 447
Present value of obligations	(116 083)	(16 104)	(132 187)	(115 643)	(15 721)	(131 364)
Net asset (recognised in other assets)	**19 350**	**6 210**	**25 560**	**21 860**	**6 223**	**28 083**
Recognised in the income statement						
Net interest expense/income	1 057	272	1 329	1 291	18	1 309
Past service costs	(310)	(172)	(482)	(344)	(110)	(454)
Net amount recognised in the income statement	**747**	**100**	**847**	**947**	**(92)**	**855**
Recognised in the statement of comprehensive income						
Return on plan assets (excluding amounts in net interest income)	7 858	197	8 055	(6 894)	(838)	(7 732)
Actuarial gain arising from changes in financial assumptions	–	–	–	6 741	986	7 727
Actuarial gain/(loss) arising from experience adjustments	(285)	(84)	(369)	8 541	417	8 958
Remeasurement of defined benefit asset	7 573	113	7 686	8 388	565	8 953
Deferred tax	(1 501)	(315)	(1 816)	(1 658)	(217)	(1 875)
Remeasurement of net defined benefit asset	6 072	(202)	5 870	6 730	348	7 078

39. Pension commitments (continued)

At 31 March £'000	GM	IAM	Total
Changes in the net asset/(liabilities) recognised in the balance sheet			
Opening balance sheet asset at 1 April 2012	25 622	3	25 625
Income/(expenses) charged to the income statement	947	(91)	856
Amount recognised in other comprehensive income	(8 388)	(565)	(8 953)
Contributions paid	3 679	6 876	10 555
Opening balance sheet asset at 1 April 2013	21 860	6 223	28 083
Expenses charged to the income statement	747	100	847
Amount recognised in other comprehensive income	(7 573)	(113)	(7 686)
Contributions paid	4 316	–	4 316
Closing balance sheet asset at 31 March 2014	19 350	6 210	25 560
Changes in the present value of defined benefit obligations			
Opening defined benefit obligation at 1 April 2012	100 743	14 324	115 067
Interest expense	4 617	658	5 275
Re-measurement gains and losses:			
– Actuarial gain arising from changes in financial assumptions	6 741	986	7 727
– Actuarial gain arising from experience adjustments	8 541	417	8 958
Total service cost	–	110	110
Benefits and expenses paid	(4 999)	(774)	(5 773)
Opening defined benefit obligation at 1 April 2013	115 643	15 721	131 364
Interest expense	4 994	685	5 679
Re-measurement gains and losses:			
– Actuarial loss arising from experience adjustments	(285)	(84)	(369)
Total service cost	–	172	172
Benefits and expenses paid	(4 269)	(390)	(4 659)
Closing defined benefit obligation at 31 March 2014	116 083	16 104	132 187
Changes in the fair value of plan assets			
Opening fair value of plan assets at 1 April 2012	126 365	14 327	140 692
Interest income (restated)	5 908	676	6 584
Re-measurement gains and losses:			
– Return on plan assets (excluding amounts in net interest income)	6 894	838	7 732
Contributions by the employer	3 679	6 876	10 555
Benefits and expenses paid	(5 343)	(773)	(6 116)
Opening fair value of plan assets at 1 April 2013	137 503	21 944	159 447
Interest income	6 051	957	7 008
Re-measurement gains and losses:			
– Return on plan assets (excluding amounts in net interest income)	(7 858)	(197)	(8 055)
Contributions by the employer	4 316	–	4 316
Benefits and expenses paid	(4 579)	(390)	(4 969)
Closing fair value of plan assets at 31 March 2014	135 433	22 314	157 747

The triennial funding valuation of the schemes was carried out at 31 March 2012. Contributions requirements, including any deficit recovery plans, were agreed between the group and the Trustees in March 2013 to address the scheme deficit. Under the agreed contribution plan deficit contributions of £6 million were paid into the IAM scheme in March 2013, such that the scheme is now fully funded.

Under the agreed contribution plan deficit contributions of £4.3 million were paid into the GM scheme in the year to 31 March 2014 and the group expects to make £4.3 million of contributions to the defined benefit schemes in the 2014 financial year.

The weighted average duration of the GM scheme's liabilities at 31 March 2014 is 17 years (31 March 2013: 18 years). This includes average duration of active members of 23 years, average duration of deferred pensioners of 22 years and average duration of pensioners in payment of 10 years.

The weighted average duration of the IAM scheme's liabilities at 31 March 2014 is 18 years (31 March 2013: 19 years). This includes average duration of deferred pensioners of 20 years and average duration of pensioners in payment of 11 years.

At 31 March £'000	2014	2013
40. Subordinated liabilities		
Issued by Investec Bank plc		
Subordinated fixed rate medium-term notes	577 941	577 470
Issued by subsidiaries of Investec Bank plc:		
Issued by Investec Finance plc		
Guaranteed subordinated step-up notes	33 979	33 979
Guaranteed undated subordinated callable step-up notes	18 750	18 990
Issued by Investec Bank (Australia) Limited		
Subordinated floating rate medium-term notes	39 106	48 303
	669 776	678 742
Remaining maturity:		
In one year or less, or on demand	–	–
In more than one year, but not more than two years	33 979	–
In more than two years, but not more than five years*	18 750	52 969
In more than five years	617 047	625 773
	669 776	678 742

* *Where notes are undated, the maturity has been taken as the first potential call date.*

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.

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

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

Guaranteed subordinated step-up notes

At 31 March 2014 Investec Finance plc had in issue £33 793 000 of guaranteed subordinated step-up notes due in 2016. Interest is paid annually. The notes are guaranteed by Investec Bank plc and are listed on the Luxembourg Stock Exchange. The step-up notes may be redeemed by the issuer, at par, at any time after 1 March 2011, subject to the prior consent of the Prudential Regulation Authority. On 1 March 2011 the interest rate was reset to 6.482%, the aggregate of 3.5% and the gross redemption yield of the relevant benchmark gilt.

Guaranteed undated subordinated callable step-up notes

At 31 March 2014 Investec Finance plc had in issue £17 861 000 of 6.25% guaranteed undated subordinated step-up notes callable in 2017 at a discount. Interest is paid semi-annually. The notes are guaranteed by Investec Bank plc and are listed on the Luxembourg Stock Exchange. The step-up notes may be redeemed by the issuer, at par, at any time after 23 January 2017, subject to the prior consent of the Prudential Regulation Authority. On 23 January 2017 the interest rate will be reset to become three-month Libor plus 2.11% payable quarterly in arrears.

Subordinated floating rate medium-term notes (denominated in Australian Dollars)

A$16 150 000 of floating rate medium-term notes (MTN) issued on 12 February 2010 at Australian three month Bank Bills Swap Rate (BBSW) plus 5%. The maturity date is 12 February 2020. Interest is payable quarterly up to and excluding the early redemption date 12 February 2015. After this date, if the issuers call is not exercised, the interest will be the aggregate of three month BBSW plus 7.5% payable quarterly in arrears.

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

At 31 March	2014	2013

41. Ordinary share capital

Authorised

The authorised share capital is £2 000 million (2013: £2 000 million) comprising:
2 000 million ordinary shares of £1 each (2013: 2 000 million ordinary shares of £1 each).

Issued, allotted and fully paid

Number of ordinary shares	Number	Number
At the beginning of the year	1 173 800 000	1 070 700 000
Issued during the year	13 000 000	103 100 000
At the end of the year	1 186 800 000	1 173 800 000

Nominal value of ordinary shares	£'000	£'000
At the beginning of the year	1 173 800	1 070 700
Issued during the year	13 000	103 100
At the end of the year	1 186 800	1 173 800

At 31 March £'000	2014	2013

42. Non-controlling interests

	2014	2013
Non-controlling interests in partially held subsidiaries	(3 225)	(4 552)

43. Finance lease disclosures

At 31 March £'000	2014		2013	
	Total future minimum payments	Present value	Total future minimum payments	Present value
Finance lease receivables included in loans and advances to customers				
Lease receivables due in:				
Less than one year	239 218	188 594	196 809	155 543
One to five years	521 637	439 811	455 322	376 337
Later than five years	20 055	15 159	10 407	7 756
	780 910	643 564	662 538	539 636
Unearned finance income	137 346		122 902	

At 31 March 2014, unguaranteed residual values accruing to the benefit of Investec were £29.4 million (2013: £32.7 million).
Finance leases in the group mainly relate to leases on property, equipment and motor vehicles.

For the year to 31 March £'000	2014	2013*
44. Notes to the cash flow statement		
Reconciliation of operating profit to net operating cash flows		
Profit before taxation adjusted for non-cash items is derived as follows:		
Profit before taxation	78 682	46 578
Adjustment for non-cash items included in net income before taxation:		
Amortisation of intangible intangibles	11 233	11 262
Amortisation of goodwill	13 393	13 409
Net gain on disposal of subsidiaries	(9 653)	–
Depreciation of operating lease assets	6 044	16 072
Depreciation and impairment of property, equipment and intangibles	16 021	16 503
Impairment of loans and advances	97 491	110 403
Operating income from associates	(1 891)	(2 732)
Dividends received from associates	1 618	559
	212 938	212 054
Decrease/(increase) in operating assets		
Loans and advances to banks	35 352	(264 612)
Reverse repurchase agreements and cash collateral on securities borrowed	313 093	(369 455)
Sovereign debt securities	427 962	(13 106)
Bank debt securities	84 019	369 351
Other debt securities	(39 969)	(3 916)
Derivative financial instruments	168 441	(82 910)
Securities arising from trading activities	87 057	(301 193)
Investment portfolio	(9 717)	(35 275)
Loans and advances to customers	(106 929)	(659 431)
Other loans and advances	42 070	290 875
Own originated loans and advances to customers securitised	230 115	43 456
Other securitised assets	93 709	(329 565)
Other assets	191 930	(35 866)
Investment properties	(50 215)	–
	1 466 918	(1 391 647)
(Decrease)/increase in operating liabilities		
Deposits by banks	(161 961)	296 520
Derivative financial instruments	(148 530)	85 179
Other trading liabilities	18 888	101 135
Repurchase agreements and cash collateral on securities lent	(327 663)	(78 274)
Customer accounts	(259 693)	320 005
Debt securities in issue	(397 634)	(332 915)
Liabilities arising on securitisation of own originated loans and advances	(28 820)	(49 043)
Liabilities arising on securitisation of other assets	111 366	203 230
Other liabilities	(151 659)	59 546
	(1 345 706)	605 383

* *As restated for restatements detailed in note 54.*

At 31 March £'000	2014	2013
45. Commitments		
Undrawn facilities	850 236	638 113
Other commitments	9 748	14 283
	859 984	652 396
The group has entered into forward foreign exchange contracts and loan commitments in the normal course of its banking business for which the fair value is recorded on-balance sheet.		
Operating lease commitments		
Future minimum lease payments under non-cancellable operating leases:		
Less than one year	22 368	22 363
One to five years	65 310	73 820
Later than five years	25 558	41 994
	113 236	138 177
Operating lease receivables		
Future minimum lease payments under non-cancellable operating leases:		
Less than one year	3 847	10 467
One to five years	2 838	3 654
Later than five years	320	12
	7 005	14 133

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

At 31 March	Carrying amount		Related liability	
£'000	2014	2013	2014	2013
Pledged assets				
Loans and advances to banks	224 254	338 556	247 937	339 429
Sovereign debt securities	339 455	376 601	336 246	231 803
Bank debt securities	38 173	116 560	28 639	71 744
Securities arising from trading activities	514 089	604 517	424 619	610 459
	1 115 971	1 436 234	1 037 441	1 253 435

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

At 31 March £'000	2014	2013
46. Contingent liabilities		
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	215 231	227 219
	215 231	227 219

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

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

Financial Services Compensation Scheme

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

The FSCS raises annual levies from participating members to meet its management expenses and compensation costs. Individual participating members make payments based on their level of participation (in the case of deposits, the proportion that their protected deposits represent of total protected deposits) at 31 December of the year preceding the scheme year.

