Annual Report

Out of the Ordinary®

Investec

2014 | Investec plc silo (excluding Investec Limited) annual financial statements

Get the most out of our report

Cross-referencing tools:

Audited information

Denotes information in the risk and remuneration reports that form 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

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One

Investec plc
in perspective

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

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

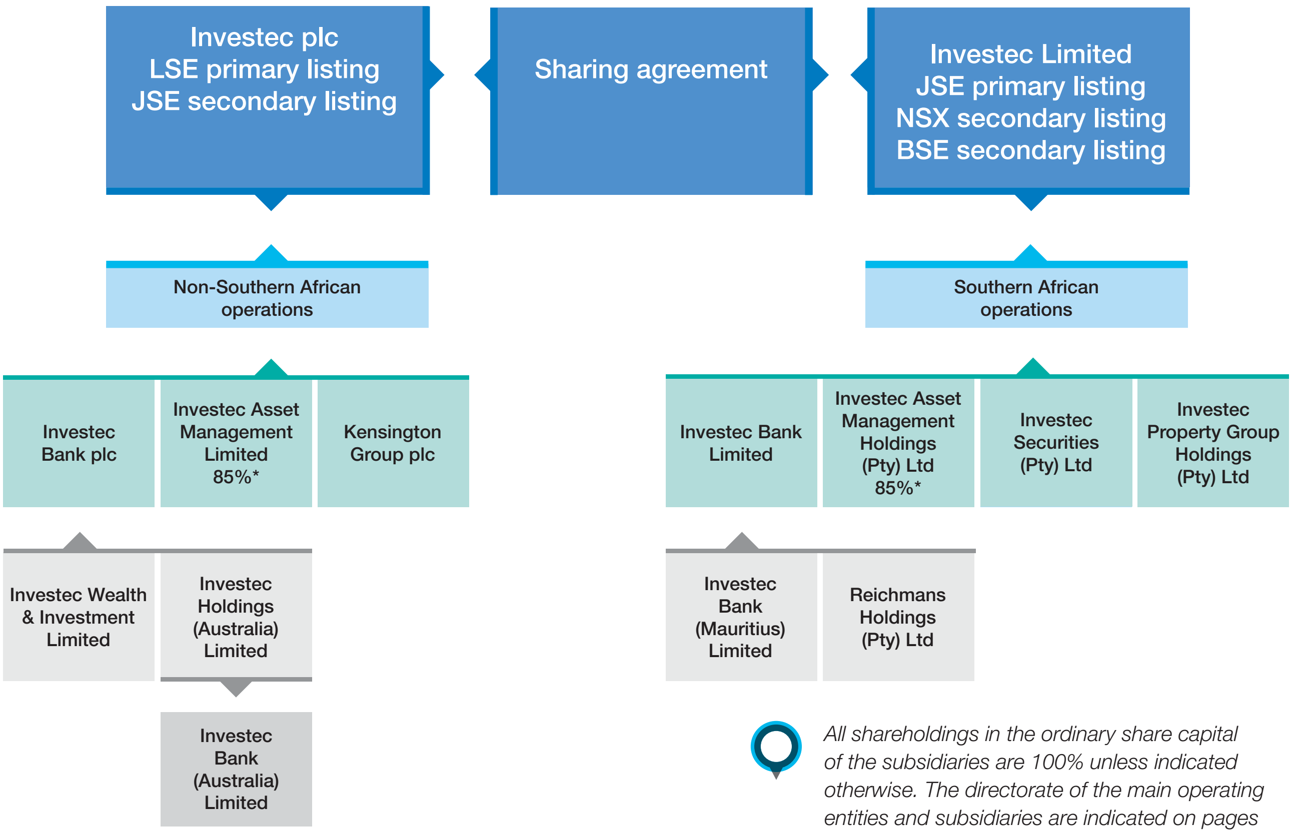
Operating structure

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

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

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

Our DLC structure and main operating subsidiaries at 31 March 2014



All shareholdings in the ordinary share capital of the subsidiaries are 100% unless indicated otherwise. The directorate of the main operating entities and subsidiaries are indicated on pages 125 and 126 as well as on our website.

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

Salient features of the DLC structure

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

Overview of the activities of Investec plc

What we do. . . Asset Management

Our only business is to manage money on behalf of third parties

We aim to do this to the highest possible standard by exceeding the investment and client service expectations of our clients

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

We manage money for clients from right around the world. Our clients include sovereign wealth funds, central banks, many of the world's largest private and public sector pension funds, financial groups and foundations, as well as advisers and those who they serve.

Our investment team of 177 professionals is organised around seven core capabilities. Our client group is organised in five geographically defined units, serving our target clients around the globe. We have a centralised operations platform supporting these activities.

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.

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, active wealthy entrepreneurs, high income professionals, owner managers in mid-market companies and sophisticated investors.

Integrated systems and infrastructure

Our operational footprint

Asset Management value proposition

- Organically built an independent global platform from an emerging market base
- Independently managed entity within the Investec group
- Competitive investment performance in chosen specialities
- Global approach:
  – global investing
  – global client base
  – global operations platform
- Institutional and adviser focus
- Unique and clearly understood culture
- Stable and experienced leadership:
  – executive committee: average tenure of 20 years
  – top 30 leaders: average tenure of 15 years.

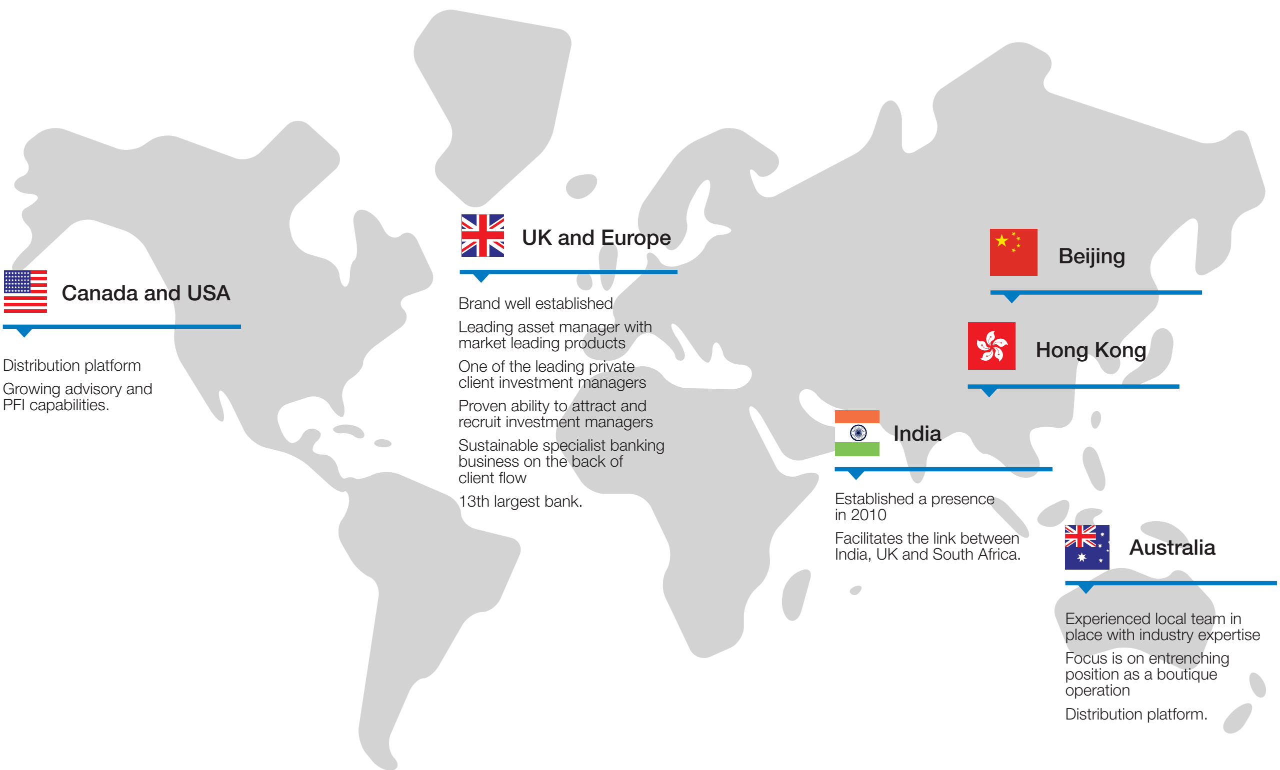
Wealth & Investment value proposition

- 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.*213 000
- Total high income and high net worth clients: *c.*68 000.

Where we operate



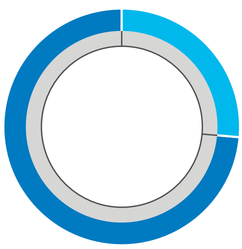
Highlights

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

The Asset Management and Wealth & Investment businesses reported solid results benefiting from higher levels of average funds under management and net inflows. The Specialist Banking business reported a significant increase in operating profit, largely due to lower impairments

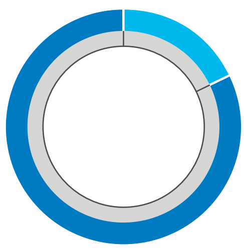
Operating profit before taxation* increased 35.8% to £154.4 million
(2013: £113.7 million)

Contribution to operating profit before taxation*



31 March 2014

Specialist Banking	26.4%
Asset Management and Wealth Management business	73.6%



31 March 2013

Specialist Banking	18.0%
Asset Management and Wealth Management business	82.0%

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

Our financial performance

Investec plc recorded a 0.5% increase in total operating income

2013	2014
£1 167.8mn	£1 174.2mn

Earnings attributable to ordinary shareholders increased 67.2%

2013	2014
£54.6mn	£91.2mn

Improving credit loss ratio

2013	2014
1.16%	0.99%

Cash and near cash balances decreased 6.1%

2013	2014
£4 605mn	£4 324mn

Our financial performance

Core loans and advances remained flat

2013	2014
£8 250mn	£8 222mn

Customer deposits decreased 2.1%

2013	2014
£11 191mn	£10 956mn

Third party assets under management increased 3.9%

2013	2014
£66 623mn	£69 212mn

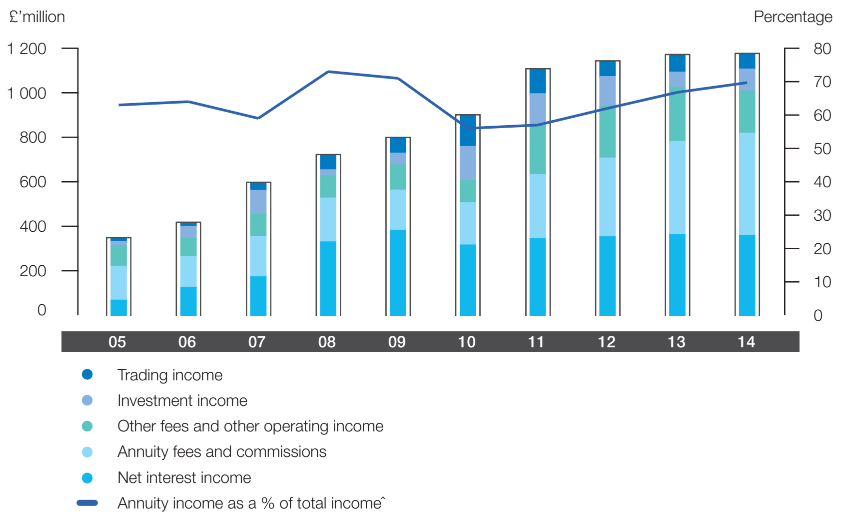
Low gearing ratios

2013	2014
10.7 times	10.0 times

Other financial features

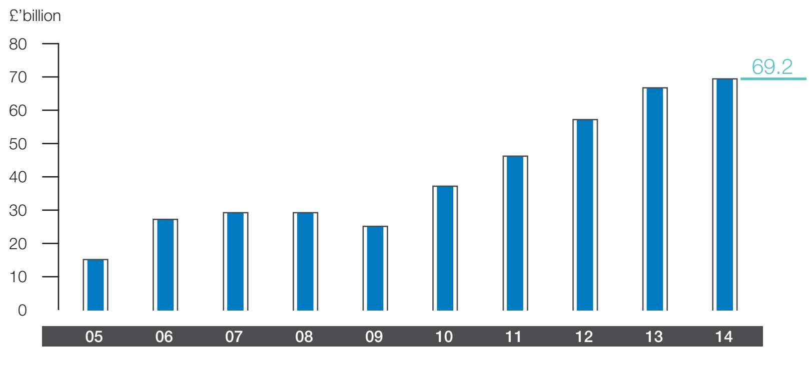
£'000	31 March 2014	31 March 2013	% change
Total capital resources (including subordinated liabilities)	3 006 706	2 972 008	1.2%
Total shareholders' equity	2 265 756	2 224 763	1.8%
Total assets	22 674 494	24 351 760	(6.9%)

Total operating and annuity income^



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

Momentum in building our third party assets under management continues



We have realigned our business model by building capital light revenues

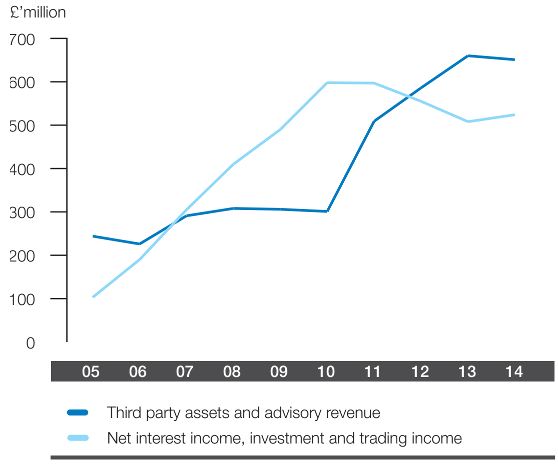
Sustainable business model

Capital light businesses

£651 million
55% of total revenue

Net fees and commissions of
£635 million
54% of total

Other of
£16 million
1% of total



Capital intensive businesses

£524 million
45% of total revenue

Net interest income of
£357 million
30% of total

Investment income of
£99 million
9% of total

Trading income of
£68 million
6% of total

Third party asset management and advisory revenue

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

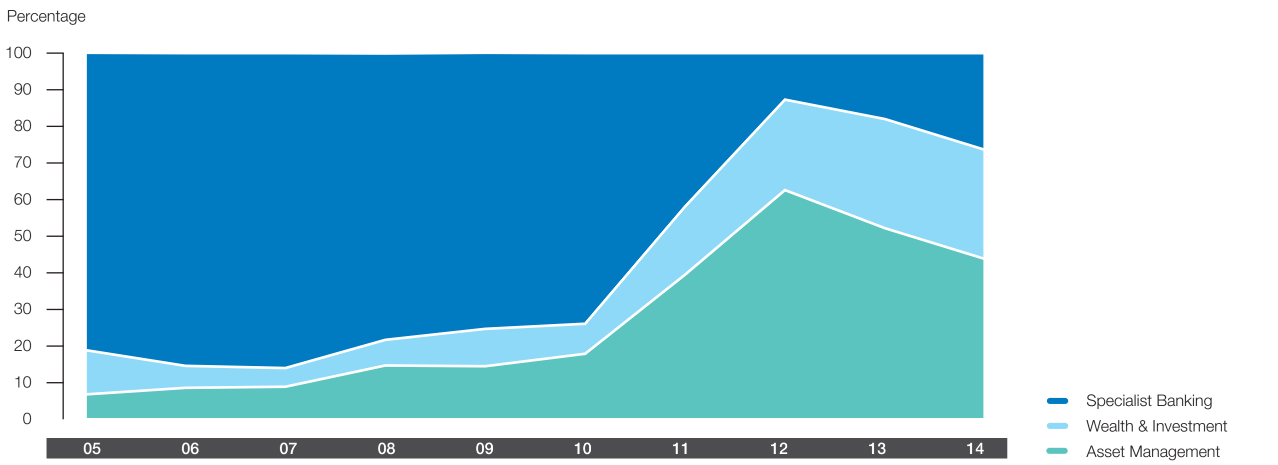
- **Containing costs**
- **Maintaining credit quality**
- **Strictly managing risk and liquidity**

Net interest income, investment income and trading income

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

Three distinct business areas supporting a large recurring revenue base amounting to 69.7% of operating income

Contribution to operating profit before taxation*

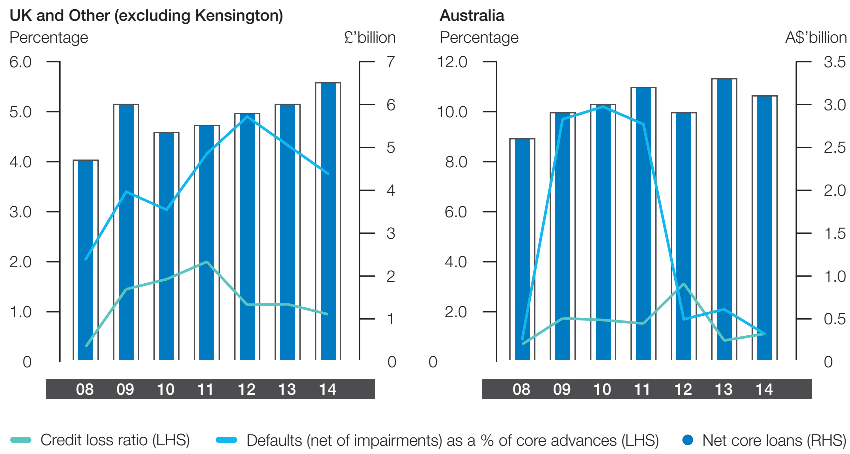


* *Before goodwill, acquired intangibles, non-operating items and after other non-controlling interests.*

Credit quality on loans and advances has improved

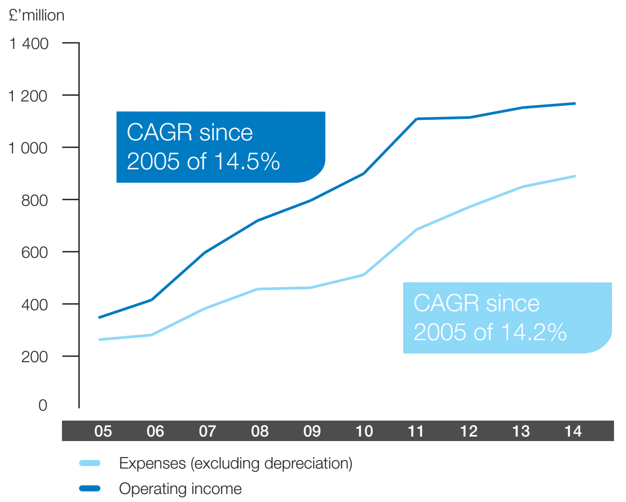
- Default loans (net of impairments) as a percentage of core loans and advances decreased from 3.75% to 3.21%
- Impairments have decreased significantly since 31 March 2013, with a substantial improvement reported in the UK business
- The credit loss ratio on core loans improved from 1.16% to 0.99%
- Net defaults (after impairments) remain adequately collateralised.

Asset quality trends

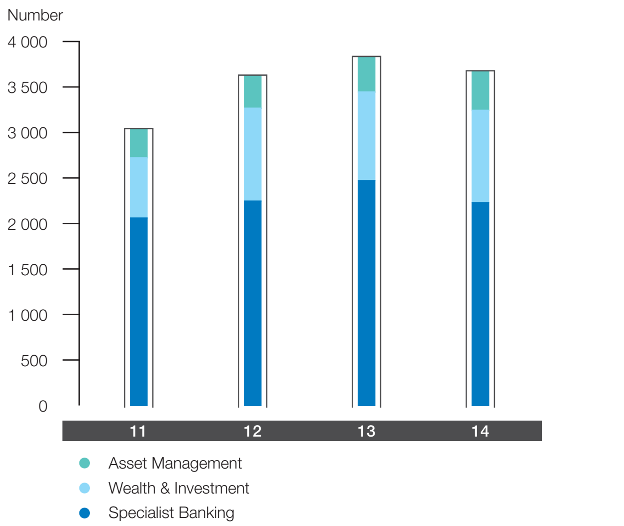


Marginal increase in fixed costs…mainly as a result of growth in the Asset Management and Wealth & Investment businesses

Cost to income ratio 76.2% (2013: 73.7%)



Headcount* relatively stable



* *Permanent headcount.*

Stable capital and liquidity principles maintained

Continue to focus on:

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

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

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

Investec has maintained a stable capital base

A well established liquidity management philosophy remains in place

We have a stable retail deposit franchise

Advances as a percentage of customer deposits is at 71.0% (2013: 69.3%)

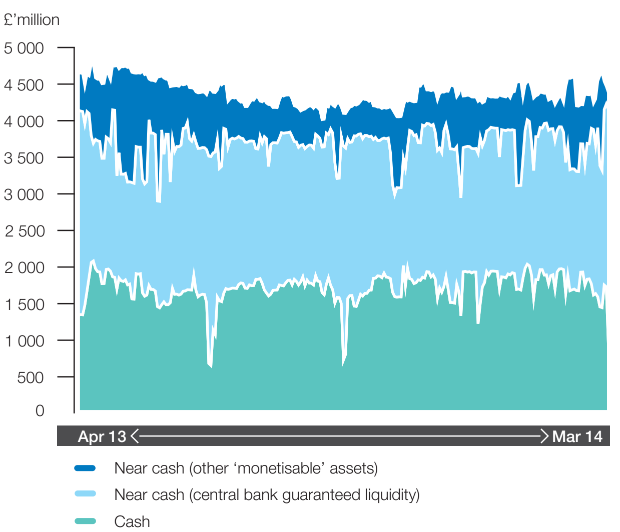
Capital adequacy and tier 1 ratios

	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 plc	14.9%	10.0%	8.3%	16.7%	11.0%	8.8%

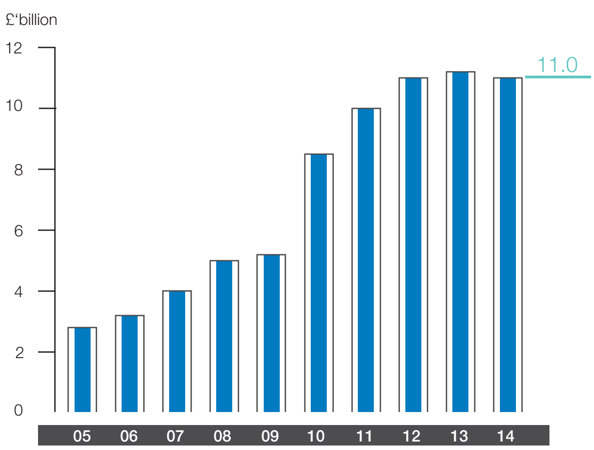
^ *Takes into account the deduction of foreseeable dividends as discussed on page 114.*

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 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 since

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 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, Taiwan and the USA. We are organised as a network comprising three principal business divisions: Asset Management, Wealth & Investment and Specialist Banking

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

Specialist Banking

Asset Management

Key income drivers	Income impacted primarily by
• Fixed fees as a percentage of assets under management • Variable performance fees	• Movements in the value of the assets underlying client portfolios • Performance of portfolios against set benchmarks • Net flows
Income statement – primarily reflected as	
• Fees and commissions	

Wealth & Investment

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

Key income drivers	Income impacted primarily by	Income statement – primarily reflected as
• Lending activities	• 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

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.

38 – 67

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

96 – 101

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

100 – 101

Legal and regulatory risks are substantial in our businesses.

89 – 96

Liquidity risk may impair our ability to fund our operations.

101

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.

96 – 101

Reputational, strategic and **business risk.**

86 – 89

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

96 – 101

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

100

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

68 – 84

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

101 – 116

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

96 – 101

Employee misconduct could cause harm that is difficult to detect.

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

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

13 – 15

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

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.

Financial Review

02

Overview

Investec plc reported a 35.8% increase in operating profit before non-operating items and taxation and after other non-controlling interests to £154.4 million for the year ended 31 March 2014 (2013: £113.7 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 £1 174 million is 0.5% 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	356 734	30.4%	360 815	30.9%	(1.1%)
Net fee and commission income	634 571	54.0%	623 500	53.4%	1.8%
Investment income	99 099	8.4%	70 751	6.1%	40.1%
Trading income arising from					
– customer flow	77 043	6.6%	58 103	5.0%	32.6%
– balance sheet management and other trading activities	(9 308)	(0.8%)	18 015	1.5%	(151.7%)
Other operating income	16 013	1.4%	36 590	3.1%	(56.2%)
Total operating income before impairment losses on loans and advances	1 174 152	100.0%	1 167 774	100.0%	0.5%

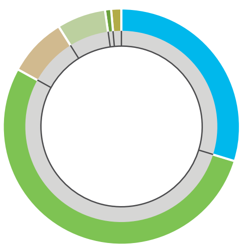
* Restated.

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
Asset Management	242 796	20.7%	222 035	19.0%	9.4%
Wealth & Investment	228 825	19.5%	195 490	16.7%	17.1%
Specialist Banking	702 531	59.8%	750 249	64.2%	(6.4%)
Total operating income before impairment losses on loans and advances	1 174 152	100.0%	1 167 774	100.0%	0.5%

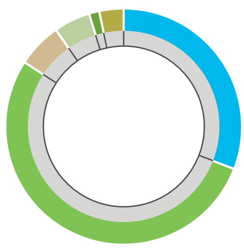
* Restated.

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



31 March 2014
£1 174.2 million total operating income before impairment losses on loans and advances

Net interest income	30.4%
Net fee and commission income	54.0%
Investment income	8.4%
Trading income arising from customer flow	6.6%
Trading income arising from balance sheet management and other trading activities	(0.8%)
Other operating income	1.4%



31 March 2013*
£1 167.8 million total operating income before impairment losses on loans and advances

Net interest income	30.9%
Net fee and commission income	53.4%
Investment income	6.1%
Trading income arising from customer flow	5.0%
Trading income arising from balance sheet management and other trading activities	1.5%
Other operating income	3.1%

Net interest income

Net interest income decreased by 1.1% to £356.7 million (2013: £360.8 million) largely due to a lower return earned on certain higher yielding assets and on the legacy portfolios which are running down. This was partially offset by loan book growth and lower cost of funding.

£'000	31 March 2014	31 March 2013*	Variance	% change
Asset Management	277	492	(215)	(43.7%)
Wealth & Investment	7 987	10 293	(2 306)	(22.4%)
Specialist Banking	348 470	350 030	(1 560)	(0.4%)
Net interest income	356 734	360 815	(4 081)	(1.1%)

* Restated.

For a further analysis of interest received and interest paid refer to page 162.

Net fee and commission income

Net fee and commission income increased by 1.8% to £634.6 million (2013: £623.5 million) as a result of higher average funds under management and net inflows in the Asset Management and Wealth & Investment businesses. The Specialist Banking business recorded a decrease in net fees and commissions due to lower corporate fees earned, however, pipelines remain sound.

£'000	31 March 2014	31 March 2013*	Variance	% change
Asset Management	244 962	217 266	27 696	12.7%
Wealth & Investment	217 414	183 503	33 911	18.5%
Specialist Banking	172 195	222 731	(50 536)	(22.7%)
Net fee and commission income	634 571	623 500	11 071	1.8%

* Restated.

For a further analysis on net fee and commission income refer to page 163.

Investment income

Investment income increased by 40.1% to £99.1 million (2013: £70.8 million) as a result of the solid performance of the principal investment portfolio.

£'000	31 March 2014	31 March 2013*	Variance	% change
Asset Management	–	–	–	–
Wealth & Investment	1 875	555	1 320	>100.0%
Specialist Banking	97 224	70 196	27 028	38.5%
Investment income	99 099	70 751	28 348	40.1%

* Restated.

For a further analysis on investment income refer to page 164.

Trading income

Trading income from customer flow increased 32.6% to £77.0 million (2013: £58.1 million) whilst trading income from other trading activities reported a loss for the current period of £9.3 million (2013: profit of £18.0 million) largely due to the buy-back of subordinated debt and forex losses. In addition gains arising from the sale of bonds in the prior year were not repeated in the current period.

Arising from customer flow

£'000	31 March 2014	31 March 2013*	Variance	% change
Asset Management	–	–	–	–
Wealth & Investment	389	361	28	7.8%
Specialist Banking	76 654	57 742	18 912	32.8%
Trading income arising from customer flow	77 043	58 103	18 940	32.6%

* *Restated.*

Arising from balance sheet management and other trading activities

£'000	31 March 2014	31 March 2013*	Variance	% change
Asset Management	(2 314)	(199)	(2 115)	(>100.0%)
Wealth & Investment	(72)	4	(76)	(>100.0%)
Specialist Banking	(6 922)	18 210	(25 132)	(>100.0%)
Trading income arising from balance sheet management and other trading activities	(9 308)	18 015	(27 323)	(>100.0%)

* *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 £189.0 million to £126.9 million. Impairments in the UK were much improved, whilst Australia reported an increase over the year.

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 3.21% (2013: 3.75%). The credit loss charge as a percentage of average gross core loans and advances has improved from 1.16% at 31 March 2013 to 0.99%. The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.13 times (2013: 1.15 times).

For further information on asset quality refer to pages 55 to 67.

Operating costs

The ratio of total operating costs to total operating income amounted to 76.2% (2013: 73.7%). Total operating costs grew by 3.6% to £895.6 million (2013: £864.6 million) largely as a result of growth in the Asset Management and Wealth & Investment businesses. Operating costs in the Specialist Bank reduced marginally, 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)	616 894	68.9%	580 086	67.1%	6.3%
Business expenses	146 225	16.3%	144 311	16.7%	1.3%
Equipment (excluding depreciation)	31 404	3.5%	30 466	3.5%	3.1%
Premises (excluding depreciation)	42 170	4.7%	42 355	4.9%	(0.4%)
Marketing expenses	35 673	4.0%	33 608	3.9%	6.1%
Depreciation	17 156	1.9%	17 780	2.1%	(3.5%)
Depreciation on operating leased assets	6 044	0.7%	16 072	1.8%	(62.4%)
Total operating costs	895 566	100.0%	864 678	100.0%	3.6%

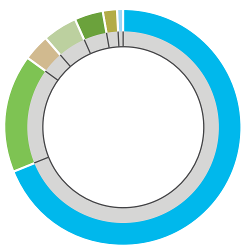
* *Restated.*

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

£'000	31 March 2014	% of total expenses	31 March 2013*	% of total expenses	% change
Asset Management	175 211	19.6%	162 694	18.8%	7.7%
Wealth & Investment	182 759	20.4%	161 581	18.7%	13.1%
Specialist Banking	537 596	60.0%	540 403	62.5%	(0.5%)
Total operating costs	895 566	100.0%	864 678	100.0%	3.6%

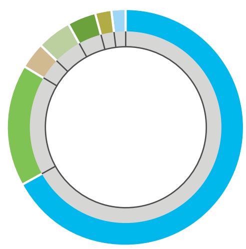
* *Restated.*

% of total operating costs



31 March 2014
£895.6 million total operating costs

Staff costs	68.9%
Business expenses	16.3%
Equipment	3.5%
Premises	4.7%
Marketing	4.0%
Depreciation	1.9%
Depreciation on operating leased assets	0.7%



31 March 2013
£864.7 million total operating costs

Staff costs	67.1%
Business expenses	16.7%
Equipment	3.5%
Premises	4.9%
Marketing	3.9%
Depreciation	2.1%
Depreciation on operating leased assets	1.8%

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, restructuring and partial disposal of subsidiaries

Operating costs arising from integration, restructuring and partial disposal of subsidiaries includes costs associated with the restructuring of the Australian business, as mentioned above, and operational costs associated with the implementation of the Asset Management transaction.

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 1.8% to £2.3 billion, largely as a result of improved retained earnings
- Total assets decreased by 6.9% to £22.7 billion largely as a result of a decline in cash and near cash balances.

Questions and answers

Hendrik du Toit

Chief executive officer | Global

Asset Management...

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

A Our focus is on the institutional and adviser segments of the market. We build long-term relationships with the largest and most sophisticated institutional investors and asset platforms, irrespective of where they are based geographically. In the UK and Southern Africa we also serve medium-sized institutional accounts as well as advisers. Over the last decade, we have consciously developed a presence in most of the world's major markets. We think and act with a very long-term horizon.

The turbulence in emerging markets and specifically emerging currencies over the past year has been some cause for concern. However, in spite of this, the business has performed competitively and continued to attract net inflows into these strategies. We are committed to building a well-balanced, robust firm, with a variable cost base, which should be able to look after its clients in benign as well as challenging market conditions. We do not let short-term market movements influence our long-term strategy and positioning.

Against this backdrop and measured against the universe of peers, we had a good year for net inflows, bringing in £2.6 billion. The majority of these flows came from the Americas and Europe. This number could have been even higher had it not been for the weaknesses across emerging market currencies.

The avalanche of regulatory initiatives prevails and has continued to consume more resources and management time than pre-financial crisis. We do not anticipate this to change in the near term in this industry.

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

A This year we reorganised our client groups from seven to five, through the combination of the previously separate Asia, Middle East and Australia client groups, into a single Asia Pacific client group. This enables us to enhance efficiency and build a strong, unified presence in this important region.

In addition, our Asia Pacific business has undergone significant change and evolution in the past year. This has included establishing our position in Singapore, recruiting investment professionals into the region and the strengthening of our regional leadership team. This will help us to benefit from the significant developments across both institutional and adviser clients in this area.

Long-term investment performance remains solid with 87% of our mandates outperforming their benchmark on a ten-year annualised basis. As always, there are a few strategies facing short-term performance pressure or market headwinds, but it is important to confirm that we are positioned to compete effectively at the highest level.

In addition to the client endorsement through the seventh consecutive year of positive net inflows, we have also continued to achieve independent and international recognition during the past year.

Finally, this was our first full year following an acquisition by senior management of a 15% shareholding in the business (with an option to purchase a further 5% over the following six years). This transaction has been successful in enabling us to compete more effectively with other independent, pure-play global asset managers.

What are your strategic objectives in the coming year?

A Our long-term objective remains unchanged: we continue to be completely committed to managing our clients' money to the highest standard possible. We focus on investment performance, meeting the needs of our clients, innovation and investment insight. To deliver on these objectives, we continue to invest in the development of our investment capabilities, our service proposition to our global client base, and, most importantly, our people. We continue to nurture the culture that binds us together.

What is your outlook for the coming year?

A In spite of a modest year overall due to the impact of volatile markets and weakening emerging market currencies, our business remains stable and momentum is positive. We believe that we are well positioned to face the future.

The opportunity for growth over the next five years is significant. Our priorities are to deepen and widen our investment strategies, and to focus on further diversifying our client base. This will include expanding our range of private market strategies, and increasing our market penetration in Asia, Europe and the Americas.

How do you incorporate environmental, social and governance (ESG) considerations into your business?

A In our role as a global asset manager, our primary goal is to deliver on our clients' mandates. The essential purpose of which is to preserve and grow the real purchasing power of our clients' assets over the long term. We do this through assuring a stewardship role over our clients' assets, including exercising of their ownership rights. This includes ensuring that our investments adhere to appropriate ESG standards. We believe this approach benefits both our clients and the social realms in which we invest and operate.

For further information around ESG please visit the Stewardship page on our website.

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

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 continues 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 continue 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 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 get involved in communities across a wide geographical area. We positively encourage our teams across the UK to get 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 colocated 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
- 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 & 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 annual report

on pages 32 to 118 with further disclosures provided within the annual financial statements section on pages 141 to 239.

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 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 36.

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 36 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 fifteen 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 (notably in the UK) 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 (excluding Kensington, which we are looking to potentially sell) 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 £189.0 million to £126.9 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 3.21% (2013: 3.75%). 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 1.9% of total assets
- Limited private client and corporate client exposures to peripheral Europe amounting to approximately 1.1% of total assets. In addition the group has certain branch-related and subsidiary activities in Ireland, with total assets representing 3.6% of group assets
- A low gearing ratio of 10.0 times
- A low level of net assets and liabilities exposed to the volatility of IFRS fair value accounting; with level 3 assets amounting to 4.6% of total assets
- Low equity and investment risk exposure with total investments comprising 2.5% of total assets. Our investment portfolios continue 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 0.3% 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 plc should comfortably achieve a common equity tier one ratio above 10% by March 2016
- Geographical and operational diversity with a high level of recurring income (amounting to 69.7% 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

24 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 13 to 15.

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

Refer to pages 46 and 84, and page 95, 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 7.4% 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 4.34% to 3.76% of core loans and advances. The credit loss ratio is at 0.95% (2013: 1.26%).

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)	8 222	8 250
Gross defaults as a % of gross core loans and advances	5.43%	5.95%
Defaults (net of impairments) as a % of net core loans and advances	3.21%	3.75%
Net defaults (after collateral and impairments) as a % of net core loans and advances	–	–
Credit loss ratio*	0.99%	1.16%
Structured credit investments as a % of total assets	1.94%	2.10%
Banking book investment and equity risk exposures as a % of total assets	2.46%	2.46%
Traded market risk: one day value at risk (£'million)	0.8	0.8
Cash and near cash (£'million)	4 324	4 605
Customer accounts (deposits) (£'million)	10 956	11 191
Core loans to equity ratio	3.6x	3.7x
Total gearing ratio**	10.0x	10.7x
Loans and advances to customers to customer deposits	71.0%	69.3%
Capital adequacy ratio	14.9%°	16.7%
Tier 1 ratio	10.0%°	11.0%
Common equity tier 1/core tier 1 ratio	8.3%°	8.8%
Leverage ratio	7.1%°	n/a
Return on average assets^^	0.50%	0.37%

* *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 item and after non-controlling interests) divided by average on-balance sheet assets.*
° *Takes into account the deduction of foreseeable dividends as discussed on page 108.*

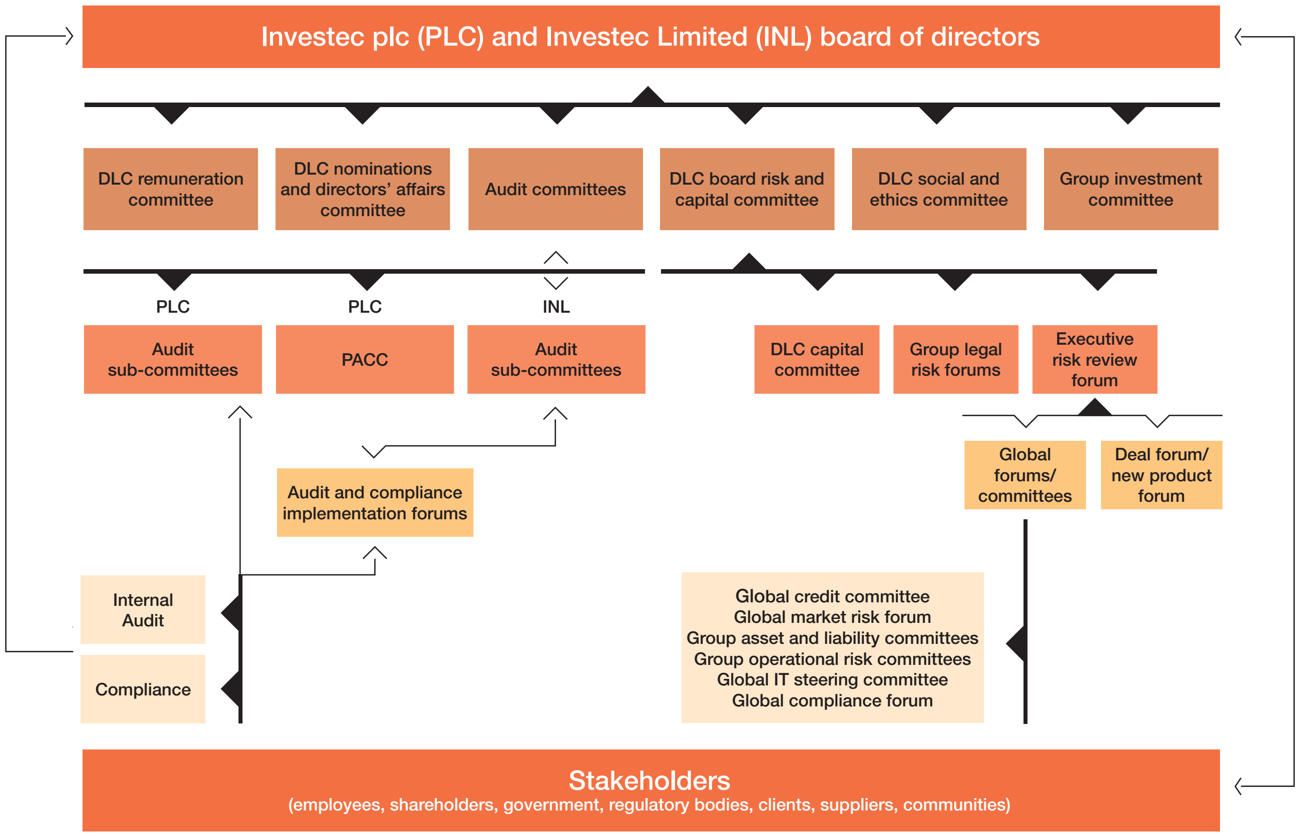
Overall group risk appetite

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 55% to total operating income and capital intensive activities contributed 45%
• 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 69.7% of total operating income
• We seek to maintain a strict control over fixed costs and target a group cost to income ratio of below 70%	The cost to income ratio amounted to 76.2%
• 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 114 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 for Investec plc 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 114 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 48 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 0.99% and defaults net of impairments amounted to 3.2% of total core loans. Refer to page 55 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 33.0% 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 for Investec plc	We meet these internal limits, refer to page 80 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 £279 million, representing 19.4% of total tier 1 capital. Refer to page 70 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 pages 96 to 99 for further information
• We have a number of policies and practices in place to mitigate reputational, legal and conduct risks	Refer to pages 100 and 101 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.



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

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

An overview of key risks

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

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.

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 67 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.

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

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 71 to 79 for further information).

Concentration risk

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

Sustainability considerations

Overview

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

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

Refer to our sustainability report on our website.

Management and measurement of credit and counterparty risk

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

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

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

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

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

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

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

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

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

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

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

Credit and counterparty risk – nature of lending activities

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

Lending collateralised by property

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

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

An analysis of the lending collateralised by property portfolio and asset quality information is provided on pages 62 to 66.

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 62 to 65.

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

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

- 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 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 coinvestment 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 62 to 65.

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.

Asset Management

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

Asset quality analysis – credit risk classification and provisioning policy

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

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

Regulatory and economic capital classification	IFRS impairment treatment	Arrears, default and recoveries classification category	Description
Assets in default (non-performing assets)	Specific impairments are evaluated on a case-by-case basis where objective evidence of impairment has arisen. In determining specific impairments, the following factors are considered: • Capability of the client to generate sufficient cash flow to service debt obligations and the ongoing viability of the client's business • Likely dividend or amount recoverable on liquidation, or bankruptcy or business rescue • Nature and extent of claims by other creditors • Amount and timing of expected cash flows • Realisable value of security held (or other credit mitigants) • Ability of the client to make payments in the foreign currency, for foreign currency denominated accounts.	Sub-standard	The counterparty is placed in sub-standard when the credit exposure reflects an underlying, well defined weakness that may lead to probable loss if not corrected. • The risk that such credit exposure may become an impaired asset is probable • The bank is relying, to a large extent, on available collateral or • The primary sources of repayment are insufficient to service the remaining contractual principal and interest amounts, and the bank has to rely on secondary sources for repayment. These secondary sources may include collateral, the sale of a fixed asset, refinancing and further capital. Credit exposures overdue for more than 90 days will at a minimum be included in 'sub-standard' (or a lower quality category).
		Doubtful	The counterparty is placed in doubtful when the credit exposure is considered to be impaired but not yet considered a final loss due to some pending factors such as a merger, new financing or capital injection which may strengthen the quality of the relevant exposure.
		Loss	• A counterparty is placed in the loss category when the credit exposure is considered to be uncollectible once all efforts, such as realisation of collateral and institution of legal proceedings, have been exhausted, or • Assets in this category are expected to be written off in the short term since the likelihood of future economic benefits resulting from such assets are remote.

Credit risk mitigation

Credit risk mitigation techniques can be defined as all methods by which Investec seeks to decrease the credit risk associated with an exposure. Investec considers credit risk mitigation techniques as part of the credit assessment of a potential client or business proposal and not as a separate consideration of mitigation of risk. Risk mitigants include any collateral item, netting and margining agreement, covenant or term and condition imposed on a transaction with the aim of reducing the credit risk inherent to that transaction.

As Investec has a low appetite for unsecured debt, the credit risk mitigation technique most commonly used is the taking of collateral, primarily over tangible assets. Collateral is assessed with reference to the sustainability of value and the likelihood of realisation. Acceptable collateral generally exhibits characteristics that allow for it to be easily identified and appropriately valued.

An analysis of collateral is provided on page 67.

Where a transaction is supported by a bond or charge over property, the primary credit risk is still taken on the borrower. When applications for facilities to be secured by property are submitted to the relevant committee, the following characteristics of the property are considered: type of property; location of property; and the ease with which the property could be re-let and/or re-sold. Where the property is secured by lease agreements, the credit committee will attempt to lend for a maximum of the period of the lease.

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

Other common forms of collateral in the retail asset class are motor vehicles, cash and share portfolios. In addition, the relevant credit committee normally requires a suretyship or guarantee in support of a transaction in our private client business.

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

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

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

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

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

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

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

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

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

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 £7.5 million, of which £1.9 million is used for credit mitigation purposes and the balance for trading and investment. Total protection bought amounts to £13.5 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 84.