Following the default of a number of deposit-takers in 2008, the FSCS has borrowed from HM Treasury to fund the compensation costs for customers of those firms. Although the majority of this loan is expected to be repaid from funds the FSCS receives from asset sales, surplus cash flow or other recoveries in relation to the assets of the firms that defaulted, any shortfall will be funded by deposit-taking participants of the FSCS.

Investec Bank plc is a participating member of the FSCS and the bank has accrued £5.0 million for its share of levies that will be raised by the FSCS. The accrual is based on estimates for the interest the FSCS will pay on the loan and estimates of the level of the bank's market participation in the relevant periods. Interest will continue to accrue to the FSCS on the HM Treasury loan and will form part of future FSCS levies.

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

Legal proceedings

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

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

For the year ended 31 March £'000	2014	2013
47. Related party transactions		
Transactions, arrangements and agreements involving directors and others		
Particulars of transactions, arrangements and agreements entered into by the group with directors and connected persons and companies controlled by them, and with officers of the company, were as follows:		
Directors, key management and connected persons and companies controlled by them		
Loans		
At the beginning of the year	33 403	24 412
Increase in loans	1 058	19 371
Repayment of loans	(9 096)	(10 380)
At the end of the year	25 365	33 403
Guarantees		
At the beginning of the year	4 591	–
Additional guarantees granted	4 409	4 591
Guarantees cancelled	(4 591)	–
At the end of the year	4 409	4 591
Deposits		
At the beginning of the year	(23 436)	(17 107)
Increase in deposits	(20 310)	(22 666)
Decrease in deposits	16 588	16 337
Exchange adjustment	639	–
At the end of the year	(26 519)	(23 436)

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 has been impaired.

For the year ended 31 March £'000	Investec plc and subsidiaries	Investec Limited and subsidiaries	Total
47. Related party transactions (continued)			
Transactions with other related parties			
2014			
Assets			
Loans and advances to banks	–	30 547	30 547
Other loans and advances	558 448	1 196	559 644
Reverse repurchase agreements and cash collateral on securities borrowed	–	306 063	306 063
Derivative financial instruments	1 949	1 146	3 095
Other assets	31 704	16 269	47 973
Liabilities			
Deposits from banks	–	(16 445)	(16 445)
Customer accounts	(139 647)	(17 346)	(156 993)
Debt securities in Issue	–	(237 612)	(237 612)
Derivative financial instruments	(845)	(25 852)	(26 697)
Other liabilities	–	(42 279)	(42 279)
Subordinated liabilities	–	(27 874)	(27 874)
2013			
Assets			
Loans and advances to banks	–	6 854	6 854
Other loans and advances	504 803	645	505 448
Reverse repurchase agreements and cash collateral on securities borrowed	–	305 342	305 342
Derivative financial instruments	200	22 826	23 026
Other assets	52 243	28 659	80 902
Liabilities			
Deposits from banks	–	(13 948)	(13 948)
Customer accounts	(164 894)	(8 014)	(172 908)
Debt securities in Issue	–	(249 218)	(249 218)
Derivative financial instruments	(5)	(36 090)	(36 095)
Other liabilities	–	(8 855)	(8 855)
Subordinated liabilities	(2 614)	(34 427)	(37 041)

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

In the normal course of business services are provided by Investec Bank plc to other companies in the group. In the year to 31 March 2014, the bank received £13.5 million (2012: £0.3 million) for these services.

During the year to 31 March 2014, interest of £31.1 million (2013: £16.9 million) was paid to entities in the Investec Limited group and £0.5 million (2013: £0.3 million) was paid to Investec plc and fellow subsidiaries. Interest of £1.7 million (2013: £29.8 million) was received from the Investec Limited group and interest of £29.8 million (2013: £32.1 million) was received from Investec plc and fellow subsidiaries.

The bank has issued a guarantee on behalf of Start Funding No. 2 (SF2), an ultimate subsidiary of Investec plc. The terms of the guarantee are with regard to performance by SF2 of its obligations to Barclays Bank plc under a €172 million (2013: €200 million) Revolving Credit Facility Agreement (the Facility). The guarantee expires in April 2017. Drawings under the Facility were €170.4 million (2013: €173.8 million) at 31 March 2014. SF2 pays a fee of 0.21% per annum to the bank on the drawn amount of the Facility.

For the year ended 31 March £'000	2014	2013
Amounts due from associates	16 409	9 331
Interest income from associates	959	631
Fees and commission income from associates	108	115

48. Hedges

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

The accounting treatment of accounting hedges is dependent on the classification between fair value hedges and cash flow hedges and, in particular, accounting hedges require the identification of a direct relationship between a hedged item and hedging instrument. This relationship is established in limited circumstances based on the manner in which the group manages its risk exposure. Below is a description of each category of accounting hedges achieved by the group.

Fair value hedges

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

At 31 March £'000	Description of financial instrument designated as hedging instrument	Fair value of hedging instrument	Cumulative gains 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						
Assets	Interest rate swap	(2 039)	(2 039)	39 090	(3 711)	(38 197)
	Cross-currency swap	(165)	(165)	306	165	(306)
Liabilities	Interest rate swap	5 616	5 616	(14 054)	(5 536)	14 836
	Cross-currency swap	(124)	(124)	336	124	(336)
		3 288	3 288	25 678	(8 958)	(24 003)
2013						
Assets	Interest rate swap	(41 909)	(42 344)	(19 068)	35 744	12 071
	Cross-currency swap	(582)	(582)	29	582	(29)
Liabilities	Interest rate swap	20 545	20 545	(8 723)	(21 296)	8 496
	Cross-currency swap	(3 081)	(3 081)	179	3 101	7
		(25 027)	(25 462)	(27 583)	18 131	20 545

Cash flow hedges

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

At 31 March £'000	Description of financial instrument designated as hedging instrument	Fair value of hedging instrument	Period cash flows are expected to occur and affect income statement
2014			
Assets	Interest rate swap	516	Three months to five years
	Cross-currency swap	370	One to five years
Liabilities	Interest rate swap	(6 084)	One to five years
		(5 198)	
2013			
Assets	Interest rate swap	963	Three months to five years
	Cross-currency swap	455	One to five years
Liabilities	Interest rate swap	(7 511)	One to five years
		(6 093)	

There was no ineffective portion recognised in the income statement.

Release to the income statement from cash flow hedge reserves is included in trading income arising from customer flow.

48. Hedges (continued)

Hedges of net investments in foreign operations

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

At 31 March £'000	Hedging instrument fair value
2014	(1 081)
2013	323

There was no ineffective portion recognised in the income statement.

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

At 31 March £'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
2014								
Liabilities								
Deposits by banks	377 905	105 192	113 602	70 787	81 962	69 016	92 431	910 895
Derivative financial instruments	227 877	2 738	147 274	6 727	42 624	194 880	76 692	698 812
Derivative financial instruments – held for trading	200 406	–	–	–	–	–	–	200 406
Derivative financial instruments – held for hedging risk	27 471	2 738	147 274	6 727	42 624	194 880	76 692	498 406
Other trade liabilities	391 650	–	–	–	–	–	–	391 650
Repurchase agreements and cash collateral on securities lent	425 391	–	–	–	189 773	–	–	615 164
Customer accounts (deposits)	2 280 286	1 395 270	2 758 975	2 931 338	715 480	1 057 359	98 463	11 237 171
Debt securities in issue	3 947	15 730	153 283	119 973	273 976	500 671	563 356	1 630 936
Liabilities arising on securitisation of own originated loans and advances	301	15 499	41 314	47 388	165 880	230 499	3 352	504 233
Liabilities arising on securitisation of other assets	–	25 277	33 013	42 808	84 055	439 531	724 861	1 349 545
Other liabilities	191 885	586 260	87 392	33 443	29 002	38 756	14 906	981 644
Subordinated liabilities	–	222	942	1 732	72 029	350 003	830 973	1 255 901
Total on-balance sheet liabilities	3 899 242	2 146 188	3 335 795	3 254 196	1 654 781	2 880 715	2 405 034	19 575 951
Contingent liabilities	40 401	26 876	15 485	1 795	4 068	126 466	140	215 231
Commitments	444 491	42 436	25 784	8 379	76 806	246 392	15 696	859 984
Total liabilities	4 384 134	2 215 500	3 377 064	3 264 370	1 735 655	3 253 573	2 420 870	20 651 166

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

(continued)

At 31 March £'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
2013								
Liabilities								
Deposits by banks	426 077	200 346	85 831	71 362	39 051	356 123	71 959	1 250 749
Derivative financial instruments	360 630	19 555	53 246	39 929	61 491	292 695	117 464	945 010
Derivative financial instruments – held for trading	119 505	–	–	–	–	–	–	119 505
Derivative financial instruments – held for hedging risk	241 125	19 555	53 246	39 929	61 491	292 695	117 464	825 505
Other trade liabilities	372 762	–	–	–	–	–	–	372 762
Repurchase agreements and cash collateral on securities lent	450 906	–	–	–	–	501 799	–	952 705
Customer accounts (deposits)	1 529 603	1 073 190	3 340 883	3 026 485	862 133	1 391 865	42 637	11 266 796
Debt securities in issue	–	59 122	108 084	149 334	266 332	997 013	490 593	2 070 478
Liabilities arising on securitisation of own originated loans and advances	377	17 304	53 713	56 091	159 582	263 409	10 904	561 380
Liabilities arising on securitisation of other assets	–	–	16 222	15 633	31 711	371 442	1 020 769	1 455 777
Other liabilities	556 203	698 682	118 840	19 442	22 728	56 333	18 791	1 491 019
Subordinated liabilities	891	247	391	2 157	60 656	376 842	760 954	1 202 138
Total on-balance sheet liabilities	3 697 449	2 068 446	3 777 210	3 380 433	1 503 684	4 607 521	2 534 071	21 568 814
Contingent liabilities	40 394	–	1 580	4 004	4 800	168 089	8 352	227 219
Commitments	136 710	15 766	161 268	50 918	73 204	192 367	22 163	652 396
Total liabilities	3 874 553	2 084 212	3 940 058	3 435 355	1 581 688	4 967 977	2 564 586	22 448 429

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

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

For an unaudited analysis based on discounted cash flows please refer to pages 82 to 84.