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

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

Please refer to the credit quality step table disclosed on page 117 for a breakdown of regulatory exposure values before and after credit risk mitigation has been applied.

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 59.6% in March 2013 to 63.5% 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 13 to 15.

Core loans and advances increased by 7.4% 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 4.34% to 3.76% of core loans and advances. The credit loss ratio is at 0.95% (2013: 1.26%).

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.

There was a significant decrease in the Kensington impairment charge. The overall Kensington arrears position showed slow steady improvement and the legacy book continued to decrease in size. The Irish mortgage book, whilst remaining weak, saw signs of stabilisation as house prices have started to recover.

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 the 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 plc and Investec Bank plc, can be found on pages 101 to 112.

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 32 to 47 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 3.1% to £18.1 billion largely as a result of the depreciation of the Australian Dollar against Pounds Sterling and a decrease of 6.1% 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, and 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%	1 554 073
Loans and advances to banks	1 307 570	1 324 637	(1.3%)	1 316 104
Reverse repurchase agreements and cash collateral on securities borrowed	1 215 500	1 528 593	(20.5%)	1 372 047
Sovereign debt securities	1 232 416	1 660 377	(25.8%)	1 446 397
Bank debt securities	371 183	455 201	(18.5%)	413 192
Other debt securities	218 190	185 063	17.9%	201 627
Derivative financial instruments	525 526	692 675	(24.1%)	609 101
Securities arising from trading activities	419 408	468 000	(10.4%)	443 705
Loans and advances to customers (gross)	7 967 313	7 951 550	0.2%	7 959 432
Own originated loans and advances to customers (gross)	448 255	491 753	(8.8%)	470 004
Other loans and advances (gross)	1 451 925	1 723 960	(15.8%)	1 587 943
Other securitised assets (gross)	184 483	49 988	>100%	117 236
Other assets	137 665	78 141	76.2%	107 903
Property and equipment	–	4 726	(>100%)	2 363
Total on-balance sheet exposures	17 214 767	17 987 476	(4.3%)	17 601 122
Guarantees^	46 922	61 596	(23.8%)	54 259
Contingent liabilities, committed facilities and other	863 305	653 873	32.0%	758 589
Total off-balance sheet exposures	910 227	715 469	27.2%	812 848
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	18 124 994	18 702 945	(3.1%)	18 413 970

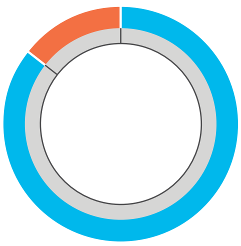
* *Where the average is based on a straight-line average.*
^ *Excludes guarantees provided to clients which are backed/secured by cash on deposit with the bank.*
** *Restated.*

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	1 244 078	1 239 461	63 492	85 176	1 307 570	1 324 637
Reverse repurchase agreements and cash collateral on securities borrowed	1 215 500	1 528 593	–	–	1 215 500	1 528 593
Sovereign debt securities	946 005	1 365 463	286 411	294 914	1 232 416	1 660 377
Bank debt securities	234 729	275 173	136 454	180 028	371 183	455 201
Other debt securities	210 025	162 557	8 165	22 506	218 190	185 063
Derivative financial instruments	475 296	618 462	50 230	74 213	525 526	692 675
Securities arising from trading activities	419 408	459 731	–	8 269	419 408	468 000
Loans and advances to customers (gross)	6 674 403	6 220 630	1 292 910	1 730 920	7 967 313	7 951 550
Own originated loans and advances to customers (gross)	–	–	448 255	491 753	448 255	491 753
Other loans and advances (gross)	1 451 925	1 723 960	–	–	1 451 925	1 723 960
Other securitised assets (gross)	184 483	49 988	–	–	184 483	49 988
Other assets	137 665	78 141	–	–	137 665	78 141
Property and equipment	–	4 726	–	–	–	4 726
Total on-balance sheet exposures	14 899 800	14 955 174	2 314 967	3 032 302	17 214 767	17 987 476
Guarantees^	14 960	22 521	31 962	39 075	46 922	61 596
Contingent liabilities, committed facilities and other	640 709	491 112	222 596	162 761	863 305	653 873
Total off-balance sheet exposures	655 669	513 633	254 558	201 836	910 227	715 469
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	15 555 469	15 468 807	2 569 525	3 234 138	18 124 994	18 702 945

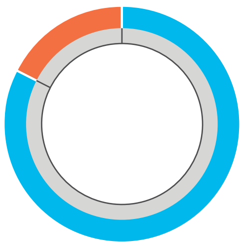
^ *Excludes guarantees provided to clients which are backed/secured by cash on deposit with the bank.*
* *Restated.*

An analysis of gross credit and counterparty exposures by geography



31 March 2014
£18 125 million

UK and Other	85.8%
Australia	14.2%



31 March 2013
£18 703 million

UK and Other	82.7%
Australia	17.3%

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	7 285		1 742 618
Loans and advances to banks	1 307 570	–		1 307 570
Reverse repurchase agreements and cash collateral on securities borrowed	1 215 500	–		1 215 500
Sovereign debt securities	1 232 416	–		1 232 416
Bank debt securities	371 183	–		371 183
Other debt securities	218 190	11 038		229 228
Derivative financial instruments	525 526	394 489		920 015
Securities arising from trading activities	419 408	167 298		586 706
Investment portfolio	–	342 597	1	342 597
Loans and advances to customers	7 967 313	(192 686)	2	7 774 627
Own originated loans and advances to customers	448 255	(617)	2	447 638
Other loans and advances	1 451 925	220 784	3	1 672 709
Other securitised assets	184 483	2 613 675	4	2 798 158
Interest in associated undertakings	–	21 366		21 366
Deferred taxation assets	–	105 109		105 109
Other assets	137 665	1 061 392	5	1 199 057
Property and equipment	–	65 923		65 923
Investment properties	–	61 715		61 715
Goodwill	–	427 011		427 011
Intangible assets	–	153 348		153 348
Total on-balance sheet exposures	17 214 767	5 459 727		22 674 494

1. *Largely relates to exposures that are classified as equity risk in the banking book. Further information is provided on pages 68 to 70.*
2. *Largely relates to impairments and the impact of hedge accounting.*
3. *Whilst the group manages all risks (including credit risk) from a day-to-day operational perspective, certain of these assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicles that the group has reflected in the 'total credit and counterparty exposure' with the maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'.*
4. *Largely relates to net investments in Kensington securitised vehicles to which Investec has no direct exposure as discussed on pages 75 to 78.*
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	2 858		1 375 670
Loans and advances to banks	1 324 637	–		1 324 637
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	185 063	5 447		190 510
Derivative financial instruments	692 675	442 383		1 135 058
Securities arising from trading activities	468 000	205 763		673 763
Investment portfolio	–	357 154	1	357 154
Loans and advances to customers	7 951 550	(192 630)	2	7 758 920
Own originated loans and advances to customers	491 753	(559)	2	491 194
Other loans and advances	1 723 960	307 380	3	2 031 340
Other securitised assets	49 988	3 056 753	4	3 106 741
Interest in associated undertakings	–	24 707		24 707
Deferred taxation assets	–	126 822		126 822
Other assets	78 141	1 304 663	5	1 382 804
Property and equipment	4 726^	83 266		87 992
Investment properties	–	11 500		11 500
Goodwill	–	456 646		456 646
Intangible assets	–	172 131		172 131
Total on-balance sheet exposures	17 987 476	6 364 284		24 351 760

^ *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. Further information is provided on pages 68 to 70.*
2. *Largely relates to impairments and the impact of hedge accounting.*
3. *Whilst the group manages all risks (including credit risk) from a day-to-day operational perspective, certain of these assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicles that the group has reflected in the 'total credit and counterparty exposure' with the maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'.*
4. *Largely relates to net investments in Kensington securitised vehicles to which Investec has no direct exposure as discussed on pages 75 to 78.*
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	1 307 570	–	–	–	–	–	1 307 570
Reverse repurchase agreements and cash collateral on securities borrowed	1 215 500	–	–	–	–	–	1 215 500
Sovereign debt securities	572 184	20 488	59 706	–	103 752	476 286	1 232 416
Bank debt securities	20 947	30 656	13 487	159 247	146 846	–	371 183
Other debt securities	–	–	–	20 271	54 242	143 677	218 190
Derivative financial instruments	245 687	33 646	44 814	148 462	18 522	34 395	525 526
Securities arising from trading activities	351 426	–	2 556	31 061	25 701	8 664	419 408
Loans and advances to customers (gross)	1 549 820	884 714	773 378	3 373 797	560 260	825 344	7 967 313
Own originated loans and advances to customers (gross)	20 143	14 822	36 255	347 883	17 129	12 023	448 255
Other loans and advances (gross)	4 185	–	–	5 523	–	1 442 217	1 451 925
Other securitised assets (gross)	–	–	–	–	–	184 483	184 483
Other assets	137 542	123	–	–	–	–	137 665
Total on-balance sheet exposures	7 160 337	984 449	930 196	4 086 244	926 452	3 127 089	17 214 767
Guarantees	34 260	1 207	4 076	7 238	141	–	46 922
Contingent liabilities, committed facilities and other	318 388	20 727	92 998	342 191	17 390	71 611	863 305
Total off-balance sheet exposures	352 648	21 934	97 074	349 429	17 531	71 611	910 227
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	7 512 985	1 006 383	1 027 270	4 435 673	943 983	3 198 700	18 124 994

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

£'000	HNW and professional individuals	Lending collateralised by property largely to private clients	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services	Finance and insurance
2014							
Cash and balances at central banks	–	–	–	–	1 735 333	–	–
Loans and advances to banks	–	–	–	–	–	–	1 307 570
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	–	–	1 215 500
Sovereign debt securities	–	–	–	–	1 232 416	–	–
Bank debt securities	–	–	–	–	–	–	371 183
Other debt securities	–	–	–	–	–	–	185 739
Derivative financial instruments	5 598	–	34	10 277	4 863	14 603	422 363
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	252 649	486 736
Own originated loans and advances to customers (gross)	448 255	–	–	–	–	–	–
Other loans and advances (gross)	–	–	–	–	–	–	71 120
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	3 520 927	285 324	4 221 376
Guarantees	14 397	368	–	–	–	631	2 397
Contingent liabilities, committed facilities and other	331 081	166 522	2 519	66 695	6 751	34 789	54 686
Total off-balance sheet exposures	345 478	166 890	2 519	66 695	6 751	35 420	57 083
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	3 127 044	2 705 515	23 879	426 343	3 527 678	320 744	4 278 459
2013							
Cash and balances at central banks	–	–	–	–	1 372 812	–	–
Loans and advances to banks	–	–	–	–	–	–	1 324 637
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	2 733 865	9 620	355 389	189 498	416 398	452 149
Own originated loans and advances to customers (gross)	491 753	–	–	–	–	–	–
Other loans and advances (gross)	–	–	–	–	–	–	171 318
Other securitised assets (gross)	–	–	–	–	–	–	27 544
Other assets	–	–	–	24	–	–	56 605
Property and equipment	–	–	–	8	32	2 191	809
Total on-balance sheet exposures	2 440 671	2 733 865	9 646	376 270	3 685 938	425 874	4 747 869
Guarantees	21 427	630	–	118	–	883	3 532
Contingent liabilities, committed facilities and other	102 113	115 512	–	39 442	5 878	54 938	76 653
Total off-balance sheet exposures	123 540	116 142	–	39 560	5 878	55 821	80 185
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	2 564 211	2 850 007	9 646	415 830	3 691 816	481 695	4 828 054

^ *Historically legacy positions (largely in the Kensington portfolio) to non-target market clients.*

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
–	–	–	–	–	–	–	–	–	1 307 570
–	–	–	–	–	–	–	–	–	1 215 500
–	–	–	–	–	–	–	–	–	1 232 416
–									371 183
–	–	–	–	32 451	–	–	–	–	218 190
24 529	6 977	13 816	1 144	–	1 153	10 962	7 144	2 063	525 526
–	–	–	–	–	–	–	115	–	419 408
363 649	382 334	78 914	72 470	16 074	177 045	160 907	487 014	66 001	7 967 313
–	–	–	–	–	–	–	–	–	448 255
–	–	–	–	1 380 805	–	–	–	–	1 451 925
–	–	–	–	184 483	–	–	–	–	184 483
1 572	9 456	–	–	137	–	–	–	4 726	137 665
389 750	398 767	92 730	73 614	1 613 950	178 198	171 869	494 273	72 790	17 214 767
3 585	1 571	56	–	456	23 375	86	–	–	46 922
40 457	49 882	23 229	2 208	5 293	6 023	16 828	49 983	6 359	863 305
44 042	51 453	23 285	2 208	5 749	29 398	16 914	49 983	6 359	910 227
433 792	450 220	116 015	75 822	1 619 699	207 596	188 783	544 256	79 149	18 124 994
–	–	–	–	–	–	–	–	–	1 372 812
–	–	–	–	–	–	–	–	–	1 324 637
–	–	–	–	–	–	–	–	–	1 528 593
–	–	–	–	–	–	–	–	–	1 660 377
–	–	–	–	–	–	–	–	–	455 201
–	–	7 270	47 387	–	–	–	–	–	185 063
7 676	14 628	24 268	10 712	–	1 993	3 497	3 341	103	692 675
–	–	–	–	–	–	–	116	–	468 000
337 057	455 662	37 039	55 367	–	107 813	128 593	284 393	442 144	7 951 550
–	–	–	–	–	–	–	–	–	491 753
–	–	–	–	1 552 586	–	–	56	–	1 723 960
–	–	–	22 444	–	–	–	–	–	49 988
–	187	–	20 558	–	593	–	–	174	78 141
528	426	65	248	–	11	1	407	–	4 726
345 261	470 903	68 642	156 716	1 552 586	110 410	132 091	288 313	442 421	17 987 476
901	4 174	–	994	–	28 587	350	–	–	61 596
37 379	48 968	4 291	19 529	–	21 997	6 949	120 224	–	653 873
38 280	53 142	4 291	20 523	–	50 584	7 299	120 224	–	715 469
383 541	524 045	72 933	177 239	1 552 586	160 994	139 390	408 537	442 421	18 702 945

Private client loans account for 33.0% 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 41, and a more detailed analysis of the private client loan portfolio is provided on pages 62 to 65.

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

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

A description of the type of corporate client lending we undertake, is provided on pages 41 and 42, and a more detailed analysis of the corporate client loan portfolio is provided on pages 62 to 65.

At 31 March £'000	Gross core loans and advances 2014	2013	Other credit and counterparty exposures 2014	2013	Total 2014	2013
HNW and professional individuals	2 775 968	2 438 316	351 076	125 895	3 127 044	2 564 211
Lending collateralised by property – largely to private clients	2 538 625	2 733 865	166 890	116 142	2 705 515	2 850 007
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	3 341 193	3 502 318	3 527 678	3 691 816
Business services	252 649	416 398	68 095	65 297	320 744	481 695
Finance and insurance	486 736	452 149	3 791 723	4 375 905	4 278 459	4 828 054
Retailers and wholesalers	363 649	337 057	70 143	46 484	433 792	383 541
Manufacturing and commerce	382 334	455 662	67 886	68 383	450 220	524 045
Construction	78 914	37 039	37 101	35 894	116 015	72 933
Corporate commercial real estate	72 470	55 367	3 352	121 872	75 822	177 239
Residential mortgages	16 074	–	1 603 625	1 552 586	1 619 699	1 552 586
Mining and resources	177 045	107 813	30 551	53 181	207 596	160 994
Leisure, entertainment and tourism	160 907	128 593	27 876	10 797	188 783	139 390
Transport	487 014	284 393	57 242	124 144	544 256	408 537
Communication	66 001	442 144	13 148	277	79 149	442 421
Total	8 415 568	8 443 303	9 709 426	10 259 642	18 124 994	18 702 945

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	7 774 627	7 758 920
Add: own originated loans and advances securitised as per the balance sheet	447 638	491 194
Net core loans and advances to customers	8 222 265	8 250 114

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 46 and 47.

£'000	31 March 2014	31 March 2013
Gross core loans and advances to customers	8 415 568	8 443 303
Total impairments	(193 303)	(193 189)
Portfolio impairments	(16 437)	(6 696)
Specific impairments	(176 866)	(186 493)
Net core loans and advances to customers	8 222 265	8 250 114
Average gross core loans and advances to customers	8 429 436	8 172 039
Current loans and advances to customers	7 819 617	7 781 265
Past due loans and advances to customers (1 – 60 days)	124 033	131 349
Special mention loans and advances to customers	14 941	27 967
Default loans and advances to customers	456 977	502 722
Gross core loans and advances to customers	8 415 568	8 443 303
Current loans and advances to customers	7 819 617	7 781 265
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	177 934
Gross core loans and advances to customers that are impaired	405 227	476 099
Gross core loans and advances to customers	8 415 568	8 443 303
Total income statement charge for core loans and advances	(83 231)	(94 751)
Gross default loans and advances to customers	456 977	502 722
Specific impairments	(176 866)	(186 493)
Portfolio impairments	(16 437)	(6 696)
Defaults net of impairments	263 674	309 533
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	5.43%	5.95%
Defaults (net of impairments) as a % of net core loans and advances to customers	3.21%	3.75%
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)	0.99%	1.16%

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	6 674 403	6 220 630	1 741 165	2 222 673	8 415 568	8 443 303
Total impairments	(182 066)	(175 562)	(11 237)	(17 627)	(193 303)	(193 189)
Portfolio impairments	(15 045)	(5 000)	(1 392)	(1 696)	(16 437)	(6 696)
Specific impairments	(167 021)	(170 562)	(9 845)	(15 931)	(176 866)	(186 493)
Net core loans and advances to customers	6 492 337	6 045 063	1 729 928	2 205 046	8 222 265	8 250 114
% of total	79.0%	73.3%	21.0%	26.7%	100.0%	100.0%
% of change since 31 March 2013	7.4%		(21.5%)*		(0.3%)	
Average gross core loans and advances to customers	6 447 517	6 080 421	1 981 919	2 091 618	8 429 436	8 172 039
Current loans and advances to customers	6 127 664	5 641 905	1 691 953	2 139 360	7 819 617	7 781 265
Past due loans and advances to customers (1 – 60 days)	106 417	113 724	17 616	17 625	124 033	131 349
Special mention loans and advances to customers	14 011	26 972	930	995	14 941	27 967
Default loans and advances to customers	426 311	438 029	30 666	64 693	456 977	502 722
Gross core loans and advances to customers	6 674 403	6 220 630	1 741 165	2 222 673	8 415 568	8 443 303
Current loans and advances to customers	6 127 664	5 641 905	1 691 953	2 139 360	7 819 617	7 781 265
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	146 039	25 814	31 895	147 216	177 934
Gross core loans and advances to customers that are impaired	381 829	424 681	23 398	51 418	405 227	476 099
Gross core loans and advances to customers	6 674 403	6 220 630	1 741 165	2 222 673	8 415 568	8 443 303
Total income statement charge for core loans and advances	(61 112)	(76 902)	(22 119)	(17 849)	(83 231)	(94 751)
Gross default loans and advances to customers	426 311	438 029	30 666	64 693	456 977	502 722
Specific impairments	(167 021)	(170 562)	(9 845)	(15 931)	(176 866)	(186 493)
Portfolio impairments	(15 045)	(5 000)	(1 392)	(1 696)	(16 437)	(6 696)
Defaults net of impairments	244 245	262 467	19 429	47 066	263 674	309 533
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 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	2.73%	2.82%	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	6.39%	7.04%	1.76%	2.91%	5.43%	5.95%
Defaults (net of impairments) as a % of net core loans and advances to customers	3.76%	4.34%	1.12%	2.13%	3.21%	3.75%
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)	0.95%	1.26%	1.12%	0.85%	0.99%	1.16%

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	416 571	427 013
1 – 60 days	127 863	132 635
61 – 90 days	15 491	29 345
91 – 180 days	8 620	14 379
181 – 365 days	9 050	22 876
>365 days	18 356	35 790
Total past due and default core loans and advances to customers (actual capital exposure)	595 951	662 038
1 – 60 days	5 053	10 162
61 – 90 days	508	697
91 – 180 days	3 221	1 912
181 – 365 days	7 959	18 108
>365 days	12 555	23 938
Total past due and default core loans and advances to customers (actual amount in arrears)	29 296	54 817

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	373 063	3 443	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	27 772	13 396	5 057	165	177 934
Amount in arrears	–	9 286	416	1 265	2 566	66	13 599
Gross core loans and advances to customers that are impaired							
Total capital exposure	419 008	1 091	1 573	983	17 819	35 625	476 099
Amount in arrears	–	876	281	647	15 542	23 872	41 218

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	416 571	3 443	937	8 620	9 050	18 356	456 977
Sub-standard	190 820	–	–	6 424	1 117	701	199 062
Doubtful	85 441	3 376	935	2 128	7 826	15 807	115 513
Loss	140 310	67	2	68	107	1 848	142 402
Total	416 571	127 863	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		7	206	–	–	–	213
Special mention (1 – 90 days)	–	7	2	–	–	–	9
Special mention (61 – 90 days and item well secured)	–	–	204	–	–	–	204
Default	–	910	302	3 221	7 959	12 555	24 947
Sub-standard	–	–	–	2 145	519	701	3 365
Doubtful	–	843	300	1 008	7 333	10 006	19 490
Loss	–	67	2	68	107	1 848	2 092
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)	–	131 349	–	–	–	–	131 349
Special mention	–	195	27 772	–	–	–	27 967
Special mention (1 – 90 days)	–	195	398	–	–	–	593
Special mention (61 – 90 days and item well secured)	–	–	27 374	–	–	–	27 374
Default	427 013	1 091	1 573	14 379	22 876	35 790	502 722
Sub-standard	142 770	–	–	13 396	5 057	13 540	174 763
Doubtful	119 190	882	1 573	890	17 793	20 391	160 719
Loss	165 053	209	–	93	26	1 859	167 240
Total	427 013	132 635	29 345	14 379	22 876	35 790	662 038

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

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

An 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 impair-ments	Portfolio impair-ments	Total net core loans and advances (actual capital exposure)	Actual amount in arrears
At 31 March 2014								
Current core loans and advances	7 819 617	–	–	7 819 617	–	(16 437)	7 803 180	–
Past due (1 – 60 days)	–	124 033	–	124 033	–	–	124 033	4 136
Special mention	–	14 941	–	14 941	–	–	14 941	213
Special mention (1 – 90 days)	–	412	–	412	–	–	412	9
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	24 947
Sub-standard	43 309	8 242	147 511	199 062	(36 846)	–	162 216	3 365
Doubtful	–	–	115 513	115 513	(58 591)	–	56 922	19 490
Loss	199	–	142 203	142 402	(81 429)	–	60 973	2 092
Total	7 863 125	147 216	405 227	8 415 568	(176 866)	(16 437)	8 222 265	29 296
At 31 March 2013								
Current core loans and advances	7 781 265	–	–	7 781 265	–	(6 696)	7 774 569	–
Past due (1 – 60 days)	–	131 349	–	131 349	–	–	131 349	9 280
Special mention	–	27 967	–	27 967	–	–	27 967	415
Special mention (1 – 90 days)	–	593	–	593	–	–	593	7
Special mention (61 – 90 days and item well secured)	–	27 374	–	27 374	–	–	27 374	408
Default	8 005	18 618	476 099	502 722	(186 493)	–	316 229	45 122
Sub-standard	6 005	18 618	150 140	174 763	(32 542)	–	142 221	6 024
Doubtful	2 000	–	158 719	160 719	(69 360)	–	91 359	37 073
Loss	–	–	167 240	167 240	(84 591)	–	82 649	2 025
Total	7 789 270	177 934	476 099	8 443 303	(186 493)	(6 696)	8 250 114	54 817

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

£'000	Private client, professional and HNW individuals	Corporate sector	Insurance, financial services (excluding sovereign)	Public and government sector (including central banks)	Trade finance and other	Total core loans and advances to customers
At 31 March 2014						
Current core loans and advances	4 773 725	2 351 645	486 551	185 830	21 866	7 819 617
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	18 816	–	–	–	199 062
Doubtful	90 776	23 963	149	625	–	115 513
Loss	140 718	1 624	31	29	–	142 402
Total gross core loans and advances to customers	5 314 593	2 405 894	486 731	186 484	21 866	8 415 568
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	2 380 957	486 637	186 222	21 866	8 222 265
At 31 March 2013						
Current core loans and advances	4 094 449	3 019 641	452 049	188 984	26 142	7 781 265
Past due (1 – 60 days)	87 297	44 050	–	–	2	131 349
Special mention	9 879	18 063	–	–	25	27 967
Special mention (1 – 90 days)	331	262	–	–	–	593
Special mention (61 – 90 days and item well secured)	9 548	17 801	–	–	25	27 374
Default	384 756	117 352	100	514	–	502 722
Sub-standard	145 993	28 770	–	–	–	174 763
Doubtful	73 514	86 591	100	514	–	160 719
Loss	165 249	1 991	–	–	–	167 240
Total gross core loans and advances to customers	4 576 381	3 199 106	452 149	189 498	26 169	8 443 303
Total impairments	(148 994)	(43 804)	(64)	(327)	–	(193 189)
Specific impairments	(147 298)	(38 804)	(64)	(327)	–	(186 493)
Portfolio impairments	(1 696)	(5 000)	–	–	–	(6 696)
Net core loans and advances to customers	4 427 387	3 155 302	452 085	189 171	26 169	8 250 114

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 impairments	Income statement impairments
Lending collateralised by property	**2 438 703**	**366 798**	**229 848**	**(138 354)**	**(39 331)**
Commercial real estate	1 623 173	128 026	76 647	(52 087)	(23 881)
Commercial real estate – investment	1 396 537	62 723	47 562	(13 684)	(14 523)
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	238 772	153 201	(86 267)	(15 450)
Residential real estate – investment	327 607	39 344	29 945	(6 765)	(3 351)
Residential real estate – development	382 862	134 762	80 105	(56 463)	(8 402)
Residential vacant land and planning	105 061	64 666	43 151	(23 039)	(3 697)
High net worth and other private client lending	**1 497 909**	**21 145**	**17 604**	**(5 706)**	**(10 237)**
Mortgages	1 143 043	4 787	6 114	(900)	(678)
High net worth 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	**2 737 791**	**38 368**	**15 410**	**(22 961)**	**(11 544)**
Acquisition finance	666 069	11 603	4 133	(7 471)	(2 253)
Asset-based lending	165 569	–	–	–	98
Fund finance	277 771	–	–	–	–
Other corporates and financial institutions and governments	327 983	4 241	2 821	(1 421)	(1 740)
Asset finance	878 939	9 832	5 455	(4 378)	(3 345)
Small ticket asset finance	665 265	7 849	1 983	(4 378)	(4 568)
Large ticket asset finance	213 674	1 983	3 472	–	1 223
Project finance	410 135	12 692	3 001	(9 691)	(4 304)
Resource finance	11 325	–	–	–	–
Portfolio impairments	–	–	–	(15 045)	–
Total	**6 674 403**	**426 311**	**262 862**	**(182 066)**	**(61 112)**

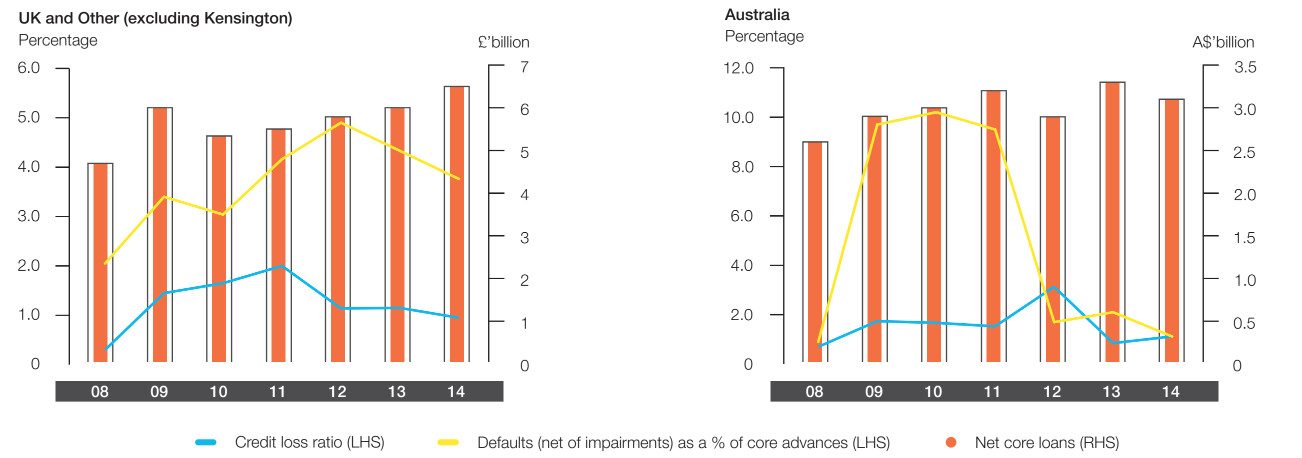
Australia					Total group				
Gross core loans	Gross defaults	Collateral	Balance sheet impairments	Income statement impairments	Gross core loans	Gross defaults	Collateral	Balance sheet impairments	Income statement impairments
99 922	14 458	10 587	(5 535)	(9 153)	2 538 625	381 256	240 435	(143 889)	(48 484)
39 545	5 196	3 195	(2 002)	(3 395)	1 662 718	133 222	79 842	(54 089)	(27 276)
33 188	5 196	3 195	(2 002)	(3 395)	1 429 725	67 919	50 757	(15 686)	(17 918)
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	(3 533)	(5 758)	875 907	248 034	160 593	(89 800)	(21 208)
330	193	78	(115)	(120)	327 937	39 537	30 023	(6 880)	(3 471)
46 149	–	–	–	(690)	429 011	134 762	80 105	(56 463)	(9 092)
13 898	9 069	7 314	(3 418)	(4 948)	118 959	73 735	50 465	(26 457)	(8 645)
1 278 059	9 339	19 128	(1 978)	(3 692)	2 775 968	30 484	36 732	(7 684)	(13 929)
16 964	–	–	–	–	1 160 007	4 787	6 114	(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	(1 402)	(3 237)	1 274 496	6 283	4 116	(2 167)	(3 269)
363 184	6 869	4 537	(2 332)	(9 274)	3 100 975	45 237	19 947	(25 293)	(20 818)
78 358	6 024	3 800	(2 224)	(8 728)	744 427	17 627	7 933	(9 695)	(10 981)
–	–	–	–	–	165 569	–	–	–	98
–	–	–	–	–	277 771	–	–	–	–
92 629	–	–	–	–	420 612	4 241	2 821	(1 421)	(1 740)
103 872	845	737	(108)	(556)	982 811	10 677	6 192	(4 486)	(3 901)
85 086	845	737	(108)	(556)	750 351	8 694	2 720	(4 486)	(5 124)
18 786	–	–	–	–	232 460	1 983	3 472	–	1 223
28 506	–	–	–	10	438 641	12 692	3 001	(9 691)	(4 294)
59 819	–	–	–	–	71 144	–	–	–	–
–	–	–	(1 392)	–	–	–	–	(16 437)	–
1 741 165	30 666	34 252	(11 237)	(22 119)	8 415 568	456 977	297 114	(193 303)	(83 231)

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

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

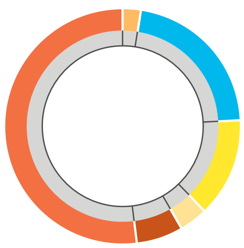
Australia				Total group			
Gross core loans	Gross defaults	Collateral	Balance sheet impairments	Gross core loans	Gross defaults	Collateral	Balance sheet impairments
223 125	39 692	27 765	(12 851)	2 733 865	386 555	257 523	(157 800)
137 053	17 831	10 264	(8 491)	1 717 465	123 973	78 829	(60 115)
133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

Asset quality trends



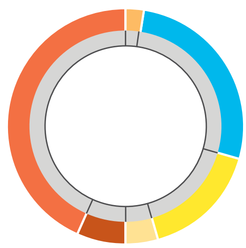
Additional information

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



31 March 2014
£8 416 million

Asia	2.7%
Australia	21.7%
Europe (excluding UK)	13.4%
North America	4.0%
Other	6.5%
United Kingdom	51.7%



31 March 2013
£8 443 million

Asia	2.7%
Australia	26.8%
Europe (excluding UK)	16.1%
North America	4.5%
Other	6.8%
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	973 574	5 753 056
Residential mortgages	2 166 383	973 390	3 139 773
Residential development	636 555	184	636 739
Commercial property developments	182 186	–	182 186
Commercial property investments	1 794 358	–	1 794 358
Other collateral	4 151 227	304 944	4 456 171
Unlisted shares	194 838	–	194 838
Bonds other than mortgage bonds	23 643	304 512	328 155
Debtors, stock and other corporate assets	2 822 119	–	2 822 119
Guarantees	492 741	–	492 741
Other	617 886	432	618 318
Total collateral	9 337 712	2 140 297	11 478 009
At 31 March 2013			
Eligible financial collateral	513 644	1 754 519	2 268 163
Listed shares	429 158	596 579	1 025 737
Cash	84 486	824 311	908 797
Debt securities issued by sovereigns	–	333 629	333 629
Mortgage bonds	5 155 339	1 254 825	6 410 164
Residential mortgages	1 850 593	1 254 825	3 105 418
Residential development	727 057	–	727 057
Commercial property developments	242 977	–	242 977
Commercial property investments	2 334 712	–	2 334 712
Other collateral	4 078 605	11 378	4 089 983
Unlisted shares	281 074	–	281 074
Bonds other than mortgage bonds	54 024	–	54 024
Debtors, stock and other corporate assets	2 437 885	–	2 437 885
Guarantees	587 428	–	587 428
Credit derivatives	–	4 050	4 050
Other	718 194	7 328	725 522
Total collateral	9 747 588	3 020 722	12 768 310

* *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 151 and 152 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 4.6% of total assets.

Refer to page 179 for further information.

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

Risk management and corporate governance

03

£'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	9 120	41 485	10 996
UK and Other	2 130	30 309	9 114	41 553	10 975
Australia	–	(74)	6	(68)	21
Listed equities	(2 032)	7 786	1 571	7 325	(888)
UK and Other	(3 612)	6 504	395	3 287	(1 116)
Australia	1 580	1 282	1 176	4 038	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	47 800	48 321	10 691	106 812	10 108
For the year to 31 March 2013*					
Unlisted investments	4 562	1 130	2 177	7 869	(2 620)
UK and Other	5 066	1 113	2 177	3 796	(2 620)
Australia	(504)	17	–	(487)	–
Listed equities	(8 851)	(149)	1 062	(7 938)	(3 534)
UK and Other	(6 639)	(196)	822	(6 013)	(4 774)
Australia	(2 212)	47	240	(1 925)	1 240
Investment and trading properties	(1 089)	450	–	(639)	–
UK and Other	–	202	–	202	
Australia	(1 089)	248	–	(841)	–
Warrants, profit shares and other embedded derivatives	29 821	–	–	29 821	–
UK and Other	29 821	–	–	29 821	
Australia	–	–	–	–	–
Total	24 443	1 431	3 239	29 113	(6 154)

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 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 £7 million in tier 2 capital.

* *Restated.*

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*
At 31 March				
Unlisted investments	278 728	41 809	303 929	45 590
UK and Other	273 937	41 091	297 191	44 579
Australia	4 791	718	6 738	1 011
Listed equities	63 869	15 967	53 225	13 306
UK and Other	62 212	15 553	48 433	12 108
Australia	1 657	414	4 792	1 198
Investment and trading properties	102 058	8 069	131 039	25 058
UK and Other	79 528	3 563	59 438	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	556 228	104 896	560 380	109 219

^ *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

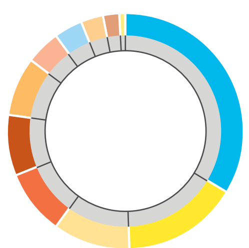
Based on the information at 31 March 2014, as reflected above we could have a £105 million reversal in revenue (which assumes a year in which there is a 'severe stress scenario'). This would not cause the group to report a loss but could have a significantly negative impact on earnings for that period. 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 plc, unlisted and listed equities within the banking book are considered in the calculation of capital required for credit risk.

Refer to page 112 for further detail.

An analysis of the principal investment portfolio by industry of exposure



31 March 2014 (£454 million)

Manufacturing and commerce	33.8%
Finance and insurance	15.9%
Retailer and wholesalers	10.4%
Agriculture	8.9%
Mining and resources	8.4%
Real estate	8.0%
Communication	4.7%
Transport	4.0%
Business services	3.0%
Medical	2.3%
Other	0.6%

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 49 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 £303 million, which could be earmarked for securitisation and are included in the numbers as presented on page 72.

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 which are largely in the UK and amount to £348 million at 31 March 2014 (31 March 2013: £422 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.

We retain residual net exposures amounting to £927 million to the assets originated, warehoused and securitised by Kensington.

Further information is provided on pages 75 to 78.

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 page 151.

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 32.

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	Asset quality – relevant comments
Structured credit* (gross exposure)	440	506	Other debt securities and other loans and advances	
Rated	357	437		
Unrated	83	69		
Kensington – mortgage assets: net exposures	927	848	Other securitised assets and other loans and advances. We are required to fully consolidate assets acquired from Kensington. However, only those assets to which we are at risk are reflected in this analysis with the balance reflected under 'no credit exposures'	Refer to pages 75 to 78
Loans and advances to customers and third party intermediary originating platforms (mortgage loans) (with the potential to be securitised) (net exposure)	303	391	Other loans and advances	
Private Client division assets which have been securitised (net exposure)	448	491	Own originated loans and advances to customers securitised	Analysed as part of the group's overall asset quality on core loans and advances as reflected on page 55

* *Analysed further on page 73.*

*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	256	72	328	320	55	375
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	357	83	440	437	69	506

**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	93	54	31	36	19	2	21	256
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	126	78	45	62	23	2	21	357
Total at 31 March 2013	160	75	55	54	40	29	24	437

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

Aggregate amount of securitisation positions retained or purchased

At 31 March 2014 £'million	Banking book Retained^^	Banking book Purchased^	Banking book Total
Exposure type			
Residential mortgages	50	101	151
Commercial mortgages	–	6	6
Loans to corporates	–	91	91
Resecuritisation	–	29	29
	50	227	277

Aggregate amount of securitisation positions retained or purchased

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

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

Securitisation positions retained or purchased by risk weight bands

At 31 March 2014 £'million	Exposure values Banking book		Capital requirement Banking book	
	Retained^^	Purchased^	Retained^^	Purchased^
Risk weight band				
Greater than 0% and less than or equal to 40%	29	179	1	3
Greater than 40% but less than or equal to 100%	18	37	1	2
Greater than 100% but less than and equal to 225%	–	6	–	1
Greater than 225% but less than and equal to 350%	–	1	–	–
Greater than 350% but less than and equal to 650%	–	3	–	2
Greater than 650% but less than 1 250%	–	–	–	–
Greater than 1 250%/deduction	3	1	3	1
	50	227	5	9

Securitisation positions retained or purchased by risk weight bands

At 31 March 2013 £'million	Exposure values Banking book		Capital requirement Banking book	
	Retained^^	Purchased^	Retained^^	Purchased^
Risk weight band				
Greater than 0% and less than or equal to 40%	29	170	–	3
Greater than 40% but less than or equal to 100%	11	49	1	2
Greater than 100% but less than and equal to 225%	12	17	1	2
Greater than 225% but less than and equal to 350%	1	11	–	3
Greater than 350% but less than and equal to 650%	–	4	–	2
Greater than 650% but less than 1 250%	–	–	–	–
Greater than 1 250%/deduction	3	1	3	1
	56	252	5	13

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

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

Kensington – salient features

At 31 March 2014	Warehouse book	Securitised portfolio	Total	% of total
Assets and business activity statistics				
Mortgage assets under management (£'million)	1 188	1 811	2 999	
IFRS adjustments and cash in securitised vehicles (£'million)	(103)	361	258	
Mortgage assets under management (£'million)	1 291	1 450	2 741	
First charge % of total mortgage assets under management	95.0%	94.1%	94.5%	
Second charge % of total mortgage assets under management	5.0%	5.9%	5.5%	
Number of accounts	11 406	17 566	28 972	
Average loan balance (first charge) (£)	143 321	101 990	118 102	
Largest loan balance (£)	1 165 878	1 116 362	1 165 878	
Weighted average loan mature margin (%)	4.2%	5.0%	4.6%	
Product mix (pre-IFRS adjustments) (£'million)	1 291	1 450	2 741	100.0%
Prime	4	–	4	0.1%
Near prime	389	312	701	25.6%
Prime buy to let	1	–	1	–
Adverse	271	1 055	1 326	48.4%
Adverse buy to let and right to buy	48	83	131	4.8%
Start – Irish operations	578	–	578	21.1%
Geographic distribution (£'million)	1 291	1 450	2 741	100.0%
UK – North	214	470	684	25.0%
UK – South West	53	100	153	5.6%
UK – South East	157	302	459	16.7%
Outer London	116	185	301	11.0%
Inner London	54	98	152	5.5%
Midlands	119	295	414	15.1%
Start – Irish operations	578	–	578	21.1%
Spread of value of properties (%)	100.0%	100.0%	100.0%	
>£500 000	3.2%	0.9%	1.8%	
>£250 000 <=£500 000	23.6%	9.9%	15.3%	
>£200 000 <=£250 000	17.5%	11.7%	14.0%	
>£150 000 <=£200 000	20.3%	20.0%	20.1%	
>£100 000 <=£150 000	22.6%	30.8%	27.6%	
>£70 000 <=£100 000	10.8%	20.6%	16.8%	
>£50 000 <=£70 000	1.6%	5.0%	3.7%	
<£50 000	0.4%	1.1%	0.7%	
Asset quality statistics				
Weighted average current LTV of portfolio (adjusted for house price deflation*)	104.9%	74.0%	88.5%	

* *Impairment provision is based on house price index assumptions of:*
UK: impairment assumes zero house price increase over the next five years and a -20% haircut for forced sale discount when repossessed properties are sold.
Ireland: peak to trough decline of 53%, including calendar year: house price decline assumption of 6% for 2013, and house price decline/growth assumption of -10.3%, 2%, 3%, 3% per annum respectively, for the period 2014 – 2017, and an additional forced sale discount of -5%.

Kensington – salient features (continued)

At 31 March 2014	Warehouse book	Securitised portfolio	Total	% of total
LTV spread – % of book	100.0%	100.0%	100.0%	
<= 65%	14.6%	30.4%	24.1%	
>65% – <70%	3.7%	8.4%	6.5%	
>70% – <75%	4.5%	9.4%	7.4%	
>75% – <80%	5.6%	11.0%	8.9%	
>80% – <85%	6.1%	11.0%	9.1%	
>85% – <90%	8.1%	8.3%	8.2%	
>90% – <95%	7.5%	6.8%	7.1%	
>95% – <100%	6.1%	5.4%	5.7%	
>100%	43.8%	9.3%	23.0%	
% of accounts > 90 days in arrears	31.0%	21.2%	25.1%	
Number of accounts > 90 in arrears	3 539	3 723	7 262	
Total capital lent in arrears (£'million)	634	551	1 185	100.0%
Arrears 1 – 60 days	58	116	174	14.6%
Arrears 61 – 90 days	40	76	116	9.8%
Arrears >90 days	499	342	841	71.0%
Possession	37	17	54	4.6%
Debt to income ratio of clients (%)	19.5%	18.4%	18.9%	
Investec investment/exposure to assets reflected above (£'million)	1 081	26	1 107	
On-balance sheet provision (£'million)			(180)	
Investec net investment/exposure to assets reflected above (£'million)			927	

Kensington – salient features

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

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

Kensington – salient features (continued)

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

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

The group offers a range of measures and assistance to support retail customers who are encountering financial difficulties. Forbearance is offered and managed on a case-by-case basis, with the individual circumstances of each customer considered separately; and appropriate action taken to provide an affordable and sustainable outcome for the customer.

Operationally, the provision and review of such assistance is controlled through the application of an appropriate policy framework; controls around the execution of policy; regular review of the different treatments to confirm that they remain appropriate; monitoring of customers' performance and the level of payments received; and management visibility of the nature and extent of assistance provided and the associated risk.