50. Principal subsidiaries

At 31 March	Principal activity	Country of incorporation	Interest % 2014	Interest % 2013
Direct subsidiary undertakings of Investec Bank plc				
Investec Asset Finance plc	Leasing	England and Wales	100.0%	100.0%
Investec Bank (Channel Islands) Limited	Banking institution	Guernsey	100.0%	100.0%
Investec Bank (Switzerland) AG	Banking institution	Switzerland	100.0%	100.0%
Investec Capital Asia Limited	Investment banking	Hong Kong	100.0%	100.0%
Investec Finance plc	Debt issuer	England and Wales	100.0%	100.0%
Investec Group Investments (UK) Limited	Investment holding	England and Wales	100.0%	100.0%
Investec Holdings (Australia) Limited	Holding company	Australia	100.0%	100.0%
Investec Investments (UK) Limited	Investment holding	England and Wales	100.0%	100.0%
Rensburg Sheppards plc	Holding company	England and Wales	100.0%	100.0%
Indirect subsidiary undertakings of Investec Bank plc				
Investec Asset Finance & Leasing (Pty) Ltd	Leasing	Australia	100.0%	100.0%
Investec Bank (Australia) Limited	Banking institution	Australia	100.0%	100.0%
Investec Capital and Investments (Ireland) Limited	Financial services	Ireland	100.0%	100.0%
Investec Ireland Limited	Financial services	Ireland	100.0%	100.0%
Investec Professional Finance (Pty) Ltd	Financial services	Australia	100.0%	100.0%
Investec Trust (Jersey) Limited	Trust company	Jersey	–	100.0%
Investec Trust (Switzerland) SA	Trust company	Switzerland	–	100.0%
Investec Wealth & Investments Limited	Stockbroking and portfolio management	England and Wales	100.0%	100.0%
Lease Direct Finance Limited	Finance broker	England and Wales	–	100.0%
Williams de Broë Limited	Stockbroking and portfolio management	England and Wales	100.0%	100.0%

All of the above subsidiary undertakings are included in the consolidated annual financial statements. There have been no changes to the subsidiaries listed above as a result of the adoption of IFRS 10 as control over these entities continues to be demonstrated through the ownership of the majority of voting equity shares.

The company has taken advantage of the exemption under section 410(2) of the Companies Act 2006 by providing information only in relation to subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the financial statements. A complete list of subsidiary and associated undertakings will be included in the next Investec Bank plc annual return filed with the Registrar of Companies.

50. Principal subsidiaries (continued)

Consolidated structured entities

Investec Bank plc has no equity interest 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
Bedrock CMBS GMBH	Structured commercial real estate loan assets
Foundation CMBS Limited	Structured commercial real estate loan assets
Gemgarto 2012-1 plc	Securitised Residential Mortgages (UK)
Gemgarto 2011-1 plc	Securitised Residential Mortgages (UK)
Glacier Securities Limited (series 2010-2)	Securitised Residential Mortgages (UK)
Glacier Securities Limited (series 2011-2)	Securitised Residential Mortgages (UK)
Gresham Capital CLO V BV	Structured debt and loan portfolios
Impala Trust No.1 – Sub Series 2	Securitised receivables (Australia)
Impala Trust No.1 – Sub Series 2010-1	Securitised receivables (Australia)
Impala Trust No.1 – Sub Series 2011-1	Securitised receivables (Australia)
Impala Trust No.1 – Sub Series 2012-1	Securitised receivables (Australia)
Nyala Funding Trust CMBS 2013-1	Securitised receivables (Australia)
Nyala Funding Trust No. 1	Securitised receivables (Australia)
Pangaea ABS 2007-1 BV	Structured debt and loan portfolios
Tamarin Securities Limited	Structured debt and loan portfolios
Temese Funding 1 plc	Securitised receivables (UK)
Yorker Trust	Structured debt and loan portfolios

For additional detail on the assets and liabilities arising on securitisation refer to note 27. Details of the risks to which the group is exposed through its securitisations are included in the risk management report on page 67.

The key assumptions for the main types of structured entities which the group consolidates are summarised below:

Securitised Residential Mortgages (UK)

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 equity notes combined with its control over servicing activities. 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. These structured entities are consolidated due to the group's retention of equity notes and because it continues to act as the collateral manager. The group is not required to fund any losses above those incurred on the notes it has retained.

Structured commercial real estate loan assets

The group has securitised a number of commercial real estate loan assets. These structured entities are consolidated as the group has retained all of the notes issued. The group continues to recognise the commercial real estate loan assets on its balance sheet. The group is not required to fund any losses above those incurred on the notes it has retained.

Securitised receivables (UK and Australia)

The group has securitised a portfolio of medium-term lease and hire purchase receivables. These structured entities are consolidated as the group has retained the equity notes and control over servicing activities. The group is not required to fund any losses above those incurred on the notes it has retained.

Other structured entities – commercial operations

The group also consolidates a number of structured entities where control arises from rights attached to lending facilities and similar commercial involvement. These arise primarily in the areas of aircraft funds where the group has rights which allow it to maximise the value of the assets held and investments in mining projects due to its exposure to equity like returns and ability to influence the strategic and financial decision-making.

50. Principal subsidiaries (continued)

Other structured entities – commercial operations (continued)

The group is not required to fund any losses above those which could be incurred on debt positions held or swaps which exist with these structured entities.

The risks to which the group is exposed from these structured entities are related to the underlying assets held in the structures. The total assets held in structured entities arising from commercial operations is £157.9 million.

Significant restrictions

As is typical for a large group of companies there are restrictions on the ability of the group to obtain distributions of capital, access the assets or repay the liabilities of members of the group due to the statutory, regulatory and contractual requirements of its subsidiaries. These are considered below.

Regulatory requirements

Subsidiary companies are subject to prudential regulation and regulatory capital requirements in the countries in which they are regulated. These require entities to maintain minimum capital, leverage and exposure ratios restricting the ability of these entities to make distributions of cash or other assets to the parent company. Regulated subsidiaries of the group are required to maintain liquidity pools to meet PRA and local regulatory requirements.

The main subsidiaries affected are: Investec Bank plc, Investec Bank (Australia) Limited, Investec Bank (Channel Islands) Limited and Investec Bank (Switzerland) AG which must maintain compliance with the regulatory minimum.

Capital management within the group is discussed in the risk management report on pages 91 to 95.

Statutory requirements

The group's subsidiaries are subject to statutory requirements not to make distributions of capital and unrealised profits and generally maintain solvency. These requirements restrict the ability of subsidiaries to remit dividends, except in the case of a legal capital reduction or liquidation.

Contractual requirements

Asset encumbrance – the group uses its financial assets to raise finance in the form of securitisations and through the liquidity schemes of central banks. Once encumbered, the assets are not available for transfer around the group. The assets typically affected are disclosed in notes 45 and 53.

Structured associates

The group has investments in a number of structured funds specialising in aircraft financing where the group acts as adviser or fund manager in addition to holding units within the fund. As a consequence of these roles and funding, the group has significant influence over the fund and therefore the funds are treated as associates.

The group applies the venture capital exemption to these holdings and, as such, the investments in the funds are accounted for at fair value and held within the investment portfolio on the balance sheet.

Type of structured entity	Nature and purpose	Interest held by the group
Aircraft investment funds	To generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.	Investments in units issued by the fund Management fees

The table below sets out an analysis of the carrying amounts of interests held by the group in structured associate entities.

The maximum exposure to loss is the carrying amount of the assets held.

At 31 March 2014	Line on the balance sheet	Carrying value £'000	Maximum exposure to loss	Income earned from structured entity	£'000
Aircraft investment funds	Investment portfolio	39 883	Limited to the carrying value	Investment income	1 825

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51. Unconsolidated structured entities

The table below describes the types of structured entities that the group does not consolidate but in which it holds an interest and originally set up. In making the assessment of whether to consolidate these structured entities, the group has concluded that it does not have control after consideration in line with the accounting policies as set out on page 138.

Type of structured entity	Nature and purpose	Interest held by the group
Investment funds	To generate fees from managing assets on behalf of third party investors.	Investments in units issued by the Fund
	These vehicles are financed through the issue of units to investors.	Management fees
Residential mortgage securitisations	To generate a return for investors through providing exposure to residential mortgage risk.	Investments in notes
	These vehicles are financed through the issue of notes to investors.	

The table below sets out an analysis of the carrying amounts of interests held by the group in unconsolidated structured entities.

The maximum exposure to loss is the carrying amount of the assets held.

At 31 March 2014	Line on the balance sheet	Carrying value £'000	Maximum exposure to loss of the group	Total assets of the entity £'000	Income earned from structured entity	£'000
Investment funds	Investment portfolio	5 568	Limited to the carrying value	199 946	Investment income	15 139
Residential mortgage securitisations	Other debt securities	41 791	Limited to the carrying value	163 829	Interest expense	(1 042)
					Investment expense	(98)

Financial support provided to the unconsolidated structured entity

There are no contractual agreements which require the group to provide any additional financial or non-financial support to these structured entities.

During the year the group has not provided any such support and does not have any current intentions to do so in the future.

Sponsoring

The group considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity. The table below sets out information in respect of structured entities that the group sponsors, but in which the group does not have an interest.

Structured entities with no interest held

	Residential mortgage securitisations
Why it is considered a structured entity	These are residential mortgage securitisations where Investec has no continuing interest as the notes previously held have been redeemed or fully written off. The entities are considered structured as the vehicles are set up so that the variable returns do not follow the shareholding.
Income amount and type	Mortgage Manager fees of £83 000 per annum.
Carrying amount of all assets transferred	£269 million of mortgage assets.

Interests in structured entities which the group has not set up

Purchased securitisation positions

The group buys and sells interest in structured entities that it has not originated as part of its trading activities, for example, residential mortgage securities, commercial mortgage securities, loans to corporates and resecuritisations. In such cases the group typically has no other involvement with the structured entity, other than the securities it holds as part of its trading activities and its maximum exposure to loss is restricted to the carrying value of the asset. Details of the value of these interests is included in the risk management report on page 68.