The nature and type of forbearance treatments include:

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

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

	Total mortgages subject to forbearance number	Total mortgages number	Total mortgage balance subject to forbearance £'million	Mortgage balance £'million	Proportion of mortgage balance subject to forbearance measures %	Impairment coverage on mortgage balance subject to forbearance* %
At 31 March 2014						
Kensington – UK operations	5 050	25 669	599	2 163	27.7%	19.3%
Start – Kensington Irish operations	1 171	3 303	201	578	34.8%	36.1%
Total	6 221	28 972	800	2 741	29.2%	23.5%
At 31 March 2013						
Kensington – UK operations	5 905	28 445	705	2 451	28.8%	21.7%
Start – Kensington Irish operations	1 102	3 349	190	589	32.2%	37.6%
Total	7 007	31 794	895	3 040	29.4%	25.1%

	Total number of loans and advances which are forborne		Total value of loans and advances which are forborne	
At 31 March	2014 number	2013 number	2014 £'million	2013 £'million
Kensington – UK operations				
Contractual payments only (arrears customers)	263	519	22	44
Reduced contractual payments	78	107	6	9
Interest only conversion (temporary)	247	342	25	34
Arrears capitalisation (cumulative)**	4 092	4 368	506	553
Multiple events	363	563	–	65
Other	7	6	–	–
	5 050	5 905	599	705
Start – Kensington Irish operations				
Contractual payments only (arrears customers)	10	31	2	5
Reduced contractual payments	91	135	18	28
Interest only conversion (temporary)	244	262	45	47
Arrears capitalisation (cumulative)**	488	432	80	73
Multiple events	297	199	52	33
Other	41	43	4	5
	1 171	1 102	201	191
Total	6 221	7 007	800	896

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

** *The number presented represents the cumulative historical number of cases with arrears capitalisation that are still customers at year end. In 2014, 17 customers in Kensington and 238 customers in Start underwent an arrears capitalisation.*

Market risk in the trading book

Traded market risk description

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

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

Traded market risk governance structure

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

Management and measurement of traded market risk

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

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

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

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

VaR numbers are monitored daily at the 95%, 99% and 100% (maximum loss) confidence intervals, with limits set at the 95% confidence interval. ETLs are also monitored daily at the 95% and 99% levels. Scenario analysis considers the impact of a significant market event on our current trading portfolios. We consider the impact for the 10 days after the event, not merely the instantaneous shock to the markets. Included in our scenario analysis are for example the following October 1987 (Black Monday), 11 September 2001. 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

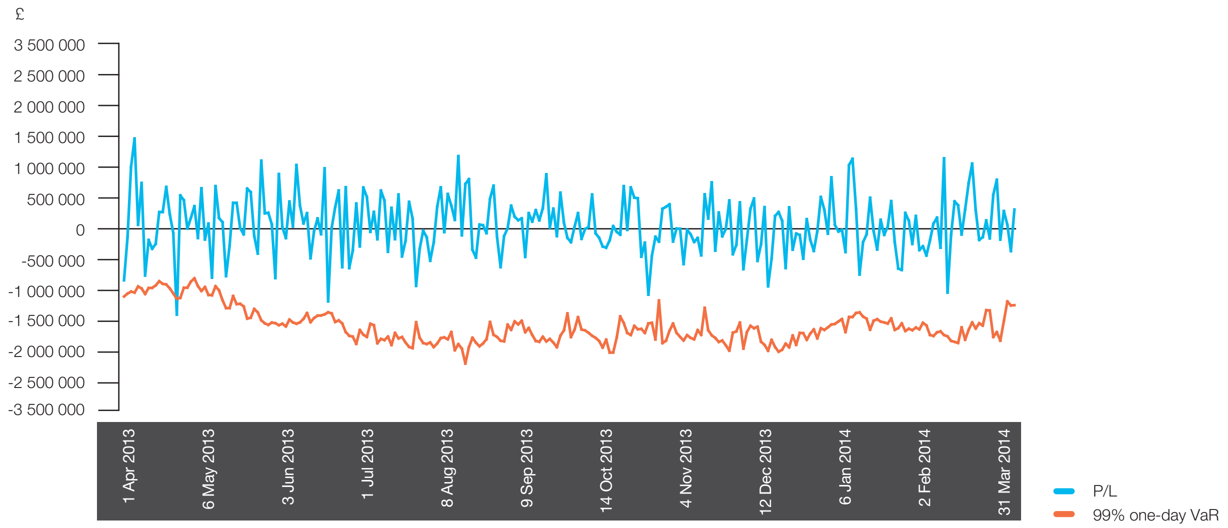
	31 March 2014				31 March 2013			
	Year end	Average	High	Low	Year end	Average	High	Low
UK and Other (using 95% VaR)								
Equities (£'000)	751	908	1 596	467	663	793	1 557	391
Foreign exchange (£'000)	9	15	73	2	11	25	82	5
Interest rates (£'000)	299	412	602	204	426	386	513	265
Consolidated (£'000)*	852	1 055	1 496	522	720	855	1 548	455
Australia (using 95% VaR)								
Commodities (A$'000)	–	–	–	–	–	–	2.9	–
Foreign exchange (A$'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).*

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.

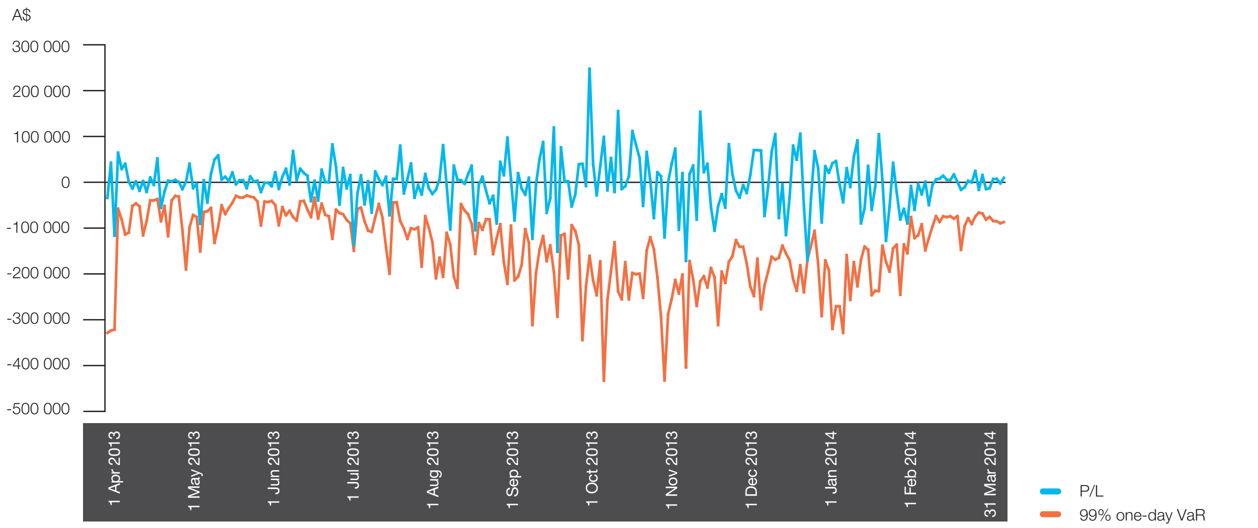
99% one-day VaR backtesting



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.

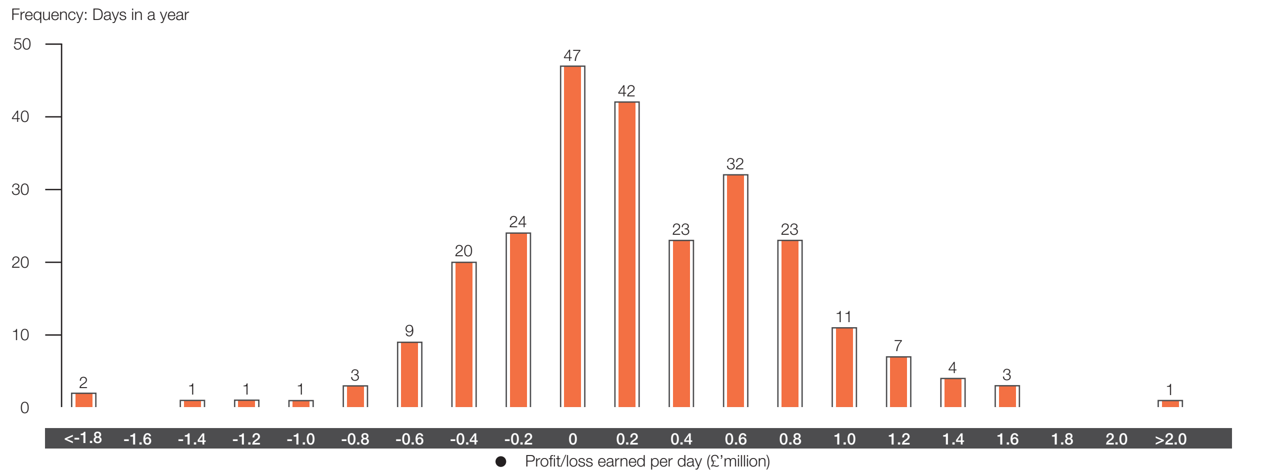
	31 March 2014				31 March 2013
	Year end	Average	High	Low	Year end
UK and Other (using 99% EVT)					
Equities (£'000)	3 844	2 330	4 390	1 454	1 554
Foreign exchange (£'000)	24	30	140	6	45
Interest rates (£'000)	1 457	1 420	2 126	958	1 820
Consolidated (£'000)	3 439	2 557	4 318	1 668	1 813
Australia (using 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

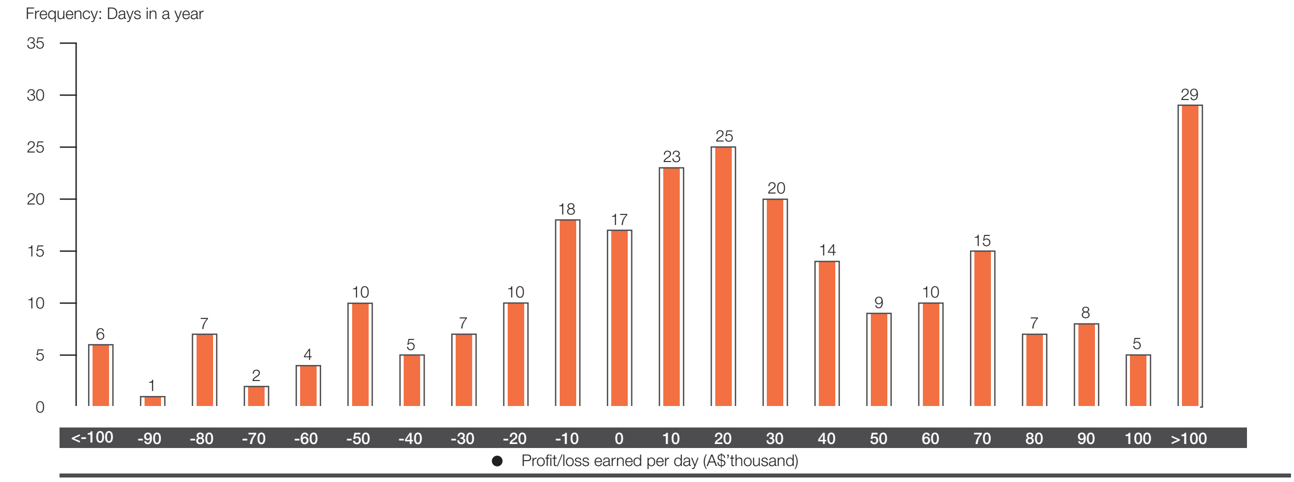


Risk management (continued)

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 191 and 192.

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 intergroup 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 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. 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	3 294	–	–	–	–	147	3 441
Investment/trading assets	1 235	55	54	325	593	600	2 862
Securitised assets	2 655	141	2	–	–	–	2 798
Advances	5 979	552	527	941	164	1	8 164
Non-rate assets	11	4	3	1	–	1 843	1 862
Assets	13 174	752	586	1 267	757	2 591	19 127
Deposits – banks	(1 484)	(73)	(22)	(13)	–	(12)	(1 604)
Deposits – retail	(7 714)	(702)	(571)	(418)	(2)	–	(9 407)
Negotiable paper	(1 072)	–	(35)	(120)	(35)	–	(1 262)
Securitised liabilities	(2 017)	(171)	(43)	(112)	–	(32)	(2 375)
Investment/trading liabilities	(464)	(26)	(25)	(35)	(38)	(92)	(680)
Subordinated liabilities	(65)	–	–	(72)	(566)	–	(703)
Non-rate liabilities	–	–	–	–	–	(1 333)	(1 333)
Liabilities	(12 816)	(972)	(696)	(770)	(641)	(1 469)	(17 364)
Intercompany loans	(265)	(20)	41	481	(16)	(30)	191
Shareholders' funds	–	–	–	–	–	(1 954)	(1 954)
Balance sheet	93	(240)	(69)	978	100	(862)	–
Off-balance sheet	755	69	585	(771)	(638)	–	–
Repricing gap	848	(171)	516	207	(538)	(862)	–
Cumulative repricing gap	848	677	1 193	1 400	862	–	

Australia – interest rate sensitivity at 31 March 2013

A$'million	Not >three months	>three months but <six months	>six months but <one year	>one year but <five years	>five years	Non-rate	Total 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	USD	EUR	ZAR	Other (GBP)	All (GBP)
200bps down	(60.9)	0.3	(6.8)	(0.3)	1.0	(65.4)
200bps up	60.9	(0.3)	6.8	0.3	(1.0)	65.4

Australia

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

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 macro-economic trend of expanded money supply, customer deleveraging and below trend loan growth. We also have a number of innovative retail deposit initiatives within our Private Banking division and these continued to experience strong inflows during the financial year. On average our fixed and notice customer deposits have amounted to approximately 84% of total deposits since April 2006, thereby displaying a strong ‘stickiness’ and willingness to reinvest by our retail customers.

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

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

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).

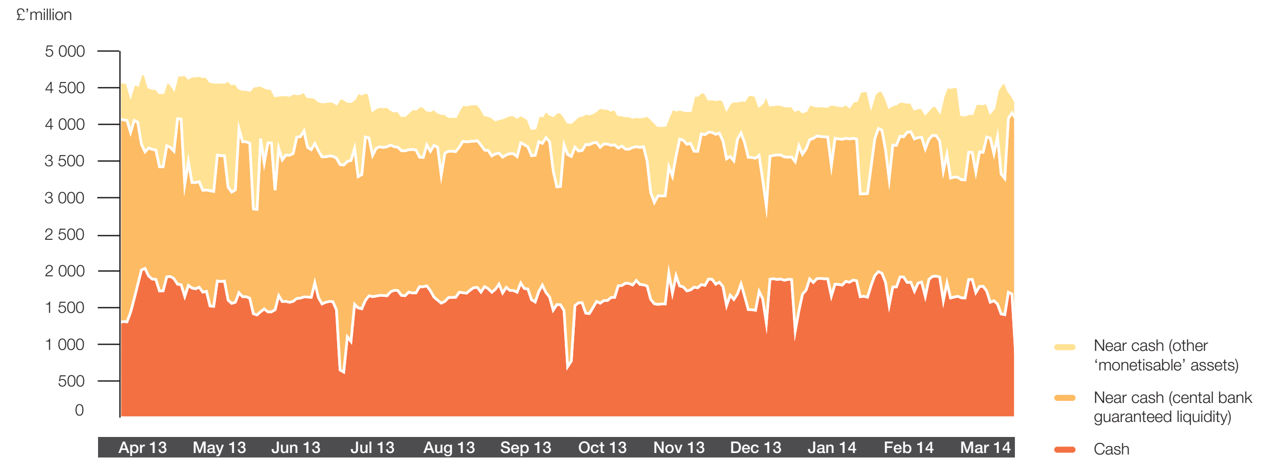
The group does not rely on committed funding lines for protection against unforeseen interruptions to cash flow. We are currently unaware of any circumstances that could significantly detract from our ability to raise funding appropriate to our needs.

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.

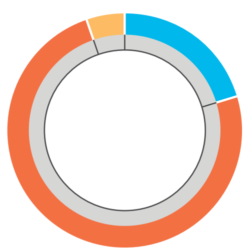
Asset encumbrance

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

Investec plc cash and near cash trend



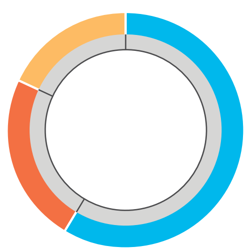
An analysis of cash and near cash at 31 March 2014



Investec plc
£4 324 million

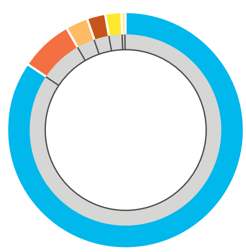
Cash	20.3%
Near cash (central bank guaranteed liquidity)	74.4%
Near cash (other 'monetisable' assets)	5.2%

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



UK and Other
£11 438 million

Private client	58.7%
Corporate	23.5%
Financial institutions/banks	17.8%



Australia
A$ 2 755 million

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

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

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. The table on page 195 reflects the assets encumbered and external liabilities issued under securitisation transactions. Securitisation notes in the UK 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 217. Related liabilities are also reported.

On page 189 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.

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 contractual liabilities
Cash and short-term funds – banks	2 611	1 057	148	–	–	–	–	3 816
Cash and short-term funds – non-banks	–	13	–	–	–	–	–	13
Investment/trading assets	122	572	164	100	202	320	1 731	3 211
Securitised assets	395	3	2	7	10	158	2 223	2 798
Advances	14	205	1 081	709	700	2 552	2 903	8 164
Other assets	206	768	110	8	10	87	673	1 862
Assets	3 348	2 618	1 505	824	922	3 117	7 530	19 864
Deposits – banks	(694)	(448)	(113)	(8)	(61)	(588)	(119)	(2 031)
Deposits – retail	(2 000)^	(1 152)	(1 889)	(2 555)	(542)	(1 106)	(163)	(9 407)
Negotiable paper	–	–	(1)	–	(58)	(590)	(613)	(1 262)
Securitised liabilities	–	–	(2)	(23)	(42)	(127)	(2 181)	(2 375)
Investment/trading liabilities	(143)	(150)	(130)	(14)	(49)	(211)	(293)	(990)
Subordinated liabilities	–	–	(1)	–	–	(105)	(597)	(703)
Other liabilities	(178)	(702)	(84)	(33)	(190)	(76)	(70)	(1 333)
Liabilities	(3 015)	(2 452)	(2 220)	(2 633)	(942)	(2 803)	(4 036)	(18 101)
Intercompany loans	(91)	(15)	1	(4)	289	24	(13)	191
Shareholders' funds	–	–	–	–	–	–	(1 954)	(1 954)
Contractual liquidity gap	242	151	(714)	(1 813)	269	338	1 527	–
Cumulative liquidity gap	242	393	(321)	(2 134)	(1 865)	(1 527)	–	–

Behavioural liquidity

As discussed on page 92.

£'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	1 917	25	321	(109)	269	(3 606)	1 183	–
Cumulative	1 917	1 942	2 263	2 154	2 423	(1 183)	–	–

^ *The deposits shown 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 92.

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 92.

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.

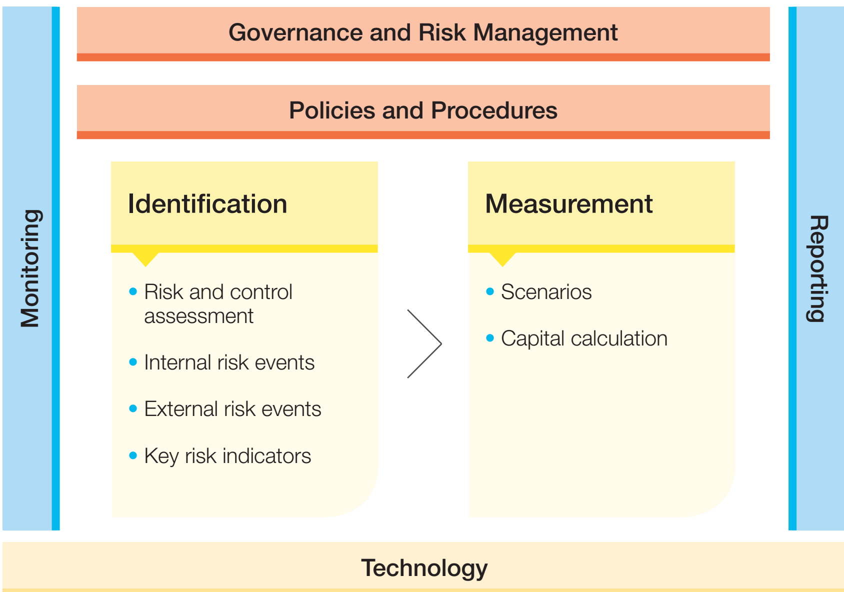
Operational risk management framework

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.



Risk management and corporate governance
03

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 of 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.

Assurance

Internal assurance

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

Reliance

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.

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

Qualitative assessments that identify key operational risks and controls

Identifies ineffective controls and improves decision-making through an understanding of the operational risk profile

Internal risk events

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

External risk events

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

Key risk indicators

Metrics are used to monitor risk exposures against identified thresholds

Assists in predictive capability

Scenarios and capital calculation

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

Reporting and monitoring

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

Technology

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 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 SA) • 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 Investec plc is required to fund any deficit in the schemes.

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

Primary sources at risk include:

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

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

Further information is provided on pages 204 to 207.

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

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

Regulatory capital

Current regulatory framework

Since 1 April 2013, Investec plc has been authorised by the PRA and is regulated by the FCA and the PRA. In June 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 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 capital 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 plc uses the standardised approach to calculate its credit and counterparty credit risk and operational risk capital requirements. The mark-to-market method is used to calculate the counterparty credit risk exposure amount. The market risk capital requirement is measured using an internal risk management model, approved by the UK regulators, for netting certain parts of the portfolio, whilst the capital requirements of the whole portfolio are calculated using standard rules.

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

Capital targets

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

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

Management of leverage

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. Timeframes 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 reporting levels.

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).

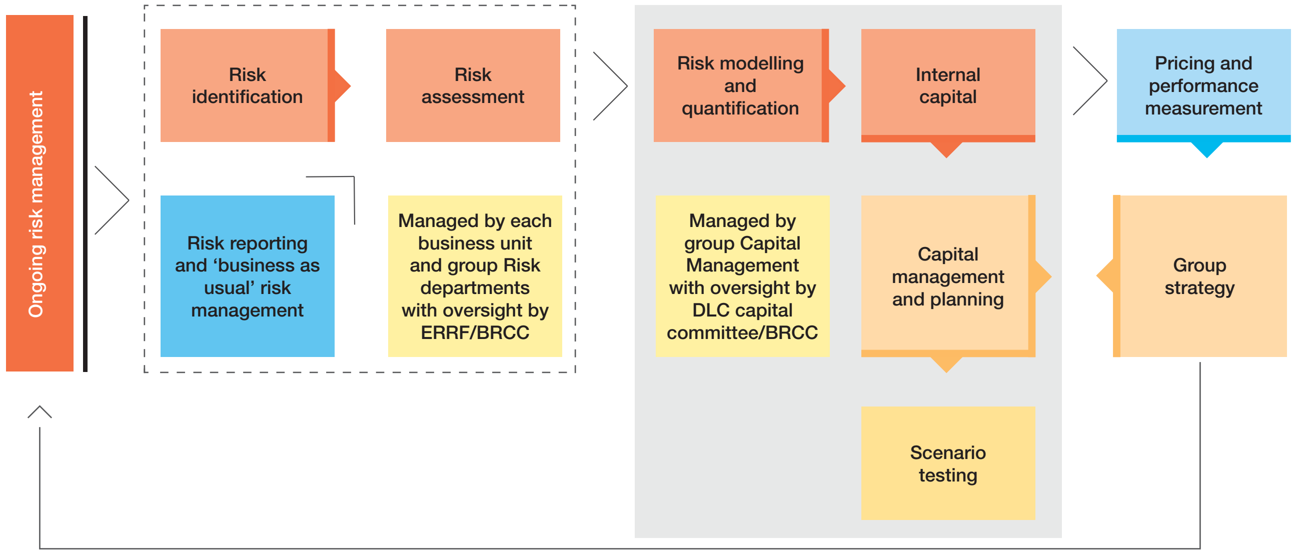
The DLC capital committee seeks to optimise the balance sheet such that capital held is in excess of internal capital. Internal capital performs a critical role in:

- 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 plc and Investec Limited are the two listed holding companies in terms of the DLC structure. 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 plc group are reported under International Financial Reporting Standards (IFRS) and are described on pages 148 and 149 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 Securities No. 2 plc
- Pangaea ABS 2007 – 1 BV
- Residential Mortgage Securities No. 19 plc
- Residential Mortgage Securities No. 20 plc
- Residential Mortgage Securities No. 21 plc
- Residential Mortgage Securities No. 22 plc
- Money Partners Securities 1 plc
- Money Partners Securities 2 plc
- Money Partners Securities 3 plc
- Money Partners Securities 4 plc
- Kensington Mortgage Securities plc
- 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 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 pages 108 and 109.

The regulatory capital requirements are driven by the regulatory balance sheet and not the financial accounting balance sheet.

A detailed list of principal subsidiaries and associates included in the financial accounting scope of consolidation are disclosed on pages 224 to 227.

Regulatory capital and requirements

For regulatory capital purposes, our total regulatory capital is divided into three main categories, namely CET1 capital, 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 plc and Investec Bank plc are 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.

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

Investec 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		1 307	(25)	6	1 288
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		920	(149)	–	771
Securities arising from trading activities		587	–	–	587
Investment portfolio		343	12	–	355
Loans and advances to customers		7 775	–	14	7 789
Own originated loans and advances to customers securitised		448	–	–	448
Other loans and advances		1 673	(57)	–	1 616
Other securitised assets		2 798	(2 166)	–	632
Capital invested in insurance and other entities		–	5	–	5
Interests in associated undertakings		21	–	(17)	4
Deferred taxation assets		105	–	–	105
of which:					
– relates to losses carried forward	a	38	–	–	38
Other assets		1 199	195	17	1 411
of which:					
– pension asset	b	25	–	–	25
Property and equipment		66	(17)	–	49
Investment property		62	–	–	62
Goodwill	c	427	–	7	434
Intangible assets	c	153	–	–	153
Total assets		22 674	(2 213)	27	20 488

^ *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 plc

At 31 March 2014	Ref^	Accounting balance sheet £'million	Deconsolidation of non-financial/ other entities £'million	Consolidation of banking associates £'million	Regulatory balance sheet £'million
Deposits by banks		1 433	(217)	10	1 226
Derivative financial instruments		669	–	–	669
Other trading liabilities		392	–	–	392
Repurchase agreements and cash collateral on securities lent		615	–	–	615
Customer accounts (deposits)		10 956	98	–	11 054
Debt securities in issue		1 369	(259)	–	1 110
Liabilities arising on securitisation of own originated loans and advances		449	30	–	479
Liabilities arising on securitisation of other assets		2 374	(1 745)	–	629
Current taxation liabilities		68	(19)	–	49
Deferred taxation liabilities		107	–	–	107
of which:					
– in respect of acquired intangibles	c	29	–	–	29
– in respect of pension assets	b	5	–	–	5
Other liabilities		1 235	(2)	17	1 250
Subordinated liabilities		741	–	–	741
of which:					
– term subordinated debt included in tier 2 capital	d	741	–	–	741
Total liabilities		20 408	(2 114)	27	18 321
Shareholders' equity excluding minority interests	e	2 089	(99)	–	1 990
of which:					
– perpetual preference shares included in additional tier 1 capital	f	130	–	–	130
– perpetual preference shares included in tier 2 capital	d	20	–	–	20
Non controlling interests	g	177	–	–	177
of which:					
– preferred securities included in additional tier 1 capital	h	165	–	–	165
Total equity		2 266	(99)	–	2 167
Total liabilities and equity		22 674	(2 213)	27	20 488

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

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 208 to 214.

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**	Investec plc*^° £'million	IBP*^° £'million	IBAL*^ A$'million
Tier 1 capital				
Shareholders' equity		1 779	1 851	539
Shareholders' equity per balance sheet	e	2 089	1 912	539
Foreseeable dividends		(61)	(32)	–
Perpetual preference share capital and share premium	f; d	(150)	–	–
Deconsolidation of special purpose entities	e	(99)	(29)	–
Non-controlling interests		4	(3)	–
Non-controlling interests per balance sheet	g	177	(3)	–
Non-controlling interests transferred to tier 1	h	(165)	–	–
Surplus non-controlling interest disallowed in CET1		(8)	–	–
Regulatory adjustments to the accounting basis		(32)	(11)	–
Defined benefit pension fund adjustment	b	(20)	–	–
Unrealised gains on available-for-sale equities		(7)	(7)	–
Additional value adjustments		(12)	(11)	–
Cash flow hedging reserve		7	7	–
Deductions		(608)	(480)	(152)
Goodwill and intangible assets net of deferred tax	c	(558)	(431)	(73)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	a	(38)	(38)	–
Unconsolidated investments		–	–	(18)
Securitisation positions		(4)	(3)	(42)
Connected funding of a capital nature		(8)	(8)	–
Excess of deductions from additional tier 1		–	–	(19)
Common equity tier 1 capital		1 143	1 357	387
Additional tier 1 capital		234	–	–
Additional tier 1 instruments	f; h	295	–	–
Phase out of non-qualifying additional tier 1 instruments		(61)	–	–
Tier 1 capital		1 377	1 357	387

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

^ *The 2013 capital information for Investec plc and 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.*

° *The capital adequacy disclosures for Investec plc and 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 for foreseeable dividends when calculating CET1 capital. Investec plc and IBP's CET1 ratio's will be 50bps and 30bps higher on this basis.*

** *The references refer to those in the reconciliation of the regulatory scope balance sheet set out on pages 106 and 107.*

Capital management and allocation (continued)

Capital structure and capital adequacy (continued)

At 31 March 2014	Ref**	Investec plc*^° £'million	IBP*^° £'million	IBAL*^ A$'million
Tier 2 capital		662	637	125
Tier 2 instruments	d	686	642	27
Phase out of non-qualifying tier 2 instruments		–	(3)	98
Non-qualifying surplus capital attributable to non-controlling interests		(24)	(2)	–
Total regulatory capital		2 039	1 994	512
Risk-weighted assets		13 711	12 668	3 185
Capital ratios				
Common equity tier 1 ratio		8.3%	10.7%	12.2%
Tier 1 ratio		10.0%	10.7%	12.2%
Total capital ratio		14.9%	15.7%	16.1%

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

^ *The 2013 capital information for Investec plc and 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.*

° *The capital adequacy disclosures for Investec plc and 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 for foreseeable dividends when calculating CET1 capital. Investec plc and IBP's CET1 ratio's will be 50bps and 30bps higher on this basis.*

** *The references refer to those in the reconciliation of the regulatory scope balance sheet on pages 106 and 107.*

Capital management and allocation (continued)

Capital structure and capital adequacy (continued)

At 31 March 2013	Investec plc*^ £'million	IBP*^ £'million	IBAL*^ A$'million
Tier 1 capital			
Shareholders' equity	1 842	1 889	596
Shareholders' equity per balance sheet	2 060	1 884	596
Perpetual preference share capital and share premium	(150)	–	–
Deconsolidation of special purpose entities	(68)	5	–
Non-controlling interests	(5)	(5)	–
Non-controlling interests per balance sheet	165	(5)	–
Non-controlling interests excluded for regulatory purposes	–	–	–
Non-controlling interests transferred to tier 1	(169)	–	–
Non-controlling interests in deconsolidated subsidiaries	(1)	–	–
Regulatory adjustments to the accounting basis	(31)	(10)	2
Unrealised losses on available-for-sale debt securities	2	2	–
Defined benefit pension fund adjustment	(22)	–	–
Unrealised gains on available-for-sale equities	(7)	(8)	2
Additional value adjustments	(16)	(16)	–
Cash flow hedging reserve	12	12	–
Deductions	(600)	(476)	(193)
Goodwill and intangible assets net of deferred tax	(598)	(472)	(105)
Unconsolidated investments	–	–	(23)
Securitisation positions	(2)	(2)	(55)
Excess of deductions from additional tier 1	–	(2)	(10)
Core tier 1/common equity tier 1 capital	1 206	1 398	405
Additional tier 1 capital	299	–	–
Additional tier 1 instruments	299	–	–
Deductions	(4)	–	–
Unconsolidated investments	(4)	–	–
Tier 1 capital	1 501	1 398	405

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

^ *The 2013 capital information for Investec plc and 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.*

Capital management and allocation (continued)

Capital structure and capital adequacy (continued)

	Investec plc*^ £'million	IBP*^ £'million	IBAL*^ A$'million
At 31 March 2013			
Tier 2 capital			
Total qualifying tier 2 capital before deductions	840	685	135
Unrealised gains on available-for-sale equities	7	8	–
Collective impairment allowances	120	20	–
Tier 2 instruments	713	657	25
Phase out of non-qualifying tier 2 instruments	–	–	110
Deductions	(6)	(4)	–
Unconsolidated investments	(4)	(2)	–
Securitisation positions	(2)	(2)	–
Total tier 2 capital	834	681	135
Total capital deductions	(57)	(54)	–
Investments that are not material holdings or qualifying holdings	(51)	(48)	–
Connected lending of a capital nature	(6)	(6)	–
Total regulatory capital	2 278	2 025	540
Risk-weighted assets	13 705	12 606	3 421
Capital ratios			
Core tier 1 ratio/common equity tier 1 ratio	8.8%	11.1%	11.8%
Tier 1 ratio	11.0%	11.1%	11.8%
Total capital ratio	16.7%	16.1%	15.8%

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

^ *The 2013 capital information for Investec plc and 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.*

Capital management and allocation (continued)

Capital requirements

At 31 March 2014	Investec plc*^ £'million	IBP*^ £'million	IBAL*^ A$'million
Capital requirements	1 097	1 014	412
Credit risk – prescribed standardised exposure classes	830	787	344
Corporates	298	294	95
Secured on real estate property	161	154	12
Short-term claims on institutions and corporates	–	–	3
Retail	102	102	194
Institutions	41	38	15
Other exposure classes	218	189	25
Securitisation exposures	10	10	–
Equity risk – standardised approach	21	21	–
Listed equities	5	5	–
Unlisted equities	16	16	–
Counterparty credit risk	22	22	9
Credit valuation adjustment risk	16	16	–
Market risk	55	52	7
Interest rate	21	21	7
Foreign exchange	8	5	–
Securities underwriting	1	1	–
Equities	22	22	–
Options	3	3	–
Operational risk – standardised approach	153	116	52
At 31 March 2013			
Capital requirements	1 096	1 007	446
Credit risk – prescribed standardised exposure classes	842	795	380
Corporates	277	279	142
Secured on real estate property	232	224	16
Short-term claims on institutions and corporates	–**	–**	3
Retail	102	102	154
Institutions	33	31	9
Other exposure classes	184	145	55
Securitisation exposures	14	14	1
Equity risk – standardised approach	29	28	–
Listed equities	4	4	–
Unlisted equities	25	24	–
Counterparty credit risk	26	26	9
Market risk	61	61	6
Interest rate	23	22	6
Foreign exchange	12	13	–
Commodities	–	–	–
Equities	24	24	–
Options	2	2	–
Operational risk – standardised approach	138	97	51

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

^ *The 2013 capital information for Investec plc and 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.*

** *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	Investec plc*^ £'million	IBP*^ £'million	IBAL*^ A$'million
Risk-weighted assets (banking and trading)	13 711	12 668	3 185
Credit risk – prescribed standardised exposure classes	10 374	9 844	2 659
Corporates	3 728	3 683	729
Secured on real estate property	2 007	1 923	94
Short-term claims on institutions and corporates	–	–	25
Retail	1 281	1 278	1 496
Institutions	506	473	118
Other exposure classes	2 729	2 364	194
Securitisation exposures	123	123	3
Equity risk – standardised approach	267	267	–
Listed equities	62	62	–
Unlisted equities	205	205	–
Counterparty credit risk	271	271	70
Credit valuation adjustment risk	194	194	–
Market risk	689	648	54
Interest rate	262	262	52
Foreign exchange	98	57	2
Securities underwriting	13	13	–
Equities	276	276	–
Options	40	40	–
Operational risk – standardised approach	1 916	1 444	402
At 31 March 2013			
Risk-weighted assets (banking and trading)	13 705	12 606	3 421
Credit risk – prescribed standardised exposure classes	10 532	9 952	2 914
Corporates	3 466	3 489	1 092
Secured on real estate property	2 904	2 799	122
Short-term claims on institutions and corporates	–**	–**	20
Retail	1 276	1 276	1 184
Institutions	409	393	69
Other exposure classes	2 296	1 814	423
Securitisation exposures	181	181	4
Equity risk – standardised approach	352	349	–
Listed equities	47	47	–
Unlisted equities	305	302	–
Counterparty credit risk	328	330	68
Market risk	762	767	46
Interest rate	286	275	43
Foreign exchange	150	166	3
Commodities	–	–	–
Equities	296	296	–
Options	30	30	–
Operational risk – standardised approach	1 731	1 208	393

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

^ *The 2013 capital information for Investec plc and 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.*

** *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	Investec plc^*	IBP^*	IBAL*
Common equity tier 1 (as reported)	8.3%	10.7%	12.2%
Common equity tier 1 ('fully loaded')^^	8.4%	10.8%	12.2%
Tier 1 (as reported)	10.0%	10.7%	12.2%
Total capital adequacy ratio (as reported)	14.9%	15.7%	16.1%
Leverage ratio** – permanent capital	7.4%	7.2%	11.2%
Leverage ratio** – current	7.1%	7.2%	11.2%
Leverage ratio** – 'fully loaded'^^	5.9%	7.3%	11.2%

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

^ *The capital adequacy disclosures for Investec plc and 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 for foreseeable dividends when calculating CET1 capital. Investec plc and IBP's CET1 ratio's will be 50bps and 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 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 plc consolidated reporting, we have adopted the standardised approach for calculating credit risk RWAs. Credit risk RWAs, which include equity risk, decreased by £243 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. This decrease was partly offset by a growth in lending and a net increase in RWAs of £61 million, arising on the implementation of CRD IV. The key CRD IV changes impacting our business include:

- The high risk exposure category 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 £57 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 £73 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 £185 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/core tier 1, additional tier 1 and tier 2 capital during the year.

Total regulatory capital flow statement

At 31 March 2014	Investec plc*^ £'million	IBP*^ £'million	IBAL*^ A$'million
Opening core tier 1/common equity tier 1 capital	1 206	1 398	405
New capital issues	16	20	20
Dividends	(70)	–	–
Profit after tax	94	53	(72)
Treasury shares	(58)	–	–
Gain on transfer of non-controlling interests	73	–	–
Share-based payment adjustments	37	–	–
Movement in other comprehensive income	(51)	(42)	3
Goodwill and intangible assets (deduction net of related tax liability)	40	41	24
Deferred tax that relies on future profitability (excluding those arising from temporary differences)	(38)	(38)	–
Deconsolidation of special purpose entities	(31)	(34)	–
Foreseeable dividend	(61)	(32)	–
Other, including regulatory adjustments and transitional arrangements	(14)	(9)	7
Closing common equity tier 1 capital	1 143	1 357	387
Opening additional tier 1 capital	295	–	–
Other, including regulatory adjustments and transitional arrangements	(61)	–	–
Closing additional tier 1 capital	234	–	–
Closing tier 1 capital	1 377	1 357	387
Opening tier 2 capital	834	681	135
Amortisation adjustments	(27)	(15)	–
Collective impairment allowances	(120)	(20)	–
Other, including regulatory adjustments and transitional arrangements	(25)	(9)	(10)
Closing tier 2 capital	662	637	125
Opening other deductions from total capital	(57)	(54)	–
Connected funding of a capital nature	6	6	–
Investments that are not material holdings or qualifying holdings	51	48	–
Closing other deductions from total capital	–	–	–
Closing total regulatory capital	2 039	1 994	512

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

^ *The 2013 capital information for Investec plc and 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.*

Total regulatory capital flow statement (continued)

At 31 March 2013	Investec plc* £'million	IBP* £'million	IBAL* A$'million
Restated opening core tier 1/common equity tier 1 capital**	1 197	1 319	434
New capital issues	22	159	–
Dividends	(60)	(13)	–
Profit after tax	55	30	7
Treasury shares	(32)	–	–
Acquisition of non-controlling interest	(4)	(4)	–
Share-based payment adjustments	34	–	–
Movement in other comprehensive income	(2)	6	–
Goodwill and intangible assets (deduction net of related tax liability)	7	(93)	(4)
Deconsolidation of special purpose entities	(17)	(15)	–
Other, including regulatory adjustments and transitional arrangements	6	(9)	(32)
Closing core tier 1/common equity tier 1 capital	1 206	1 398	405
Opening additional tier 1 capital	296	–	–
Other, including regulatory adjustments and transitional arrangements	(1)	–	–
Closing additional tier 1 capital	295	–	–
Closing tier 1 capital	1 501	1 398	405
Opening tier 2 capital	786	627	91
New tier 2 capital issues	35	35	50
Amortisation adjustments	(17)	(6)	–
Collective impairment allowances	19	13	–
Other, including regulatory adjustments and transitional arrangements	11	12	(6)
Closing tier 2 capital	834	681	135
Restated opening other deductions from total capital**	(58)	(53)	–
Connected funding of a capital nature	4	4	–
Investments that are not material holdings or qualifying holdings	(3)	(5)	–
Closing other deductions from total capital	(57)	(54)	–
Restated closing total regulatory capital	2 278	2 025	540

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

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

Analysis of rated counterparties in each standardised credit exposure class

Investec plc

The table below shows the breakdown of rated credit risk exposures by credit quality step.

	31 March 2014		31 March 2013	
Credit quality step	Exposure £'million	Exposure after credit risk mitigation £'million	Exposure £'million	Exposure after credit risk mitigation £'million
Central banks and sovereigns	3 187	2 950	3 068	3 068
1	–	–	–	–
2	–	–	–	–
3	–	–	–	–
4	–	–	–	–
5	–	–	–	–
6	–	–	–	–
Institutions*				
1	281	281	289	289
2	990	903	926	716
3	131	131	67	67
4	35	35	32	32
5	2	2	–	–
6	–	–	–	–
Corporates				
1	5	5	–	–
2	15	15	12	12
3	2	1	173	173
4	7	7	–	–
5	19	19	15	15
6	–	–	–	–
Securitisation positions				
1	171	171	163	163
2	20	20	51	51
3	34	26	25	25
4	5	1	16	16
5	–	–	4	4
Re-securitisation positions				
1	15	15	36	36
2	9	9	9	9
3	4	4	4	4
4	–	–	–	–
5	–	–	–	–
Total rated counterparty exposure	4 932	4 595	4 890	4 680

* *The institutions exposure class includes exposures to institutions with an original effective maturity of more than and less than three months.*

Credit ratings

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 ratings			
Foreign currency		F3	F3
National			
Viability rating		bbb-	
Support rating		5	3
Moody's			
Long-term deposit ratings			
Foreign currency	Ba1	Baa3	Ba1
National			
Short-term deposit ratings			
Foreign currency	Non-prime	Prime-3	Non-prime
National			
Bank financial strength rating		D+	D
Global Credit Ratings			
Local currency			
Short-term rating		A2	
Long-term rating		BBB+	

Internal Audit

Internal Audit activity is governed by an internal audit charter which is approved by the 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.

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

Compliance

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

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

In addition to a number of international proposals aiming for an internationally accepted single global tax reporting standard and automatic information exchange, The Foreign Account Tax Compliance Act (FATCA) is also having a global impact on firms. To combat tax evasion by US tax residents using foreign accounts, FATCA requires firms outside of the US to pass information about their US customers to the US tax authorities, Internal Revenue Service (IRS). Failure to meet the new reporting obligations under FATCA would result in a 30% withholding tax on financial institutions. The UK, along with a number of other countries, has entered into an intergovernmental disclosure agreement with the US.

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

As of 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.

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 interbank 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 plc 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 plc, 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.

Sound corporate governance is implicit in our values, culture, processes, functions and organisational structure

Introduction

This section provides a summary of our corporate governance philosophy and practices. A more detailed review is provided in the Investec group's 2014 integrated annual report.

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 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 dual listed company (DLC) structure, and consider the corporate governance principles and regulations of both the UK and South Africa before adopting the appropriate rule for the group.

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

Regulatory context

The board, management and employees of Investec are committed to complying with the disclosure and transparency rules and listing rules of the United Kingdom Listing Authority (UKLA), regulatory requirements in the countries in which we operate and the UK Corporate Governance Code (the Code) which was issued by the UK's Financial Reporting Council in 2010 and revised in September 2012. Therefore all stakeholders are assured that we are being managed ethically and in compliance with the latest legislation, regulations and best practices.

Governance framework

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

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

Investec's governance framework is depicted on page 37.

This avoids the necessity of having to duplicate various committees and forums at group subsidiary level. Due to the DLC structure, we have combined board committees of Investec Limited and Investec plc. Full disclosure of the functioning and responsibilities of these board committees can be found in the Investec group's 2014 integrated annual report.

Statement of compliance

UK Corporate Governance Code

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

- Bradley Fried, who is not considered to be independent as he was employed as Investec Bank plc CEO during the five years prior to appointment as a director, was appointed as a member of the DLC remuneration committee on 3 April 2013. Given the increasing complexity of remuneration policy and its application to the group, Bradley's knowledge and experience of the group is deemed to be beneficial to the workings of this committee and is believed to be in the best interests of shareholders.

Financial reporting and going concern

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

- Budgeting and forecasts
- Profitability
- Capital
- Liquidity.

Our annual financial statements are prepared on a going concern basis.

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

Further information on our liquidity and capital position is provided on pages 89 to 96 and pages 101 to 116.

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

In addition, the directors are responsible for monitoring and reviewing the preparation, integrity and reliability of the Investec plc annual financial statements, accounting policies and the information contained in the integrated annual report, and to ensure that the annual financial statements are fair, balanced and understandable.

Management and succession planning

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

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

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

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

Senior management succession plans are also presented annually to the banking regulators.

Internal control

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

Internal control is designed to mitigate, not eliminate, significant risks faced. It is recognised that such a system provides reasonable, but not absolute, assurance against material error, omission, misstatement or loss. This is achieved within the group through a combination of risk identification, evaluation and monitoring processes, appropriate decision and oversight forums, and assurance and control functions such as group risk management, internal audit and compliance.