52. Offsetting

At 31 March 2014 £'000	Amounts subject to enforceable netting arrangements Effects of offsetting on-balance sheet Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Related amounts not offset Financial instruments (including non-cash collateral)	Cash collateral	Net amount
Assets						
Cash and balances at central banks	1 742 605	–	1 742 605	–	–	–
Loans and advances to banks	1 106 678	(1 473)	1 105 205	–	(167 766)	(167 766)
Reverse repurchase agreements and cash collateral on securities borrowed	1 421 139	(205 639)	1 215 500	(272 846)	(122 792)	(395 638)
Sovereign debt securities	1 232 415	–	1 232 415	(196 073)	–	(196 073)
Bank debt securities	371 182	–	371 182	(44 656)	–	(44 656)
Other debt securities	229 228	–	229 228	–	–	–
Derivative financial instruments	1 938 139	(1 155 192)	782 947	(158 514)	(356 769)	(515 283)
Securities arising from trading activities	586 706	–	586 706	(417 401)	–	(417 401)
Investment portfolio	341 360	–	341 360	–	–	–
Loans and advances to customers	7 791 035	(38 128)	7 752 907	–	(150)	(150)
Own originated loans and advances to customers securitised	447 638	–	447 638	–	–	–
Other loans and advances	1 812 007	(302 293)	1 509 714	–	–	–
Other securitised assets	1 011 257	–	1 011 257	–	–	–
Other assets*	24 148 451	(23 134 035)	1 014 416	–	(15 661)	(15 661)
	44 179 840	(24 836 760)	19 343 080	(1 089 490)	(663 138)	(1 752 628)
Liabilities						
Deposits by banks	834 887	(11)	834 876	–	(226 667)	(226 667)
Derivative financial instruments	675 212	(6 053)	669 159	(131 235)	(281 705)	(412 940)
Other trading liabilities*	24 373 527	(23 981 877)	391 650	(272 846)	–	(272 846)
Repurchase agreements and cash collateral on securities lent	614 836	(103)	614 733	(363 525)	(68 073)	(431 598)
Customer accounts (deposits)	11 436 203	(340 421)	11 095 782	–	(33 748)	(33 748)
Debt securities in issue	1 316 102	–	1 316 102	(321 884)	(1 224)	(323 108)
Liabilities arising on securitisation of own originated loans and advances	449 083	–	449 083	–	–	–
Liabilities arising on securitisation of other assets	962 253	–	962 253	–	–	–
Other liabilities	1 489 943	(508 295)	981 648	–	–	–
Subordinated liabilities	669 776	–	669 776	–	–	–
	42 821 822	(24 836 760)	17 985 062	(1 089 490)	(611 417)	(1 700 907)

* *Obligations arising in equity transactions in our prime brokerage business and are legally enforceable and settled net.*

52. Offsetting (continued)

At 31 March 2013 £'000	Amounts subject to enforceable netting arrangements – Effects of offsetting on-balance sheet: Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Related amounts not offset: Financial instruments (including non-cash collateral)	Cash collateral	Net amount
Assets						
Cash and balances at central banks	1 375 654	–	1 375 654	–	–	–
Loans and advances to banks	1 143 316	(2 837)	1 140 479	–	(297 943)	(297 943)
Reverse repurchase agreements and cash collateral on securities borrowed	1 528 593	–	1 528 593	(257 601)	–	(257 601)
Sovereign debt securities	1 660 377	–	1 660 377	(90 061)	–	(90 061)
Bank debt securities	455 201	–	455 201	(118 051)	–	(118 051)
Other debt securities	189 259	–	189 259	–	–	–
Derivative financial instruments	2 115 906	(1 167 317)	948 589	(133 936)	(438 200)	(572 136)
Securities arising from trading activities	673 763	–	673 763	(496 216)	–	(496 216)
Investment portfolio	333 291	–	333 291	–	–	–
Loans and advances to customers	7 780 377	(34 794)	7 745 583	–	–	–
Own originated loans and advances to customers securitised	491 194	–	491 194	–	–	–
Other loans and advances	2 002 930	(250 042)	1 752 888	–	–	–
Other securitised assets	1 105 030	–	1 105 030	–	–	–
Other assets*	19 664 664	(18 462 934)	1 201 730	–	(18 889)	(18 889)
	40 519 555	(19 917 924)	20 601 631	(1 095 865)	(755 032)	(1 850 897)
Liabilities						
Deposits by banks	997 566	(127)	997 439	–	(261 275)	(261 275)
Derivative financial instruments	1 304 396	(486 707)	817 689	(133 936)	(445 773)	(579 709)
Other trading liabilities*	19 317 738	(18 944 976)	372 762	(257 601)	–	(257 601)
Repurchase agreements and cash collateral on securities lent	945 158	(2 762)	942 396	(345 213)	–	(345 213)
Customer accounts (deposits)	11 640 311	(284 836)	11 355 475	–	(31 508)	(31 508)
Debt securities in issue	1 713 736	–	1 713 736	(359 115)	(6 120)	(365 235)
Liabilities arising on securitisation of own originated loans and advances	477 903	–	477 903	–	–	–
Liabilities arising on securitisation of other assets	850 887	–	850 887	–	–	–
Other liabilities	1 315 999	(198 516)	1 117 483	–	–	–
Subordinated liabilities	678 742	–	678 742	–	–	–
	39 242 436	(19 917 924)	19 324 512	(1 095 865)	(744 676)	(1 840 541)

* *Obligations arising in equity transactions in our prime brokerage business and are legally enforceable and settled net.*

53. Derecognition

Transfers of financial assets that do not result in derecognition

The group has been party to securitisation transactions whereby assets continue to be recognised on balance sheet (either fully or partially) although they have been subject to legal transfer to another entity. Securitisations may, depending on the individual arrangement, result in continued recognition of the securitised assets and the recognition of the debt securities issued in the transaction.

At 31 March £'000	2014 Carrying amount of assets that are continued to be recognised	2014 Carrying amount of associated liabilities	2013 Carrying amount of assets that are continued to be recognised	2013 Carrying amount of associated liabilities
No derecognition achieved				
Loans and advances to customers	837 711	(233 450)	856 891	(30 827)
Other loans and advances	560 461	(181 996)	207 471	(199 617)
Other securitised assets	428 513	(347 234)	501 952	(431 098)
	1 826 685	(762 680)	1 566 314	(661 542)

For transfer of assets in relation to repurchase agreements see note 19.

54. Restatements

Accounting restatements

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

IFRS 10 – Consolidations

The revised standard on consolidation has been applied retrospectively, with the impact to prior reported periods disclosed in the restatement tables below. The application of the single definition of control contained in the standard has resulted in the consolidation of certain special purpose vehicles in which the group has exposure to variable returns (not necessarily the majority thereof) and has the ability to affect such returns by exercising control over the activities of the entity.

IFRS 13 – Fair Value

The new accounting standard has been applied prospectively from 1 April 2013. The standard defines fair value as being a market-based measurement and set out in a single IFRS standard 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.

IAS 19 – Employee Benefits

The revisions to the standard have been applied retrospectively. For the group, the standard has revised the basis on which the return on assets is determined, with no impact for the group.

54. Restatements (continued)

The impact to the comparative balance sheets and income statements are provided in the tables below:

Income statement restatements as a result of the implementation of IFRS 10

£'000	Restated year to 31 March 2013	IFRS 10	As reported year to 31 March 2013
Interest income	814 084	(301)	814 385
Interest expense	(526 414)	131	(526 545)
Net interest income	287 670	(170)	287 840
Fee and commission income	411 001	(7 153)	418 154
Fee and commission expense	(30 563)	1 298	(31 861)
Investment income	68 648	(2 869)	71 517
Trading income arising from:			
– customer flow	57 867	–	57 867
– balance sheet management and other trading activities	13 209	(1 360)	14 569
Other operating income	31 345	–	31 345
Total operating income before impairment losses on loans and advances	839 177	(10 254)	849 431
Impairment losses on loans and advances	(110 403)	–	(110 403)
Operating income	728 774	(10 254)	739 028
Operating costs	(627 772)	–	(627 772)
Depreciation on operating leased assets	(16 072)	–	(16 072)
Operating profit before goodwill and acquired intangibles	84 930	(10 254)	95 184
Impairment of goodwill	(13 409)	–	(13 409)
Amortisation of acquired intangibles	(11 262)	–	(11 262)
Costs arising from integration and restructuring of subsidiaries	(12 462)	–	(12 462)
Operating profit	47 797	(10 254)	58 051
Non-operational costs arising from acquisition of subsidiary	(1 219)	–	(1 219)
Profit before taxation	46 578	(10 254)	56 832
Taxation on operating profit before goodwill	(22 541)	–	(22 541)
Taxation on acquired intangibles and costs of integration and restructuring of subsidiaries	5 853	–	5 853
Profit after taxation	29 890	(10 254)	40 144
Operating loss attributable to non-controlling interests	1 932	–	1 932
Earnings attributable to shareholder	31 822	(10 254)	42 076

54. Restatements (continued)

Consolidated balance sheet

£'000	31 March 2013 As reported	IFRS 10	31 March 2013 Restated
Assets			
Cash and balances at central banks	1 375 654	–	1 375 654
Loans and advances to banks	1 134 074	6 405	1 140 479
Reverse repurchase agreements and cash collateral on securities borrowed	1 528 593	–	1 528 593
Sovereign debt securities	1 660 377	–	1 660 377
Bank debt securities	455 201	–	455 201
Other debt securities	197 695	(8 436)	189 259
Derivative financial instruments	948 028	561	948 589
Securities arising from trading activities	673 763	–	673 763
Investment portfolio	364 762	(31 471)	333 291
Loans and advances to customers	7 745 583	–	7 745 583
Own originated loans and advances to customers securitised	491 194	–	491 194
Other loans and advances	1 803 629	(50 741)	1 752 888
Other securitised assets	767 415	337 615	1 105 030
Interests in associated undertakings	16 989	–	16 989
Deferred taxation assets	112 172	–	112 172
Other assets	1 200 296	1 434	1 201 730
Property and equipment	79 040	7 563	86 603
Investment properties	11 500	–	11 500
Goodwill	326 841	–	326 841
Intangible assets	175 478	–	175 478
	21 068 284	262 930	21 331 214
Liabilities			
Deposits by banks	926 267	71 172	997 439
Derivative financial instruments	817 689	–	817 689
Other trading liabilities	372 762	–	372 762
Repurchase agreements and cash collateral on securities lent	942 396	–	942 396
Customer accounts (deposits)	11 426 647	(71 172)	11 355 475
Debt securities in issue	1 713 736	–	1 713 736
Liabilities arising on securitisation of own originated loans and advances	477 903	–	477 903
Liabilities arising on securitisation of other assets	560 156	290 731	850 887
Current taxation liabilities	82 630	–	82 630
Deferred taxation liabilities	44 945	–	44 945
Other liabilities	1 109 794	7 689	1 117 483
	18 474 925	298 420	18 773 345
Subordinated liabilities	678 742	–	678 742
	19 153 667	298 420	19 452 087
Equity			
Ordinary share capital	1 173 800	–	1 173 800
Share premium	136 268	–	136 268
Capital reserve	162 789	–	162 789
Other reserves	84 647	(37)	84 610
Retained income	361 665	(35 453)	326 212
Shareholder's equity excluding non-controlling interests	1 919 169	(35 490)	1 883 679
Non-controlling interests	(4 552)	–	(4 552)
Total equity	1 914 617	(35 490)	1 879 127
Total liabilities and equity	21 068 284	262 930	21 331 214

54. Restatements (continued)

Consolidated balance sheet (continued)

£'000	31 March 2012 As reported	IFRS 10	31 March 2012 Restated
Assets			
Cash and balances at central banks	1 835 836	–	1 835 836
Loans and advances to banks	863 540	124	863 664
Reverse repurchase agreements and cash collateral on securities borrowed	1 159 138	–	1 159 138
Sovereign debt securities	1 647 271	–	1 647 271
Bank debt securities	824 552	–	824 552
Other debt securities	185 343	–	185 343
Derivative financial instruments	866 408	–	866 408
Securities arising from trading activities	372 570	–	372 570
Investment portfolio	317 313	(27 038)	290 275
Loans and advances to customers	7 176 992	–	7 176 992
Own originated loans and advances to customers securitised	535 008	–	535 008
Other loans and advances	2 067 626	(4 658)	2 062 968
Other securitised assets	640 255	136 973	777 228
Interests in associated undertakings	17 780	–	17 780
Deferred taxation assets	89 490	–	89 490
Other assets	1 116 826	–	1 116 826
Property and equipment	122 702	4 088	126 790
Investment properties	11 500	–	11 500
Goodwill	278 574	–	278 574
Intangible assets	117 525	–	117 525
	20 246 249	109 489	20 355 738
Liabilities			
Deposits by banks	633 024	67 895	700 919
Derivative financial instruments	732 510	–	732 510
Other trading liabilities	271 627	–	271 627
Repurchase agreements and cash collateral on securities lent	1 020 670	–	1 020 670
Customer accounts (deposits)	11 103 365	(67 895)	11 035 470
Debt securities in issue	2 046 651	–	2 046 651
Liabilities arising on securitisation of own originated loans and advances	526 946	–	526 946
Liabilities arising on securitisation of other assets	508 668	138 989	647 657
Current taxation liabilities	57 783	–	57 783
Deferred taxation liabilities	32 487	–	32 487
Other liabilities	943 110	(4 301)	938 809
	17 876 841	134 688	18 011 529
Subordinated liabilities	643 162	–	643 162
	18 520 003	134 688	18 654 691
Equity			
Ordinary share capital	1 070 700	–	1 070 700
Share premium	129 255	–	129 255
Capital reserve	114 128	–	114 128
Other reserves	76 767	–	76 767
Retained income	337 541	(25 199)	312 342
Shareholder's equity excluding non-controlling interests	1 728 391	(25 199)	1 703 192
Non-controlling interests	(2 145)	–	(2 145)
Total equity	1 726 246	(25 199)	1 701 047
Total liabilities and equity	20 246 249	109 489	20 355 738

55. Post-balance sheet events

As announced on 11 April 2014, the board of directors of Investec has entered into a definitive contract with the Bank of Queensland Limited (BOQ) to purchase Investec Bank (Australia) Limited's (IBAL) Professional Finance, Asset Finance and Leasing businesses and its deposit book. The transaction is structured as a sale of IBAL. A total team of over 310 people will be transferring to BOQ. The consideration price has been agreed at an A$210 million premium to tangible net asset value (NAV), for the shares in IBAL. Upon conclusion of the transaction, IBAL will repatriate its entire NAV to Investec Holdings (Australia) Limited. The consideration price for the sale assets is prior to transaction costs and any costs that may arise following the restructure. Furthermore, it is a requirement of the transaction to transfer all non-sale assets and liabilities and contractual agreements out of IBAL prior to conclusion of the sale. The transaction is subject to regulatory approval.

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and accounting estimates that are reasonable and prudent
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the board

David van der Walt
Chief executive officer

20 June 2014

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

We have audited the parent company financial statements of Investec Bank plc for the year ended 31 March 2014 which comprise the balance sheet, the statement of total recognised gains and losses, the accounting policies set out on pages 222 to 228, and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 218, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the parent company financial statements:

- Give a true and fair view of the state of the company's affairs at 31 March 2014
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

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

- Adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- The parent company financial statements are not in agreement with the accounting records and returns, or
- Certain disclosures of directors' remuneration specified by law are not made, or
- We have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the group financial statements of Investec Bank plc for the year ended 31 March 2014.

Ernst & Young LLP

Michael-John Albert
Senior statutory auditor

for and on behalf of Ernst & Young LLP
Statutory Auditor

London
23 June 2014

Notes:

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

Balance sheet

At 31 March £'000	Notes	2014	2013
Assets			
Cash and balances at central banks		1 688 235	1 223 473
Treasury bills and other eligible bills	6	8 322	113 128
Loans and advances to banks	5	1 662 098	2 154 493
Loans and advances to customers	5/7	7 889 185	7 766 252
Debt securities	8	1 355 952	1 756 449
Equity shares	10	311 223	270 371
Interests in associated undertakings	11	9 241	9 286
Shares in group undertakings	12	1 032 199	1 018 560
Investment property	13	–	11 500
Tangible fixed assets	14	21 111	44 454
Derivative assets	22	726 424	844 153
Other assets	15	664 188	813 291
Prepayments and accrued income		8 571	9 337
		15 376 749	16 034 747
Liabilities			
Deposits by banks	5	1 748 166	2 230 217
Customer accounts	5	8 406 232	8 323 600
Debt securities in issue	5	1 273 415	1 351 716
Derivative liabilities	22	625 217	742 994
Trading liabilities – short positions		391 650	372 619
Other liabilities	16	520 687	722 313
Accruals and deferred income		118 776	96 785
		13 084 143	13 840 244
Subordinated liabilities	5/18	632 224	632 229
		13 716 367	14 472 473
Equity			
Ordinary share capital	19	1 186 800	1 173 800
Share premium account		143 288	136 268
Capital reserve		162 789	162 789
Other reserves		(5 986)	(42 690)
Profit and loss account		173 491	132 107
Total shareholder's equity	1	1 660 382	1 562 274
Total liabilities and shareholder's equity		15 376 749	16 034 747

The notes on pages 229 to 244 form an integral part of these annual financial statements.

The directors approved the annual financial statements and authorised them for issue on 20 June 2014.

David van der Walt
Chief executive officer

Statement of total recognised gains and losses

For the year to 31 March £'000	2014	2013
Profit for the year attributable to shareholder	41 270	25 132
Fair value movements on available-for-sale assets	(2 418)	(3 127)
Transfer from revaluation reserve on disposal of investment property	114	–
Currency translation movements	39 236	(15 649)
Total recognised gains relating to the year	78 202	6 356

There was no material difference between the results as reported and the results that would have been reported on an unmodified historical cost basis. Accordingly, no notes of historical cost profits and losses has been included.

Significant accounting policies

Basis of presentation

The bank's financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice and on a going concern basis. The bank's financial statements have been prepared under the historical cost convention, except for those assets and liabilities which are held at fair value in line with accounting standards requirements.

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

Share-based payments to employees

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

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

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

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

Foreign currency transactions and foreign operations

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

Foreign operations are subsidiaries, interests in associated undertakings or branches of the bank, the activities of which are based in a functional currency other than that of the reporting entity. The functional currency of bank 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.

Revenue recognition

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

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

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

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

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

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

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

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

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

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

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

Significant accounting policies (continued)

Interests in subsidiary and associated undertakings

Interests in subsidiary and associated undertakings are stated at cost less any impairment in value.

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 bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the bank 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 take 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 bank 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 bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The bank 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 trade date.

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

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

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

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

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

Held-to-maturity financial assets

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

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

Loans and receivables

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

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

Subsequent to initial recognition, loans and receivables are measured at amortised cost, using the effective interest 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'.

Significant accounting policies (continued)

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

Securitisation/credit investment and trading activities exposures

The bank makes use of securitisation vehicles as a source of finance, as a means of risk transfer and to leverage returns through the retention of equity tranches in low default rate portfolios. The bank predominantly focuses on the securitisation of residential and commercial mortgages. The bank 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 bank'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.

Available-for-sale financial assets

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

Financial assets classified as available-for-sale are measured at fair value with unrealised gains and losses recognised directly in 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 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 one 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 bank would not receive cash flows according to the original contractual terms. Financial assets are assessed for objective evidence of impairment at each balance sheet reporting 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 bank recognises a collective impairment allowance at a central level (within the Specialist Banking business segment) that takes into account macro-economic factors, mainly driven by data related to the prevailing credit markets and which indicate incurred but not specifically identified losses across the loan portfolios (that is, exposures in all business segments). Assets specifically identified as impaired are excluded from the collective assessment.

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

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

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

Significant accounting policies (continued)

Derecognition of financial assets and liabilities

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

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

Reclassification of financial instruments

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

Derivative instruments

All derivative instruments of the bank 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 bank's asset and liability management activities to manage exposures to interest rate and foreign currency risks. Both realised and unrealised profits and losses arising on derivatives are recognised in the income statement as part of trading income (other than circumstances in which cash flow hedging is applied as detailed in the hedge accounting section 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 for trading purposes. Credit derivatives of the bank are initially recognised at their fair values, being the transaction price of the derivative. Subsequently the derivatives are carried at fair value, with movements in fair value through profit and loss, based on the current market price or re-measured price.

Hedge accounting

The bank applies either fair value or cash flow hedge or hedge of net investments in foreign operations accounting when the transactions meet the specified hedge accounting criteria. To qualify for hedge accounting treatment, the bank ensures that all of the following conditions are met:

- At inception of the hedge, the bank formally documents the relationship between the hedging instrument(s) and hedged item(s) including the risk management objectives and the strategy in undertaking the hedge transaction. Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%
- For cash flow hedges, a forecasted transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit and loss
- The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured
- The hedge effectiveness is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

For qualifying fair value hedges, the change in fair value of the hedging instrument is recognised in the income statement. Changes in fair value of the hedged item that is attributable to the hedged risk are also recognised in the income statement.