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 regularly considered by the executive risk review forum (ERRF) and by the BRCC. Material incidents and losses and significant breaches of systems and controls are reported to the BRCC and the audit committees. Reports from the audit committees, BRCC and risk and control functions are reviewed at each board meeting.

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

Internal financial controls

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

Board of directors

Biographical details of the directors are set out on pages 125 and 126, with more information in the Investec group's 2014 integrated annual report.

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

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

For more information on the board's objectives, role and responsibilities refer to the Investec group's 2014 integrated annual report.

Composition, structure and process

At the end of the year under review, the board, including the joint chairmen, comprised four executive directors and 12 non-executive directors.

Refer to the Investec group's 2014 integrated annual report for disclosures on:

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

Board committees

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

The full terms of reference are available on our website.

Remuneration

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

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

Our global remuneration philosophy seeks to maintain an appropriate balance between the interests of these stakeholders, and is closely aligned to our core values and philosophies which include risk consciousness, meritocracy, material employee ownership and an unselfish contribution to colleagues, clients and society. Further information regarding our remuneration philosophy and processes and directors' remuneration is provided in the Investec group's 2014 integrated annual report.

PRA Remuneration Code disclosures

In terms of the PRA's Chapter 11 Disclosure Requirements (BIPRU 11.5.18) the bank, as a tier 2 organisation, 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. These disclosures can be found in the Investec group's 2014 integrated annual report.

External audit

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

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

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

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

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

For further details on non-audit services see note 6 on page 165.

Regulation and supervision

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

Values and code of conduct

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

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

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

Directorate

Executive directors

(details at the date of this report)

Stephen Koseff (62)

Chief executive officer

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

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

Appointed to the board in October 1986

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

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

Bernard Kantor (64)

Managing director

CTA

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

Appointed to the board in June 1987

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

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

Glynn R Burger (57)

Group risk and finance director

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

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

Appointed to the board in July 2002

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

Other directorships include: Investec Bank Limited and a number of Investec subsidiaries.

Hendrik du Toit (52)

Investec Asset Management chief executive officer

BCom Law, BCom (Hons) (cum laude), MCom (cum laude), MPhil (Cambridge)

Appointed to the board in December 2010

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

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

Non-executive directors

(details at the date of this report)

Sir David J Prosser* (70)

Joint chairman

BSc (Hons), FIA

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

Appointed to the board in March 2006

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

Other directorships include: Investec Bank Limited and Investec Bank plc (chairman).

Fani Titi* (51)

Joint chairman

BSc (Hons), MA, MBA

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

Appointed to the board in January 2004

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

Other directorships include: Investec Bank Limited (chairman), Investec Bank plc, Investec Employee Benefits Limited and Investec Asset Management Holdings (Pty) Ltd, Investec Asset Management Limited, Kumba Iron Ore Limited (chairman), MTN Group Limited and MRC Media (Pty) Ltd.

**Joint Chairmen with effect from 17 November 2011*

George FO Alford (65)

Senior independent director

BSc (Econ), FCIS, FIPD

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

Appointed to the board in June 2002

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

Other directorships include: Investec Bank plc.

Cheryl A Carolus (56)

BA (Law), BEd, Honorary doctorate in Law

Board committees: DLC social and ethics

Appointed to the board in March 2005

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

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

Perry KO Crosthwaite (65)

MA (Hons) in modern languages

Board committees: DLC remuneration

Appointed to the board in June 2010

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

Other directorships include: Investec Bank plc, Jupiter Green Investment Trust, Melrose Industries plc, Investec Holdings (Ireland) Limited and Investec Capital and Investments (Ireland) Limited.

Olivia C Dickson (53)

MA (Oxon), MSc (Lon), CDipAF

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

Appointed to the board in March 2011

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

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

Other directorships include: Canada Life Limited, The Canada Life Group (UK) Limited, Canada Life Asset Management Limited and Financial Reporting Council Limited.

Bradley Fried (48)

BCom, CA(SA), MBA

Board committees: DLC board risk and capital and DLC remuneration

Appointed to the board in April 2010

Bradley previously held the positions of joint head of investment banking and chief executive of Investec Bank plc. He is the chief executive in residence at Judge Business School.

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

David Friedland (60)

BCom, CA(SA)

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

Appointed to the board in March 2013

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

Other directorships include: Investec Bank Limited, Investec Bank plc, Foschini Group Limited and Pick n Pay Stores Limited.

Haruko Fukuda OBE (67)

MA (Cantab), DSc

Board committees: DLC board risk and capital

Appointed to the board in July 2003

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

Other directorships include: Investec Bank plc, director of Aberdeen Asian Smaller Companies Investment Trust PLC. She is an adviser to Braj Binani Group of India.

Ian R Kantor (67)

BSc (Eng), MBA

Appointed to the board in July 1980

Other directorships include: Insinger de Beaufort Holdings SA (in which Investec Limited indirectly holds an 8.6% interest), Bank Insinger de Beaufort NV (where he is chairman of the management board), Investec Asset Management Holdings (Pty) Ltd and Investec Asset Management Limited.

M Peter Malungani (56)

BCom, MAP, LDP

Board committees: DLC board risk and capital

Appointed to the board in June 2002

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

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

Peter RS Thomas (69)

CA(SA)

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

Appointed to the board in June 1981

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

Other directorships include: Investec Bank Limited, various Investec subsidiaries companies, JCI Limited and various unlisted companies.

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

Shareholder analysis

Investec ordinary shares

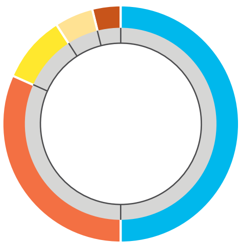
At 31 March 2014 Investec plc had 608.8 million ordinary shares in issue.

Spread of ordinary shareholders at 31 March 2014

Investec plc ordinary shares in issue

Number of shareholders	Holdings	% of total shareholders	Number of shares in issue	% of issued share capital
13 784	1 to 500	50.9%	2 473 178	0.4%
4 695	501 – 1 000	17.3%	3 643 272	0.6%
5 814	1 001 – 5 000	21.5%	13 188 514	2.2%
987	5 001 – 10 000	3.6%	7 186 330	1.2%
1 037	10 001 – 50 000	3.8%	24 005 338	3.9%
256	50 001 – 100 000	0.9%	18 435 072	3.0%
529	100 001 and over	2.0%	539 824 639	88.7%
27 102		100.0%	608 756 343	100.0%

Geographical holding by beneficial ordinary share owner at 31 March 2014



Investec plc

South Africa	50.1%
UK	31.6%
USA and Canada	9.4%
Rest of Europe	5.1%
Other countries and unknown	3.8%

Largest ordinary shareholders at 31 March 2014

In accordance with the terms provided for in section 793 of the UK Companies Act 2006, the group has conducted investigations into the registered holders of its ordinary shares (including nominee and asset management companies) and the results are as discussed below.

Investec plc

	Shareholder analysis by manager group	Number of shares	% holding
1	Public Investment Corporation (ZA)	71 229 118	11.7%
2	Allan Gray (ZA)	51 047 200	8.4%
3	BlackRock Incorporated (UK and US)	30 224 232	5.0%
4	Old Mutual (ZA)	19 873 218	3.3%
5	Prudential Group (ZA)	19 738 410	3.2%
6	Schroder Investment Management (UK)	16 520 336	2.7%
7	State Street Corporation (UK and US)	16 378 619	2.7%
8	Legal & General Investment Management (UK)	16 252 011	2.7%
9	Sanlam Group (ZA)	16 346 398	2.7%
10	Royal London Mutual Assurance Society (UK)	15 844 463	2.6%
		273 454 005	45.0%

The top 10 shareholders account for 45.0% of the total shareholding in Investec plc. This information is based on a threshold of 20 000 shares. Some major fund managers hold additional shares below this, which may cause the above figures to be marginally understated.

Shareholder classification at 31 March 2014

	Number of Investec plc shares	% holding
Public*	587 411 787	96.5%
Non-public	21 344 556	3.5%
Non-executive directors of Investec plc/Investec Limited	3 677 453	0.6%
Executive directors of Investec plc/Investec Limited	7 049 470	1.2%
Investec staff share schemes	10 617 633	1.7%
Total	608 756 343	100.0%

* *As per the JSE listings requirements.*

Share statistics

Investec plc

For the period ended	31 March 2014	31 March 2013	31 March 2012	31 March 2011	31 March 2010	31 March 2009	31 March 2008
Closing market price per share (Pounds Sterling)							
– year end	4.85	4.59	3.82	4.78	5.39	2.92	3.39
– highest	5.08	5.14	5.22	5.50	5.62	4.21	7.65
– lowest	3.66	3.10	3.18	4.29	2.87	1.69	2.94
Number of ordinary shares in issue (million)[1]	608.8	605.2	598.3	537.2	471.1	444.9	423.3
Market capitalisation (£'million)[1]	2 953	2 778	2 286	2 568	2 539	1 299	1 435.0
Daily average volume of shares traded ('000)	1 985	1 305	1 683	1 634	1 933	2 604	3 926.0
Price earnings ratio[2]	12.8	12.7	12.0	11.1	12.0	6.9	6.00
Dividend cover (times)[2]	2.0	2.0	1.9	2.5	2.8	3.3	2.30
Dividend yield (%)[2]	3.9	3.9	4.5	3.6	3.0	4.5	7.40
Earnings yield (%)[2]	7.8	7.9	8.3	9.0	8.4	14.5	16.70

1 *The London Stock Exchange only include the shares in issue for Investec plc, i.e. currently 608.8 million, in calculating market capitalisation, as Investec Limited is not incorporated in the UK.*

2 *Calculations are based on the group's consolidated earnings per share before goodwill, acquired intangibles and non-operating items; and dividends per share as prepared in accordance with IFRS and denominated in Pounds Sterling.*

Investec perpetual preference shares

Investec plc has issued perpetual preference shares, the details of which can be found on page 212.

Spread of perpetual preference shareholders at 31 March 2014

Investec plc perpetual preference shareholders

Number of shareholders	Holdings	% of total shareholders	Number of preference shares in issue	% of issued preference share capital
135	1 to 500	12.0%	35 450	0.2%
143	501 – 1 000	12.7%	116 536	0.8%
575	1 001 – 5 000	51.2%	1 197 530	7.9%
90	5 001 – 10 000	8.0%	669 569	4.4%
119	10 001 – 50 000	10.5%	2 638 274	17.5%
31	50 001 – 100 000	2.8%	2 280 446	15.1%
31	100 001 and over	2.8%	8 143 344	54.1%
1 124		100.0%	15 081 149	100.0%

Investec plc (Rand denominated) perpetual preference shareholders

Number of shareholders	Holdings	% of total shareholders	Number of preference shares in issue	% of issued preference share capital
80	1 to 500	23.0%	22 869	1.0%
76	501 – 1 000	21.8%	60 234	2.6%
145	1 001 – 5 000	41.7%	323 183	14.2%
18	5 001 – 10 000	5.2%	133 620	5.9%
20	10 001 – 50 000	5.8%	485 624	21.3%
4	50 001 – 100 000	1.1%	324 724	14.3%
5	100 001 and over	1.4%	925 686	40.7%
348		100.0%	2 275 940	100.0%

Largest perpetual preference shareholders at 31 March 2014

Shareholders holding beneficial interests in excess of 5% of the issued preference shares are as follows:

Investec plc

Chase Nominees Limited (Artemis)	10.6%

Investec plc (Rand denominated)

NES Investments (Pty) Ltd	5.3%
Liberty Active Investment	6.5%
Regent Insurance Company Limited safe custody	6.6%
Cadiz Absolute Yield Fund – CIS	17.6%

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

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

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

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

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

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

Employees

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

Investors and shareholders

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

Government and regulatory bodies

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

Clients

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

Suppliers

- Centralised negotiation process

Rating agencies

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

Media

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

Equity and debt analysts

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

Corporate responsibility

Sustainable business practices…

Our sustainability philosophy

Guided by our purpose to create sustained long-term wealth, we seek to be a positive influence in all our core businesses and in each of the societies in which we operate. We do this by empowering communities through entrepreneurship and education and leveraging the value in our diversity. We recognise the challenges that climate change presents to the global economy and we will consider supporting any meaningful activity that either reduces the negative impact on, or prolongs the life of, our planet.

Investec as a responsible corporate citizen

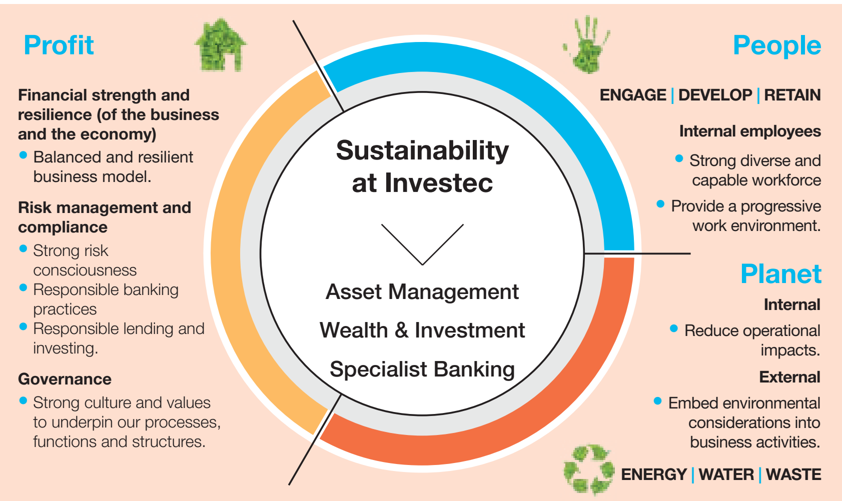
At Investec we recognise that, while our shareholders remain at the forefront, our purpose ultimately is not only about driving profits. We strive to be a distinctive specialist bank and asset manager, demonstrating cast-iron integrity, moral strength and behaviour which promote trust. Our core values include unselfishly contributing to society, valuing diversity and respecting others. Outstanding, empowered talent, entrepreneurial spirit and regard for the planet are other qualities that fit squarely with the culture of our organisation and our approach to responsible business.

Our culture and values, at the heart of our approach, demonstrate our belief that as an organisation we can and must, if we are to maintain a sustainable business in the long term, have a positive impact on the success and wellbeing of communities local to our offices, the environment and on overall macro-economic stability.

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

Sustainability at Investec

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



Investec maintained its inclusion in the JSE SRI Index, the FTSE4Good Index*, the Dow Jones Sustainability Index and the Carbon Disclosure Project. Investec group received two awards from the Climate Disclosure Project. Gold recognition status was given for a score of A- on Climate Performance in 2013 and we were also included in the Climate Disclosure Leadership Index 2013 (Top 11 in South Africa across all sectors).

* *FTSE Group confirms that Investec has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index company FTSE Group, FTSE4Good is an equity index series that is designed to facilitate investment in companies that meet globally recognised corporate responsibility standards. Companies in the FTSE4Good Index Series have met stringent social and environmental criteria, and are positioned to capitalise on the benefits of responsible business practice.*

Our approach to sustainability is documented throughout this integrated annual report with further detail in a more extensive Sustainability Report on our website.

FOUR

Annual financial
statements

Directors' responsibility statement

The following statement, which should be read in conjunction with the auditor's report set out on page 140, is made with a view to distinguishing for stakeholders the respective responsibilities of the directors and of the auditors in relation to the special purpose consolidated annual financial statements.

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

To enable the directors to meet these responsibilities:

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

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

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

The special purpose consolidated annual financial statements have been prepared in accordance with accounting policies set out on pages 148 to 156.

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 annual financial statements have been prepared on that basis.

It is the responsibility of the independent auditors to report on the special purpose consolidated annual financial statements. Their report to the members of the company is set out on page 140 of this report. As far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. All steps which ought to have been taken as directors have been completed in order to be aware of the relevant audit information and to establish that the company's auditors are aware of that information.

Approval of annual financial statements

The directors' report and the annual financial statements of the company, which appear on pages 134 to 136 and pages 237 to 239, were approved by the board of directors on 24 June 2014. The special purpose consolidated annual financial statements of the group on pages 141 to 236 were approved by the board of directors on 24 June 2014.

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

Signed on behalf of the board

Stephen Koseff	Bernard Kantor
Chief executive officer	Managing director

24 June 2014

Directors' report

Extended business review

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

The information on pages 13 to 30 provides an overview of our strategic position, performance during the financial year and outlook for the business.

Authorised and issued share capital

Details of the share capital are set out in note 41 to the annual financial statements.

During the year, the following shares were issued:

- 3 559 572 ordinary shares on 28 June 2013 at 459.00 pence per share
- 3 295 365 special converting shares on 28 June 2013 of £0.0002 each at par.

Investec plc did not repurchase any of its ordinary shares during the financial year ended 31 March 2014.

At 31 March 2014 Investec plc held 12.5 million shares in treasury (2013: 11.1 million).

Financial results

The results of Investec plc are set out in the annual financial statements and accompanying notes for the year ended 31 March 2014. The preparation of these results was supervised by the group risk and finance director, Glynn Burger.

Ordinary dividends

An interim dividend was declared to shareholders as follows:

- 8.0 pence per ordinary share to non-South African resident shareholders (2013: 8.0 pence) registered on 13 December 2013
- To South African resident shareholders registered on 13 December 2013, a dividend paid by Investec Limited on the SA DAS share, equivalent to 8.0 pence (2013: 7.0 pence and 1.0 pence per ordinary share paid by Investec plc) per ordinary share.

The dividends were paid on 27 December 2013.

The directors have proposed a final dividend to shareholders registered on 1 August 2014 of 11.0 pence (2013: 10.0 pence) per ordinary share, which is subject to the approval of the members of Investec plc at the annual general meeting which is scheduled to take place on 7 August 2014 and, if approved, will be paid on 15 August 2014, as follows:

- 11.0 pence per ordinary share to non-South African resident shareholders (2013: 10.0 pence) registered on 1 August 2014
- To South African resident shareholders registered on 1 August 2014, through a dividend paid by Investec Limited on the SA DAS share, of 7.0 pence per ordinary share and 4.0 pence per ordinary share paid by Investec plc.

Preference dividends

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

Preference dividend number 15 for the period 1 April 2013 to 30 September 2013, amounting to 7.52055 pence per share, was declared to members holding preference shares registered on 6 December 2013 and was paid on 17 December 2013.

Preference dividend number 16 for the period 1 October 2013 to 31 March 2014, amounting to 7.47945 pence per share, was declared to members holding preference shares registered on 13 June 2014 and will be paid on 24 June 2014.

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

Preference dividend number 5 for the period 1 April 2013 to 30 September 2013, amounting to 404.85616 cents per share, was declared to members holding Rand denominated non-redeemable, non-cumulative, non-participating preference shares registered on 6 December 2013 and was paid on 17 December 2013.

Preference dividend number 6 for the period 1 October 2013 to 31 March 2014, amounting to 410.58218 cents per share, was declared to members holding preference shares registered on 13 June 2014 and will be paid on 24 June 2014.

Preferred securities

The seventh annual distribution, fixed at 7.075%, on the €200 million fixed/floating rate, guaranteed, non-voting, non-cumulative perpetual preferred callable securities issued by Investec Tier 1 (UK) LP on 24 June 2005, is due and will be paid on 24 June 2014.

Directors and secretaries

Details of directors and secretaries of Investec plc are reflected on pages 125 and 126.

In accordance with the UK Corporate Governance Code, the entire board will offer itself for re-election at the 2014 annual general meeting, other than GFO Alford, OC Dickson and MP Malungani who will not offer themselves for re-election.

SE Abrahams retired from the board on 8 August 2013.

The company secretary of Investec plc is David Miller.

Directors and their interests

Directors' shareholdings and options to acquire shares are set out in the Investec group's 2014 integrated annual report.

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

Corporate governance

The group's corporate governance board statement and governance framework are set out on pages 122 to 124.

Share incentives

Details regarding options granted during the year are set out on pages 166 and 167.

Audit committees

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

Further details on the role and responsibility of the audit committee are set in the Investec group's 2014 integrated annual report.

Auditors

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

A resolution to re-appoint them as auditors will be proposed at the annual general meeting scheduled to take place on 7 August 2014.

Contracts

Refer to the Investec group's 2014 integrated annual report for details of contracts with directors.

Subsidiary and associated companies

Details of principal subsidiary and associated companies are reflected on pages 224 to 227.

Major shareholders

The largest shareholders of Investec plc are reflected on page 127.

Special resolutions

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

- A renewable authority was granted to Investec plc to allot shares wholly for cash within the terms of the authority in Article 12.2 and to sell treasury shares wholly for cash, in connection with a rights issue and otherwise than in connection with a rights issue, up to an aggregate nominal amount equal to the section 571 amount, being £6 052 (six thousand and fifty-two Pounds Sterling)
- A renewable authority was granted to Investec plc to acquire its own ordinary shares in accordance with the terms of section 701 of the Companies Act 2006
- A renewable authority was granted to Investec plc to acquire its own preference shares in accordance with the terms of section 701 of the Companies Act 2006
- Investec plc was authorised in accordance with the Companies Act 2006, to send, convey or supply all types of notices, documents or information to shareholders by electronic means, including by making such notices, documents or information available on a website, and the relevant provisions of the Articles of Association of Investec plc were amended accordingly.

Accounting policies and disclosure

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

The parent company annual financial statements of Investec plc continue to be drawn up under UK Generally Accepted Accounting Practice (UK GAAP).

These policies are set out on pages 148 to 156 and 238, respectively.

Financial instruments

Detailed information on the group's risk management process and policy can be found in the risk management report on pages 32 to 117.

Information on the group's hedge accounting policy and the use of derivatives and hedges can be found on page 153 and in notes 23 and 51.

Employees

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

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

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

Political donations and expenditure

Investec plc did not make any donations for political purposes in the UK or the rest of the EU, nor did it make any political donations to political parties or other political organisations, or to any independent election candidates, or incur any political expenditure during the year.

Environment, including greenhouse gas emissions

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

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

Going concern

Refer to page 122 for the directors' statement in relation to going concern.

Research and development

In the ordinary course of business Investec plc develops new products and services in each of its business divisions.

Post-balance sheet events

As announced on 11 April 2014, the board of directors of Investec have entered into a definitive contract with the Bank of Queensland Limited (BOQ) to purchase Investec Bank (Australia) Limited's (IBAL's) Professional Finance and 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.

Additional information for shareholders

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

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

On behalf of the board of Investec plc

Sir David J Prosser
Joint chairman

Fani Titi
Joint chairman

Stephen Koseff
Chief executive officer

24 June 2014

Schedule A to the directors' report

Additional information for shareholders

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

Share capital

The issued share capital of Investec plc at 31 March 2014 consists of 608 756 343 ordinary shares of £0.0002 each, 15 081 149 non-redeemable, non-cumulative, non-participating preference shares of £0.01 each, 2 275 940 ZAR non-redeemable, non-cumulative, non-participating preference shares of R0.001 each, 282 934 529 special converting shares of £0.0002 each, the special voting share of £0.001, the UK DAN share of £0.001 and the UK DAS share of £0.001 (each class as defined in the Articles).