For qualifying cash flow hedges in respect of non-financial assets and liabilities, the change in fair value of the hedging instrument, relating to the effective portion is initially recognised directly in other comprehensive income in the cash flow hedge reserve and is included in the initial cost of any asset/liability recognised or in all other cases released to the income statement when the hedged firm commitment or forecasted transaction affects net profit. If the forecast transaction or firm commitment is no longer expected to occur, the balance included in other comprehensive income is reclassified to the income statement immediately and recognised in trading income from balance sheet management and other trading activities.

For qualifying cash flow hedges in respect of financial assets and liabilities, the change in fair value of the hedging instrument, which represents an effective hedge, is initially recognised in 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 the statement of total recognised gains and losses while any gains or losses relating to the ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of any such gain or loss recorded in the statement of total recognised gains and losses is reclassified to the income statement.

Hedge accounting is discontinued when it is determined that the instrument ceases to be highly effective as a hedge; when the derivative expires, or is sold, terminated or exercised; when the hedged item matures or is sold or repaid; when a forecasted transaction is no longer deemed highly probable or when the designation as a hedge is revoked.

Significant accounting policies (continued)

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
- 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 bank are classified as liabilities if they contain a contractual obligation to deliver cash or another financial asset.

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

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

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

Sale and repurchase agreements (including securities borrowing and lending)

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

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

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

Financial guarantees

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

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

Instalment credit, leases and rental agreements

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

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

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

Property and equipment

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

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

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

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%
- Leasehold property and 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. Leasehold property depreciation rates are determined by reference to the period of the lease.*

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

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

Significant accounting policies (continued)

Investment property

Properties held by the bank for capital appreciation or rental yield are classified as investment properties. Investment properties are carried on balance sheet at fair value. Changes to the market value of investment properties are taken to the statement of total recognised gains and losses unless a deficit (or its reversal) on an individual investment property is expected to be permanent, in which case it should be charged (or credited) to the profit and loss account of the period.

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

Dealing properties

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

Intangible assets

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

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

Impairment of non-financial assets

At each balance sheet date the bank reviews the carrying value of non-financial assets, other than investment property, 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. Reversals of impairment losses are recognised in income in the period in which the reversals are identified, to the extent that the carrying value of the asset does not exceed the amount that would have been calculated without impairment.

Trust and fiduciary activities

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

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

Taxation and deferred taxation

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

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

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

Deferred tax assets or liabilities are measured using the tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised.

Items recognised directly in the statement of total recognised gains and losses are net of related current and deferred taxation.

Employee benefits

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

In respect of the defined contribution scheme, all employer contributions are charged to income as incurred, in accordance with the rules of the scheme, and included under staff costs.

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

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 bank 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.

Significant accounting policies (continued)

Bank's own profit and loss account

The bank has taken advantage of the exemption in section 408 of the Companies Act 2006 to not present its own profit and loss account.

Cash flow statement

The bank has taken advantage of the exemption in Financial Reporting Standard 1 to not present its own cash flow statement. A cash flow statement, prepared under International Financial Reporting Standards as adopted by the EU, is included in the consolidated financial statements of the bank.

Financial instruments: Disclosures

The bank has taken advantage of the exemption in Financial Reporting Standard 29 to not present its own disclosures in respect of financial instruments as disclosures, prepared in accordance with International Financial Reporting Standard 7, are included in the consolidated financial statements of the bank.

Key management assumptions

In preparation of the annual financial statements the bank 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
- 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
- The bank'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 bank recognises liabilities for taxation based on estimates of levels of taxation expected to be payable, taking into consideration expert external advice where appropriate. The final resolution may result in different amounts of cash flows to those initially provided and any necessary adjustments are taken into consideration in the period in which they are identified
- Determination of interest income and interest expense using the effective interest method involves judgement in determining the timing and extent of future cash flows.

Notes to the financial statements

1. Reconciliation of shareholder's funds and movements in reserves

£'000	Share capital	Share premium account	Capital reserve	Other reserves: Available-for-sale reserves	Other reserves: Revaluation reserve	Other reserves: Foreign currency reserves	Profit and loss account	Total
At 31 March 2012	1 070 700	129 255	114 128	(194)	114	(23 834)	119 475	1 409 644
Retained profit for the year	–	–	–	–	–	–	25 132	25 132
Fair value movements on available-for-sale assets	–	–	–	(3 127)	–	–	–	(3 127)
Foreign currency adjustments	–	–	–	–	–	(15 649)		(15 649)
Total recognised gains/(losses) for the year	–	–	–	(3 127)	–	(15 649)	25 132	6 356
Issue of ordinary shares	103 100	7 013	48 661	–	–	–	–	158 774
Dividends paid to ordinary shareholder	–	–	–	–	–	–	(12 500)	(12 500)
At 31 March 2013	1 173 800	136 268	162 789	(3 321)	114	(39 483)	132 107	1 562 274
Retained profit for the year	–	–	–	–	–	–	41 270	41 270
Fair value movements on available-for-sale assets	–	–	–	(2 418)	–	–	–	(2 418)
Disposal of investment property	–	–	–	–	(114)	–	114	–
Foreign currency adjustments	–	–	–	–	–	39 236	–	39 236
Total recognised gains/(losses) for the year	–	–	–	(2 418)	(114)	39 236	41 384	78 088
Issue of ordinary shares	13 000	7 020	–	–	–	–	–	20 020
At 31 March 2014	1 186 800	143 288	162 789	(5 739)	–	(247)	173 491	1 660 382

Notes to the financial statements (continued)

2. Parent company profit and loss account

No profit and loss account is presented for the bank as permitted by section 408 of the Companies Act 2006 (Act).

The bank's profit for the year, determined in accordance with the Act, was £41 270 000 (2013: £25 132 000).

Audit fees

Details of the bank's audit fees are set out in note 6 to the group financial statements.

3. Directors' emoluments

For the year to 31 March	2014	2013
	£'000	£'000
Aggregate emoluments (excluding pension contributions)	5 152	5 883
Contributions to defined contributions scheme	143	139
	5 295	6 022
	Number	Number
Number of directors in defined contributions scheme	4	5
Number of directors in closed defined benefits scheme	–	–

Included in aggregate emoluments for the current year are performance awards to executive directors. Performance awards comprise £1 048 785 in cash, £95 575 in deferred cash (vesting annually over a three-year period) and £2 505 640 in EVA forfeitable shares (vesting annually over a three-year period). For further details of the deferral of performance awards refer to the remuneration report on pages 118 to 121.

Emoluments of the highest paid director were £2 219 097 (2013: £1 815 608) excluding £41 000 (2013: £40 666) of pension contributions to the defined contribution scheme. The performance awards to the highest paid director comprise £502 800 in cash and £1 297 200 in EVA forfeitable shares (vesting annually over a three-year period).

The directors have, during the year, exercised options granted to them under various of the Investec plc group's long-term incentive plans.

Full details are included in the remuneration report on pages 123 to 125.

Notes to the financial statements (continued)

4. Classification of financial assets and financial liabilities

At 31 March 2014 £'000	At fair value through profit and loss: Trading	At fair value through profit and loss: Designated at inception	Loans and receivables	Available-for-sale	Held to maturity	Financial liabilities at amortised cost	Non-financial instruments	Total
Assets								
Cash and balances at central banks	–	–	1 688 235	–	–	–	–	1 688 235
Treasury bills and other eligible bills	–	–	–	8 322	–	–	–	8 322
Loans and advances to banks	277 952	–	1 384 146	–	–	–	–	1 662 098
Loans and advances to customers	–	249 675	7 599 276	–	40 234	–	–	7 889 185
Debt securities	355 277	155 523	227 739	617 413	–	–	–	1 355 952
Equity shares	148 541	130 577	–	32 105	–	–	–	311 223
Interests in associated undertakings	–	–	–	–	–	–	9 241	9 241
Shares in group undertakings	–	–	–	–	–	–	1 032 199	1 032 199
Investment property	–	–	–	–	–	–	–	–
Tangible fixed assets	–	–	–	–	–	–	21 111	21 111
Derivative assets	726 424	–	–	–	–	–	–	726 424
Other assets	55 289	–	554 938	–	–	–	53 961	664 188
Prepayments and accrued income	–	–	–	–	–	–	8 571	8 571
	1 563 483	535 775	11 454 334	657 840	40 234	–	1 125 083	15 376 749
Liabilities								
Deposits by banks	336 246	–	–	–	–	1 411 920	–	1 748 166
Customer accounts	–	–	–	–	–	8 406 232	–	8 406 232
Debt securities in issue	–	514 606	–	–	–	758 809	–	1 273 415
Derivative liabilities	625 217	–	–	–	–	–	–	625 217
Trading liabilities – short positions	391 650	–	–	–	–	–	–	391 650
Other liabilities	47 637	–	–	–	–	431 440	41 610	520 687
Accruals and deferred income	–	–	–	–	–	–	118 776	118 776
Subordinated liabilities	–	–	–	–	–	632 224	–	632 224
	1 400 750	514 606	–	–	–	11 640 625	160 386	13 716 367

Notes to the financial statements (continued)

4. Classification of financial assets and financial liabilities (continued)

At 31 March 2013 £'000	At fair value through profit and loss Trading	 Designated at inception	Loans and receivables	Available-for-sale	Held to maturity	Financial liabilities at amortised cost	Non-financial instruments	Total
Assets								
Cash and balances at central banks	–	–	1 223 473	–	–	–	–	1 223 473
Treasury bills and other eligible bills	104 568	–	–	8 560	–	–	–	113 128
Loans and advances to banks	321 413	–	1 833 080	–	–	–	–	2 154 493
Loans and advances to customers	–	295 389	7 380 809	–	90 054	–	–	7 766 252
Debt securities	420 656	80 761	203 078	1 051 954	–	–	–	1 756 449
Equity shares	141 143	104 474	–	24 754	–	–	–	270 371
Interests in associated undertakings	–	–	–	–	–	–	9 286	9 286
Shares in group undertakings	–	–	–	–	–	–	1 018 560	1 018 560
Investment property	–	–	–	–	–	–	11 500	11 500
Tangible fixed assets	–	–	–	–	–	–	44 454	44 454
Derivative assets	844 153	–	–	–	–	–	–	844 153
Other assets	430 276	56 556	229 162	–	–	–	97 297	813 291
Prepayments and accrued income	–	–	9 337	–	–	–	–	9 337
	2 262 209	537 180	10 878 939	1 085 268	90 054	–	1 181 097	16 034 747
Liabilities								
Deposits by banks	350 308	–	–	–	–	1 879 909	–	2 230 217
Customer accounts	–	–	–	–	–	8 323 600	–	8 323 600
Debt securities in issue	–	192 463	–	–	–	1 159 253	–	1 351 716
Derivative liabilities	742 994	–	–	–	–	–	–	742 994
Trading liabilities – short positions	372 619	–	–	–	–	–	–	372 619
Other liabilities	436 541	2 366	–	–	–	92 951	190 455	722 313
Accruals and deferred income	–	–	–	–	–	–	96 785	96 785
Subordinated liabilities	–	–	–	–	–	632 229	–	632 229
	1 902 462	194 829	–	–	–	11 455 713	287 240	14 472 473

Notes to the financial statements (continued)

5. Maturity of loans and deposits

At 31 March £'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	>Five years	Total	Balances with group companies
2014									
Assets									
Loans and advances to banks	453 472	816 079	128 358	–	264 189	–	–	1 662 098	266 402
Loans and advances to customers	318 142	241 032	1 035 053	687 886	719 079	2 506 107	2 381 886	7 889 185	1 452 706
	771 614	1 057 111	1 163 411	687 886	983 268	2 506 107	2 381 886	9 551 283	1 719 108
Liabilities									
Deposits by banks	564 326	440 188	112 698	8 268	407 222	189 540	25 924	1 748 166	408 119
Customer accounts	1 415 744	1 016 176	1 367 053	2 547 766	485 992	1 420 146	153 355	8 406 232	741 417
Debt securities in issue	–	–	1 053	–	49 446	598 742	624 174	1 273 415	2 009
Subordinated liabilities	–	–	–	–	–	52 570	579 654	632 224	–
	1 980 070	1 456 369	1 480 804	2 556 034	942 660	2 260 998	1 383 107	12 060 037	1 151 545
2013									
Assets									
Loans and advances to banks	945 348	450 803	419 000	–	–	339 342	–	2 154 493	308 121
Loans and advances to customers	392 855	649 234	488 302	631 966	717 212	2 732 773	2 153 910	7 766 252	1 235 952
	1 338 203	1 100 037	907 302	631 966	717 212	3 072 115	2 153 910	9 920 745	1 544 073
Liabilities									
Deposits by banks	749 137	708 507	41 814	9 153	25 058	696 548	–	2 230 217	437 473
Customer accounts	763 250	721 721	2 199 613	2 550 514	591 156	1 418 495	78 851	8 323 600	432 489
Debt securities in issue	30 827	33 947	90 000	137 436	97 000	530 108	432 398	1 351 716	2 009
Subordinated liabilities	–	–	–	–	–	52 833	579 396	632 229	–
	1 543 214	1 464 175	2 331 927	2 697 103	713 214	2 697 984	1 090 645	12 537 762	871 971

Notes to the financial statements (continued)

At 31 March £'000	2014	2013
6. Treasury bills and other eligible bills		
Trading securities		
Treasury bills	–	104 568
Securities designated as available-for-sale		
Treasury bills	–	–
Other eligible bills – other issuers	8 322	8 560
	8 322	8 560
Total treasury bills and other eligible bills	8 322	113 128
Available-for-sale securities		
At the beginning of the year	8 560	29 328
Purchases	–	8 436
Maturities	–	(29 432)
Movement in fair value during the year	(47)	47
Exchange adjustments	(191)	181
Fair value at the end of the year	8 322	8 560

Treasury bills and other eligible bills are unlisted, mainly short term in maturity, and have a book value not materially different from market value.

At 31 March £'000	2014	2013
7. Customer accounts		
Total loans and advances to customers	7 889 185	7 769 634
Less: trading book loans and cash equivalent debtors	–	(3 382)
	7 889 185	7 766 252
Category analysis		
Private client	3 379 356	2 656 976
Corporate and public sector	3 265 189	3 598 227
Other	1 452 706	1 716 756
	8 097 251	7 971 959
Specific impairment	(177 571)	(186 969)
Portfolio impairment	(30 495)	(18 738)
	7 889 185	7 766 252
Specific and portfolio impairments		
Reconciliation of movements in specific and portfolio impairments for bad and doubtful debts:		
Specific impairment		
At the beginning of the year	186 969	167 278
Charge to the income statement	50 095	100 614
Utilised	(58 319)	(72 683)
Exchange adjustments	(1 174)	(8 240)
At the end the of the year	177 571	186 969
Portfolio impairment		
At the beginning of the year	18 738	6 836
Charge to the income statement	11 945	11 824
Exchange adjustments	(188)	78
At the end of the year	30 495	18 738

Notes to the financial statements (continued)

At 31 March £'000	2014	2013
8. Debt securities		
Unlisted debt securities		
– designated as held for trading or designated as held at fair value through profit and loss	510 800	501 417
– held at amortised cost	227 739	203 078
	738 539	704 495
Securities designated as available-for-sale		
Other unlisted debt securities	617 413	1 051 954
	617 413	1 051 954
Total debt securities	1 355 952	1 756 449
The cost of trading securities has not been disclosed as it cannot be determined without unreasonable expense.		
Available-for-sale securities		
At the beginning of the year	1 051 954	982 974
Additions	119 860	2 122 401
Sold/matured	(520 101)	(2 060 830)
Exchange adjustments	(2 866)	30
Movement in fair value during the year	(31 434)	7 379
At the end of the year	617 413	1 051 954

9. Securitisation

The bank has entered into one transaction during the year in which, in the normal course of business, it has transferred a £397 million portfolio of financial assets (2013: £ nil) directly to a special purpose entity but where the financial assets transferred do not qualify for derecognition and the assets continue to be disclosed on the face of the balance sheet.

Notes to the financial statements (continued)

At 31 March £'000	2014	2013
10. Equity shares		
Trading securities and securities designated at fair value through profit and loss		
Listed	172 331	144 420
Unlisted	106 787	101 197
	279 118	245 617
Securities designated as available-for-sale		
Listed	3 458	2 243
Unlisted	28 647	22 511
	32 105	24 754
Total equity shares	311 223	270 371

The cost of trading securities has not been disclosed as it cannot be determined without unreasonable expense.

Available-for-sale securities	2014	2013
At the beginning of the year net of provisions	24 754	22 852
Additions	13 374	9 162
Disposals	(2 840)	(65)
Exchange adjustments	(1 442)	1 192
Movement in fair value during the year	(1 741)	(8 387)
Fair value at the end of the year	32 105	24 754

At 31 March £'000	2014	2013
11. Interests in associated undertakings		
Analysis of the movement in investment		
At the beginning of the year	11 609	11 588
Disposal	–	(5)
Exchange adjustments	(45)	26
At the end of the year	11 564	11 609
Provision for impairment in value		
At the beginning of the year	(2 323)	(2 328)
Disposal	–	5
At the end of the year	(2 323)	(2 323)
Net book value at the end of the year	9 241	9 286

The associated undertakings are unlisted.

Notes to the financial statements (continued)

At 31 March £'000	2014	2013
12. Shares in group undertakings		
Cost		
At the beginning of the year	1 067 819	940 664
Transfer	–	35 000
Liquidation of subsidiaries	(1 458)	(66 276)
Recapitalisation of subsidiaries	31 423	158 431
At the end of the year	1 097 784	1 067 819
Provision for impairment in value		
At the beginning of the year	(49 259)	(32 259)
New impairments	(17 462)	(17 000)
Liquidation of subsidiaries	598	–
Release of impairment	538	–
At the end of the year	(65 585)	(49 259)
Net book value at the end of the year	1 032 199	1 018 560

All subsidiary undertakings are unlisted.

At 31 March £'000	2014	2013
13. Investment property		
Investment property	–	11 500

At 31 March £'000	Leasehold improvements	Furniture and vehicles	Computer equipment	Operating leases	Total
14. Tangible fixed assets					
Cost or valuation					
At the beginning of the year	30 462	5 275	31 661	53 908	121 306
Additions	–	–	2 250	–	2 250
Disposals	–	–	–	(29 880)	(29 880)
At the end of the year	30 462	5 275	33 911	24 028	93 676
Accumulated depreciation and amortisation					
At the beginning of the year	(16 634)	(4 589)	(27 037)	(28 592)	(76 852)
Disposals	–	–	–	16 545	16 545
Charge for the year	(2 421)	(162)	(3 631)	(6 044)	(12 258)
At the end of the year	(19 055)	(4 751)	(30 668)	(18 091)	(72 565)
Net book value at 31 March 2014	11 407	524	3 243	5 937	21 111
Net book value at 31 March 2013	13 828	686	4 624	25 316	44 454

Notes to the financial statements (continued)

At 31 March £'000	2014	2013
15. Other assets		
Settlement debtors	549 776	602 808
Trading initial margin	426	60 650
Deferred tax asset (note 17)	28 420	32 773
Dealing properties	10 221	2 773
Deferred consideration	38 569	56 556
Other debtors	36 776	57 731
	664 188	813 291

Dealing properties are recorded at the lower of cost or selling price less cost to sell.

At 31 March £'000	2014	2013
16. Other liabilities		
Settlement creditors	406 165	612 735
Corporation and other taxes	60 236	56 056
Trade creditors and maintenance liabilities arising from operating leased assets	39 882	39 892
Other creditors and accruals	14 404	13 630
	520 687	722 313

At 31 March £'000	2014	2013
17. Deferred tax		
Deferred tax asset		
Deferred capital allowances	9 192	6 178
Arising from unexpired share options	14 172	22 469
Income and expenditure accruals	2 131	973
Losses carried forward	2 925	3 153
	28 420	32 773
Deferred tax liability	–	–
Net deferred tax asset	28 420	32 773
Reconciliation of net deferred tax asset:		
At the beginning of the year	32 773	28 987
Credit to profit and loss	(4 259)	3 786
Other movement	(94)	–
At the end of the year	28 420	32 773

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

The Finance Act 2013 reduced the main rate of corporate taxation to 21% with effect from 1 April 2014 and to 20% with effect from 1 April 2015. The effect of these reductions is reflected in the above calculation as the rate was substantively enacted before 31 March 2014.

Notes to the financial statements (continued)

At 31 March £'000	2014	2013
18. Subordinated liabilities		
Dated subordinated debt		
Medium-term subordinated notes	579 653	579 396
Subordinated loans	52 571	52 833
	632 224	632 229
Remaining maturity		
In one year or less, or on demand	–	–
In more than one year, but not more than two years	33 979	–
In more than two years, but not more than five years	18 592	52 833
In more than five years	579 653	579 396
	632 224	632 229

Subordinated loans

Medium-term notes

On 17 February 2011 Investec Bank plc issued £500 000 000 of 9.625% subordinated notes due 2022 at a discount. Interest is paid annually. The notes are listed on the London Stock Exchange. The notes will be redeemed at par on 17 February 2022.

On 29 June 2011 Investec Bank plc issued £75 000 000 of 9.625% subordinated notes due 2022 at a premium. These notes were consolidated to form a single series, and are fungible, with the £500 000 000 2022 notes issued on 17 February 2011.

Subordinated loans

The net proceeds of two issues of step-up notes by a subsidiary of the bank, Investec Finance plc, have been on-lent to the bank on a subordinated basis.

The terms of the step-up notes, which are guaranteed by the bank, are detailed in note 40 to the consolidated financial statements of the bank.

At 31 March	2014	2013
19. Ordinary share capital		
Authorised		
The authorised share capital is £2 000 million (2013: £2 000 million) comprising 2 000 million ordinary shares of £1 each (2013: 2 000 million shares of £1 each).		
Issued, allotted and fully paid		
Number of ordinary shares	Number	Number
At the beginning of the year	1 173 800 000	1 070 700 000
Issued during the year	13 000 000	103 100 000
At the end of the year	1 186 800 000	1 173 800 000
Nominal value of ordinary shares	£'000	£'000
At the beginning of the year	1 173 800	1 070 700
Issued during the year	13 000	103 100
At the end of the year	1 186 800	1 173 800

The unissued shares are under the control of the directors until the next annual general meeting.

Notes to the financial statements (continued)

At 31 March £'000	2014	2013
20. Commitments		
Undrawn facilities and other commitments	526 229	403 254

The bank has entered into loan commitments in the normal course of its banking business.

At 31 March £'000	2014	2013
21. Contingent liabilities		
Guarantees and irrevocable letters of credit	181 127	179 031

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

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

A subsidiary of the bank, Investec Finance plc, has issued both medium-term notes and other debt securities. The proceeds of these issues have been placed on deposit with the bank.

The bank has issued a guarantee to the holders of these notes. The amount of these guarantees is supported by, and limited to, the amount of the cash deposits.

Financial Services Compensation Scheme

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

The FSCS raises annual levies from participating members to meet its management expenses and compensation costs. Individual participating members make payments based on their level of participation (in the case of deposits, the proportion that their protected deposits represent of total protected deposits) at 31 December of the year preceding the scheme year.

Following the default of a number of deposit-takers in 2008, the FSCS has borrowed from HM Treasury to fund the compensation costs for customers of those firms. Although the majority of this loan is expected to be repaid from funds the FSCS receives from asset sales, surplus cash flow or other recoveries in relation to the assets of the firms that defaulted, any shortfall will be funded by deposit-taking participants of the FSCS.

Investec Bank plc is a participating member of the FSCS and the bank has accrued £5.0 million for its share of levies that will be raised by the FSCS. The accrual is based on estimates for the interest the FSCS will pay on the loan and estimates of the level of the bank's market participation in the relevant periods. Interest will continue to accrue to the FSCS on the HM Treasury loan and will form part of future FSCS levies.

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

Legal proceedings

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

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

Notes to the financial statements (continued)

22. Derivatives

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

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

	2014			2013		
At 31 March £'000	Notional principal amounts	Positive fair value	Negative fair value	Notional principal amounts	Positive fair value	Negative fair value
Foreign exchange derivatives						
Forward foreign exchange	2 220 992	19 000	10 012	2 444 825	25 804	23 967
Currency swaps	7 071 720	80 068	71 921	7 302 287	92 027	138 772
OTC options bought and sold	2 690 830	41 091	40 219	2 195 452	19 738	18 701
Other foreign exchange contracts	–	–	–	118 305	6	2 514
	11 983 542	140 159	122 152	12 060 869	137 575	183 954
Interest rate derivatives						
Caps and floors	501 180	4 585	7 260	631 803	5 401	2 898
Swaps	13 255 755	158 461	58 985	12 580 564	205 538	130 756
Forward rate agreements	204 587	13	13	209 269	6	22
Other interest rate contracts	–	–	–	161 898	3 556	–
	13 961 522	163 059	66 258	13 583 534	214 501	133 676
Equity and stock index derivatives						
OTC options bought and sold	2 051 165	33 556	93 781	2 343 310	25 491	66 391
Equity swaps and forwards	177 105	3 832	77	192 602	7 128	17 729
OTC derivatives	2 228 270	37 388	93 858	2 535 912	32 619	84 120
Exchange traded futures	1 748 014	38 532	75 664	1 638 550	71 047	4 683
Exchange traded options	4 789 428	119 093	158 046	5 446 811	147 079	171 468
Warrants	–	–	–	6 578	–	–
	8 765 712	195 013	327 568	9 627 851	250 745	260 271
Commodity derivatives						
OTC options bought and sold	–	–	–	15 721	477	107
Commodity swaps and forwards	480 839	103 520	103 234	543 912	161 140	161 259
	480 839	103 520	103 234	559 633	161 617	161 366
Credit derivatives	367 849	13 100	6 005	200 075	8 361	3 727
Embedded derivatives		111 573	–		71 354	–
Derivatives per balance sheet		726 424	625 217		844 153	742 994

23. Hedges

Fair value hedges

At 31 March £'000	Description of financial instrument designated as hedging instrument	Fair value of hedging instrument	Cumulative gains/(losses) on hedging instrument	Current year gains/(losses) on hedging instrument	Cumulative gains/(losses) on hedged item	Current year gains/(losses) on hedged item
2014						
Assets	Interest rate swap	(1 995)	(1 995)	35 782	(3 756)	(35 879)
Liabilities	Interest rate swap	5 253	5 253	(7 593)	(5 172)	8 421
		3 258	3 258	28 189	(8 928)	(27 458)
2013						
Assets	Interest rate swap	(39 019)	(39 454)	(18 714)	32 880	11 737
	Cross-currency swap	12 118	12 118	(4 671)	(12 925)	4 372
Liabilities	Interest rate swap	(2 513)	(2 513)	(655)	2 533	841
		(29 414)	(29 849)	(24 040)	22 488	16 950

Hedge of net investment in foreign operations

The bank has entered into foreign exchange contracts to hedge a portion of the exposure of the bank's balance sheet to its net investment, in Australian Dollars, in its Australian subsidiary group. The change in fair value of the hedge has been recorded as currency translation movements within the statement of total recognised gains and losses.

24. Related party transactions

At 31 March £'000	2014	2013
Transactions, arrangements and agreements involving directors, key management and connected persons and companies controlled by them:		
Loans		
At the beginning of the year	33 403	24 412
Increase in loans	1 058	19 371
Repayment of loans	(9 096)	(10 380)
At the end of the year	25 365	33 403
Guarantees		
At the beginning of the year	4 591	–
Additional guarantees granted	4 409	4 591
Guarantees cancelled	(4 591)	–
At the end of the year	4 409	4 591
Deposits		
At the beginning of the year	(23 436)	(17 107)
Increase in deposits	(20 310)	(22 666)
Decrease in deposits	16 588	16 337
Exchange adjustment	639	–
At the end of the year	(26 519)	(23 436)

The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment.

None of the loans have been impaired.

Transactions with other related parties of the group

As the bank is a 100% subsidiary undertaking, and consolidated financial statements for its ultimate parent, Investec plc, are publicly available, group transactions have not been disclosed pursuant to exemptions permitted in Financial Reporting Standard 8.

Notes to the financial statements (continued)

25. Reclassifications

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

The bank did not undertake any further reclassifications in the current year.

26. Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent

At 31 March £'000	2014	2013
Assets		
Reverse repurchase agreements	962 544	1 133 514
Cash collateral on securities borrowed	111 070	138 105
	1 073 614	1 271 619

As part of the reverse repurchase and securities borrowing agreements, the bank has received securities that it is allowed to sell or pledge. £603 million (2013: £395 million) of securities has been resold or repledged to third parties in connection with financing activities or to comply with commitments under short sale transactions.

At 31 March £'000	2014	2013
Liabilities		
Repurchase agreements	525 588	843 301
Cash collateral on securities lent	89 145	100 598
	614 733	943 899
Reverse repurchase agreements and cash collateral on securities borrowed are reported within the following balance sheet categories:		
Loans and advances to banks	1 073 614	1 268 237
Loans and advances to customers	–	3 382
	1 073 614	1 271 619
Repurchase agreements and cash collateral on securities lent are reported within the following balance sheet categories:		
Deposits by banks	614 733	932 254
Customers accounts	–	11 645
	614 733	943 899

27. Ultimate parent undertaking

The bank's immediate parent undertaking is Investec 1 Limited.

The bank's ultimate parent undertaking and controlling party is Investec plc, a company incorporated in the UK and registered in England and Wales, which is the smallest and largest company into which the bank is consolidated.

The consolidated financial statements of Investec plc are available to the public and may be obtained from Investec plc at 2 Gresham Street London EC2V 7QP.

28. Principal subsidiary undertakings

At 31 March £'000	Principal activity	Country of incorporation	Interest % 2014	Interest % 2013
Direct subsidiary undertakings of Investec Bank plc				
Investec Asset Finance plc	Leasing	England and Wales	100.0%	100.0%
Investec Bank (Channel Islands) Limited	Banking institution	Guernsey	100.0%	100.0%
Investec Bank (Switzerland) AG	Banking institution	Switzerland	100.0%	100.0%
Investec Capital Asia Limited	Investment banking	Hong Kong	100.0%	100.0%
Investec Finance plc	Debt issuer	England and Wales	100.0%	100.0%
Investec Group Investments (UK) Limited	Investment holding	England and Wales	100.0%	100.0%
Investec Holdings (Australia) Limited	Holding company	Australia	100.0%	100.0%
Investec Investments (UK) Limited	Investment holding	England and Wales	100.0%	100.0%
Rensburg Sheppards plc	Holding company	England and Wales	100.0%	100.0%
Indirect subsidiary undertakings of Investec Bank plc				
Investec Asset Finance & Leasing (Pty) Ltd	Leasing	Australia	100.0%	100.0%
Investec Bank (Australia) Limited	Banking institution	Australia	100.0%	100.0%
Investec Capital and Investments (Ireland) Limited	Financial services	Ireland	100.0%	100.0%
Investec Ireland Limited	Financial services	Ireland	100.0%	100.0%
Investec Professional Finance (Pty) Ltd	Financial services	Australia	100.0%	100.0%
Investec Trust (Jersey) Limited	Trust company	Jersey	–	100.0%
Invested Trust (Switzerland) SA	Trust company	Switzerland	–	100.0%
Investec Wealth & Investments Limited	Stockbroking and portfolio management	England and Wales	100.0%	100.0%
Lease Direct Finance Limited	Finance brokers	England and Wales	–	100.0%
Williams de Broë Limited	Stockbroking and portfolio management	England and Wales	100.0%	100.0%

All of the above subsidiary undertakings are included in the consolidated annual financial statements.

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Refer to page 114.

For contact details for Investec offices refer to page 245.

For queries regarding information in this document

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