Purchase of own shares

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

Dividends and distributions

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

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

Voting rights

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

Restrictions on voting

No member shall be entitled to vote either in person or by proxy at any general meeting or class meeting in respect of any shares held by him if any call or other sum then payable by him in respect of that share remains unpaid. In addition, no member shall be entitled to vote if he has been served with a notice after failure to provide Investec plc with information concerning interests in those shares required to be provided under the Companies Act 2006.

Deadlines for exercising voting rights

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

Variation of rights

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

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

Transfer of shares

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

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

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

Subject to the Companies Act 2006 and regulations and applicable CREST rules, the directors may determine that any class of shares may be held in uncertificated form and that title to such shares may be transferred by means of the CREST system or that shares of any class should cease to be so held and transferred.

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

plc preference shares

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

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

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

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

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

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

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

Shares required for the DLC structure

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

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

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

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

Appointment and replacement of directors

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

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

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

Powers of directors

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

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

Significant agreements: change of control

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

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

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

Independent auditor's report to the board of Investec plc

We have audited the accompanying special purpose annual financial statements of Investec plc for the year ended 31 March 2014 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Cash Flow Statement, Consolidated Statement of Changes in Equity, and notes 1 to 58. The annual financial statements have been prepared by the directors in accordance with the accounting policies set out on pages 148 to 156.

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

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

Directors' responsibility for the annual financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the annual financial statements of Investec plc for the year ended 31 March 2014 are prepared, in all material respects, in accordance with the accounting policies.

Basis of accounting and restriction on use

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

Other matter

Investec plc has prepared a separate set of annual financial statements for the year ended 31 March 2014 in accordance with both International Financial Reporting Standards as adopted by the European Union and International Financial Reporting Standards as issued by the International Accounting Standards Board on which we issued a separate auditor's report to the shareholders of Investec plc dated 11 June 2014.

Ernst & Young LLP
London

24 June 2014

Notes:

1. *The maintenance and integrity of the Investec plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the annual financial statements since they were initially presented on the website.*
2. *Legislation in the United Kingdom governing the preparation and dissemination of annual 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	803 768	925 334
Interest expense	2	(447 034)	(564 519)
Net interest income		356 734	360 815
Fee and commission income	3	766 675	753 898
Fee and commission expense	3	(132 104)	(130 398)
Investment income	4	99 099	70 751
Trading income arising from:			
– customer flow		77 043	58 103
– balance sheet management and other trading activities		(9 308)	18 015
Other operating income	5	16 013	36 590
Total operating income before impairment losses on loans and advances		1 174 152	1 167 774
Impairment losses on loans and advances	26	(126 911)	(189 036)
Operating income		1 047 241	978 738
Operating costs	6	(889 522)	(848 606)
Depreciation on operating leased assets	6/31	(6 044)	(16 072)
Operating profit before goodwill and acquired intangibles		151 675	114 060
Impairment of goodwill	33	(11 233)	(13 409)
Amortisation of acquired intangibles		(13 393)	(13 313)
Costs arising from integration, restructuring and partial disposal of subsidiaries		(18 919)	(13 119)
Operating profit		108 130	74 219
Net gain on disposal of subsidiaries		9 653	–
Non-operational costs arising from acquisition of subsidiary		–	(1 369)
Profit before taxation		117 783	72 850
Taxation on operating profit before goodwill	8	(31 009)	(23 861)
Taxation on acquired intangibles and acquisition/disposal/integration of subsidiaries	8	7 289	5 977
Profit after taxation		94 063	54 966
Profit attributable to Asset Management non-controlling interests		(5 535)	–
Loss/(profit) attributable to other non-controlling interests		2 720	(397)
Earnings attributable to shareholders		91 248	54 569

* *As restated for restatements detailed in note 57.*

Consolidated statement of comprehensive income

For the year to 31 March £'000	Notes	2014	2013*
Profit after taxation		94 063	54 966
Other comprehensive income/(loss):			
Items that may be reclassified to the income statement			
Fair value movements on cash flow hedges taken directly to other comprehensive income**	8	2 793	(1 657)
(Gains)/losses on available-for-sale assets recycled through the income statement**	8	(2 896)	407
Fair value movements on available-for-sale assets recycled through the income statement**	8	1 239	(1 704)
Foreign currency adjustments on translating foreign operations		(45 682)	7 899
Items that will never be reclassified to the income statement			
Remeasurement of net defined benefit pension asset	39	(5 870)	(7 078)
Total comprehensive income		43 647	52 833
Total comprehensive income attributable to non-controlling interests		3 222	161
Total comprehensive income attributable to ordinary shareholders		25 009	37 623
Total comprehensive income attributable to preferred securities and perpetual preference shareholders		15 416	15 049
Total comprehensive income		43 647	52 833

* *As restated for restatements detailed in note 57.*

** *Net of tax.*

Consolidated balance sheet

At 31 March £'000	Notes	2014	2013*	2012*
Assets				
Cash and balances at central banks	17	1 742 618	1 375 670	1 835 849
Loans and advances to banks	18	1 307 570	1 324 637	1 060 246
Reverse repurchase agreements and cash collateral on securities borrowed	19	1 215 500	1 528 593	1 159 138
Sovereign debt securities	20	1 232 416	1 660 377	1 647 271
Bank debt securities	21	371 183	455 201	824 552
Other debt securities	22	229 228	190 510	207 116
Derivative financial instruments	23	920 015	1 135 058	1 051 365
Securities arising from trading activities	24	586 706	673 763	372 570
Investment portfolio	25	342 597	357 154	293 073
Loans and advances to customers	26	7 774 627	7 758 920	7 201 417
Own originated loans and advances to customers securitised	27	447 638	491 194	535 008
Other loans and advances	26	1 672 709	2 031 340	2 785 080
Other securitised assets	27	2 798 158	3 106 741	3 098 942
Interests in associated undertakings	28	21 366	24 707	24 430
Deferred taxation assets	29	105 109	126 822	119 690
Other assets	30	1 199 057	1 382 804	1 326 907
Property and equipment	31	65 923	87 992	131 585
Investment property	32	61 715	11 500	11 500
Goodwill	33	427 011	456 646	454 623
Intangible assets	34	153 348	172 131	184 197
		22 674 494	24 351 760	24 324 559
Liabilities				
Deposits by banks		1 433 141	1 781 802	1 916 429
Derivative financial instruments	23	668 722	817 526	732 601
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)		10 956 136	11 190 582	10 939 863
Debt securities in issue	37	1 369 268	1 762 338	2 179 452
Liabilities arising on securitisation of own originated loans and advances	27	449 079	477 870	526 945
Liabilities arising on securitisation of other assets	27	2 374 599	2 486 186	2 500 975
Current taxation liabilities		107 271	87 291	77 188
Deferred taxation liabilities	29	68 502	77 851	82 998
Other liabilities	38	1 234 687	1 383 148	1 157 182
		19 667 788	21 379 752	21 405 930
Subordinated liabilities	40	740 950	747 245	708 276
		20 408 738	22 126 997	22 114 206
Equity				
Ordinary share capital	41	178	177	175
Perpetual preference share capital	42	151	151	151
Share premium	43	1 146 548	1 130 210	1 107 651
Treasury shares	44	(56 997)	(52 098)	(41 941)
Other reserves		312 886	409 169	424 271
Retained income		686 279	572 600	555 634
Shareholders' equity excluding non-controlling interests		2 089 045	2 060 209	2 045 941
Non-controlling interests	45	176 711	164 554	164 412
– Perpetual preferred securities issued by subsidiaries		165 319	169 106	166 762
– Non-controlling interests in partially held subsidiaries		11 392	(4 552)	(2 350)
Total equity		2 265 756	2 224 763	2 210 353
Total liabilities and equity		22 674 494	24 351 760	24 324 559

* *As restated for restatements detailed in note 57.*

Consolidated cash flow statement

For the year to 31 March £'000	Notes	2014	2013*
Operating profit adjusted for non-cash items	47	315 398	353 707
Taxation paid		(10 147)	(4 699)
(Increase)/decrease in operating assets	47	1 848 293	(684 394)
Increase in operating liabilities	47	(1 744 327)	(132 895)
Net cash inflow/(outflow) from operating activities		409 217	(468 281)
Cash flow on acquisition of group operations		(270)	(20 834)
Cash flow on net acquisition of non-controlling interests	35	37 836	(3 594)
Cash flow on net disposal of associates		6 231	3 323
Cash flow on acquisition of property, equipment and intangible assets		(21 400)	(26 107)
Cash flow on disposal of property, equipment and intangible assets		18 128	40 908
Net cash inflow/(outflow) from investing activities		40 525	(6 304)
Dividends paid to ordinary shareholders		(53 200)	(45 001)
Dividends paid to other equity holders		(17 210)	(15 049)
Proceeds on issue of shares, net of related costs		16 339	22 561
Cash flow on acquisition of treasury shares, net of related costs		(57 635)	(31 504)
Proceeds from partial disposal of subsidiaries	35	72 582	–
Proceeds from subordinated debt raised		–	35 408
Net cash inflow from financing activities		(39 124)	(33 585)
Effects of exchange rates on cash and cash equivalents		(7 527)	47 693
Net increase/(decrease) in cash and cash equivalents		403 091	(460 477)
Cash and cash equivalents at the beginning of the year		2 338 339	2 798 816
Cash and cash equivalents at the end of the year		2 741 430	2 338 339
Cash and cash equivalents is defined as including:			
Cash and balances at central banks		1 742 618	1 375 670
On demand loans and advances to banks		998 812	962 669
Cash and cash equivalents at the end of the year		2 741 430	2 338 339

* *As restated for restatements detailed in note 57.*

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

Consolidated statement of changes in equity

£'000	Ordinary share capital	Perpetual preference share capital	Share premium	Treasury shares
At 31 March 2012 – as previously reported	175	151	1 107 651	(41 941)
Arising on adoption of IFRS 10				
At 31 March 2012 – as restated	175	151	1 107 651	(41 941)
Movement in reserves 1 April 2012 – 31 March 2013				
Profit after taxation	–	–	–	–
Fair value movements on cash flow hedges	–	–	–	–
Gains 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	–	–	–	–
Remeasurement of net defined benefit pension liability/(asset)	–	–	–	–
Total comprehensive income for the year	–	–	–	–
Share-based payments adjustments	–	–	–	–
Dividends paid to ordinary shareholders	–	–	–	–
Dividends declared to perpetual preference shareholders	–	–	–	–
Dividends paid to perpetual preference shareholders included in non-controlling interests	–	–	–	–
Dividends paid to non-controlling interests	–	–	–	–
Issue of ordinary shares	2	–	22 559	–
Acquisition of non-controlling interests	–	–	–	–
Movement of treasury shares	–	–	–	(10 157)
Transfer from capital reserve account	–	–	–	–
Transfer to regulatory general risk reserve	–	–	–	–
At 31 March 2013	177	151	1 130 210	(52 098)

Other reserves								
Capital reserve account	Available-for-sale reserve	Regulatory general risk reserve	Cash flow hedge reserve	Foreign currency reserves	Retained income	Shareholder's equity excluding non-controlling interests	Non-controlling interests	Total Equity
335 088	6 880	14 415	(9 866)	77 754	580 833	2 071 140	164 412	2 235 552
					(25 199)	(25 199)		(25 199)
335 088	6 880	14 415	(9 866)	77 754	555 634	2 045 941	164 412	2 210 353
–	–	–	–	–	54 569	54 569	397	54 966
–	–	–	(1 657)	–	–	(1 657)	–	(1 657)
–	407	–	–	–	–	407	–	407
–	(1 704)	–	–	–	–	(1 704)	–	(1 704)
–	(91)	849	(550)	7 273	654	8 135	(236)	7 899
–	–	–	–	–	(7 078)	(7 078)	–	(7 078)
–	(1 388)	849	(2 207)	7 273	48 145	52 672	161	52 833
–	–	–	–	–	34 164	34 164	–	34 164
–	–	–	–	–	(45 001)	(45 001)	–	(45 001)
–	–	–	–	–	(3 696)	(3 696)	–	(3 696)
–	–	–	–	–	(11 353)	(11 353)	11 353	–
–	–	–	–	–	–	–	(11 353)	(11 353)
–	–	–	–	–	–	22 561	–	22 561
–	–	–	–	–	(3 575)	(3 575)	(19)	(3 594)
(21 347)	–	–	–	–	–	(31 504)	–	(31 504)
(159)	–	–	–	–	159	–	–	–
–	–	1 877	–	–	(1 877)	–	–	–
313 582	5 492	17 141	(12 073)	85 027	572 600	2 060 209	164 554	2 224 763

Consolidated statement of changes in equity

£'000	Ordinary share capital	Perpetual preference share capital	Share premium	Treasury shares
At 31 March 2013	177	151	1 130 210	(52 098)
Movement in reserves 1 April 2013 – 31 March 2014				
Profit after taxation	–	–	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–	–	–
Gains on realisation of available-for-sale assets recycled through the income statement	–	–	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	–	–
Remeasurement of net defined benefit pension liability/(asset)	–	–	–	–
Total comprehensive income for the year	–	–	–	–
Share-based payments adjustments	–	–	–	–
Dividends paid to ordinary shareholders	–	–	–	–
Dividends declared to perpetual preference shareholders	–	–	–	–
Dividends paid to perpetual preference shareholders	–	–	–	–
Dividends paid to perpetual preference shareholders included in non-controlling interests	–	–	–	–
Dividends paid to non-controlling interests	–	–	–	–
Issue of ordinary shares	1	–	16 338	–
Issue of perpetual preference shares	–	–	–	–
Share issue expenses	–	–	–	–
Issue of equity by subsidiaries	–	–	–	–
Gain on transfer of non-controlling interests	–	–	–	–
Acquisition of non-controlling interests	–	–	–	–
Non-controlling interest relating to disposal of subsidiaries	–	–	–	–
Movement of treasury shares	–	–	–	(4 899)
Transfer from capital reserve account	–	–	–	–
Transfer to regulatory general risk reserve	–	–	–	–
Transfer from share-based payment reserve to treasury shares	–	–	–	–
At 31 March 2014	178	151	1 146 548	(56 997)

Other reserves								
Capital reserve account	Available-for-sale reserve	Regulatory general risk reserve	Cash flow hedge reserve	Foreign currency reserves	Retained income	Shareholder's equity excluding non-controlling interests	Non-controlling interests	Total Equity
313 582	5 492	17 141	(12 073)	85 027	572 600	2 060 209	164 554	2 224 763
–	–	–	–	–	91 248	91 248	2 815	94 063
–	–	–	2 793	–	–	2 793	–	2 793
–	(2 896)	–	–	–	–	(2 896)	–	(2 896)
–	1 239	–	–	–	–	1 239	–	1 239
–	(271)	(3 254)	2 189	(44 310)	(443)	(46 089)	407	(45 682)
–	–	–	–	–	(5 870)	(5 870)	–	(5 870)
–	(1 928)	(3 254)	4 982	(44 310)	84 935	40 425	3 222	43 647
–	–	–	–	–	36 740	36 740	–	36 740
–	–	–	–	–	(53 200)	(53 200)	–	(53 200)
–	–	–	–	–	(3 395)	(3 395)	–	(3 395)
–	–	–	–	–	–	–	(12 021)	(12 021)
–	–	–	–	–	(12 021)	(12 021)	12 021	–
–	–	–	–	–	–	–	(1 794)	(1 794)
–	–	–	–	–	–	16 339	–	16 339
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	61 583	61 583	10 999	72 582
–	–	–	–	–	–	–	(270)	(270)
–	–	–	–	–	–	–	–	–
(52 736)	–	–	–	–	–	(57 635)	–	(57 635)
5	–	–	–	–	(5)	–	–	–
–	–	958	–	–	(958)	–	–	–
–	–	–	–	–	–	–	–	–
260 851	3 564	14 845	(7 091)	40 717	686 279	2 089 045	176 711	2 265 756

Accounting policies

Basis of presentation

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

Investec DLC group consists of two separate legal entities, being Investec plc and Investec Limited, that operate under a dual listed company (DLC) structure. The effect of the DLC structure is that Investec plc and its subsidiaries and Investec Limited and its subsidiaries operate together as a single economic entity, with neither assuming a dominant role, and accordingly are reported as a single reporting entity under IFRS.

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

Presentation of information

Disclosure under IFRS 7 – Financial Instruments: Disclosures and IAS 1 – Presentation of Financial Statements: Capital Disclosures relating to the nature and extent of risks have been included in sections marked as audited in the risk management report on pages 32 to 117.

Certain disclosures required under IAS 24 – Related Party Disclosures have been included in the section marked as audited in the remuneration report in the Investec group's integrated annual report.

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 55.

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 pages 233 to 235. 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 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 224 to 229, 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 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 a relatively immaterial impact. The impact to prior reported periods has been disclosed in the restatement note on page 233.

Basis of consolidation

As discussed above, these annual financial statements have been prepared to present the financial position and results of Investec plc and its subsidiaries as if the contractual arrangements which create the DLC structure did not exist.

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

Investec performs a reassessment of consolidation whenever there is a change in the substance of the relationship between Investec and an 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 annual financial statements include the attributable share of the results and reserves of associated undertakings. The group's interests in associated undertakings are included in the consolidated balance sheet at cost plus the post-acquisition changes in the group's share of the net assets of the associate.

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

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

Segmental reporting

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

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

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

For further detail on the group's segmental reporting basis refer to pages 13 to 30 of 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 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, income from assurance activities and revenue from consolidated private equity investments. Operating costs associated with these investments are included in operating costs in the income statement.

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, or
- A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy and information about the group is provided internally on that basis to the group's key management personnel and
- A contract contains one or more embedded derivatives (which significantly modifies the cash flows that would be required by the contract and is not clearly prohibited from separation from the host contract) and the group has designated the entire hybrid contract as a financial instrument at fair value through profit or loss.

Held-to-maturity financial assets

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

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

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

Loans and receivables

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

- Those that the group intends to trade in, which are classified as held-for-trading and those that the group designates 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 1 profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on the valuation technique whose variables include only data from observable markets, the difference between the transaction price and fair value is recognised immediately in the income statement.

In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised or over the life of the transaction.

Impairments of financial assets held at amortised cost

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

The test for impairment is based either on specific financial assets or collectively on a portfolio of similar, homogeneous assets. Over and above individual collective impairments raised at specific portfolio levels, the group recognises a collective impairment allowance at a central level (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 variation 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 plc are recorded as non-controlling interests on the balance sheet.

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

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

Dividends on ordinary shares are recognised as a deduction from equity at the earlier of payment date or the date that it is approved by Investec plc shareholders.

Sale and repurchase agreements (including securities borrowing and lending)

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

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 and two closed defined benefit schemes.

In respect of the defined contribution scheme, all employer contributions are charged to income as incurred, in accordance with the rules of the scheme, and included under staff costs.

The assets of the defined benefit schemes are measured at their market value at the balance sheet date and the liabilities of the schemes are measured using the projected unit credit method. The discount rate used to measure the schemes' liabilities is the current rate of return on an AA corporate bond at the balance sheet date of equivalent term and currency to the liabilities. The extent to which the schemes' assets exceed or fall short of the schemes' liabilities is shown as a surplus (to the extent that it is considered recoverable) or deficit in the balance sheet.

Actuarial gains and losses related to the defined benefit asset or liability are recognised immediately directly in other comprehensive income.

The group has no liabilities for other post-retirement benefits.

Borrowing costs

Borrowing costs 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 annual financial statements. The group intends to comply with these standards from the effective dates.

IFRS 9 – Financial Instruments

IFRS 9 Financial Instruments will replace certain key elements of IAS 39 when finally issued. The two key elements that would impact the group's accounting policies include:

- Classification and measurement of financial assets and financial liabilities – the standard requires that all financial assets be classified as either held at fair value or amortised cost. The amortised cost classification is only permitted where it is held within a business model where the underlying cash flows are held in order to collect contractual cash flows and that the cash flows arise solely from payment of principal and interest. The standard further provides that gains and losses on assets held at fair value are measured through the income statement unless the entity has elected to present gains and losses on non-trading equity investments (individually elected) directly through comprehensive income. With reference to financial liabilities held at fair value, the standard proposes that changes to fair value attributable to credit risk is taken directly to other comprehensive income without recycling. These are current deliberations which may result in limited modifications to IFRS 9 relating to classification and measurement
- Impairment methodology – the key change is related to a shift from an incurred loss to an expected loss impairment methodology. Revisions to the methodology are subject to deliberation, with the section of the standard on impairment currently expected to be published in 2014.

The amendments made to IFRS 9 in February 2014 provide that the mandatory effective date for IFRS 9 is from 2018. However, entities may still choose to apply IFRS 9 immediately 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 annual financial statements the group makes estimations and applies judgement that could affect the reported amount of assets and liabilities within the next financial year. Key areas in which judgement is applied include:

- Valuation of unlisted investments in the private equity and direct investments portfolios. Key valuation inputs are based on the most relevant observable market inputs, adjusted where necessary for factors that specifically apply to the individual investments and recognising market volatility

  Details of unlisted investments can be found in note 25 with further analysis contained in the risk management section on pages 68 to 70.

- The determination of impairments against assets that are carried at amortised cost and impairments relating to available-for-sale financial assets involves the assessment of future cash flows which is judgemental in nature

  Refer to pages 55 to 67 in the risk management section for further analysis on impairments.

- The group's income tax charge and balance sheet provision are judgemental in nature. This arises from certain transactions for which the ultimate tax treatment can only be determined by final resolution with the relevant local tax authorities. The group recognises liabilities for taxation based on estimates of levels of taxation expected to be payable, taking into consideration expert external advice where appropriate. The final resolution may result in different amounts of cash flows to those initially provided and any necessary adjustments are taken into consideration in the period in which they are identified
- Determination of interest income and interest expense using the effective interest method involves judgement in determining the timing and extent of future cash flows
- In order to meet the objectives of IFRS 12, management performs an assessment of the value of each associate in relation to the value of total assets, as well as any qualitative consideration that may exist, in order to determine materiality to the reporting entity for disclosure purposes.

For the year to 31 March £'000	Asset Management	Wealth & Investment	Specialist Banking	Total group
1. Combined consolidated segmental analysis				
Segmental business analysis – income statement				
2014				
Net interest income	277	7 987	348 470	356 734
Fee and commission income	340 316	219 434	206 925	766 675
Fee and commission expense	(95 354)	(2 020)	(34 730)	(132 104)
Investment income	–	1 875	97 224	99 099
Trading income arising from:				
– customer flow	–	389	76 654	77 043
– balance sheet management and other trading activities	(2 314)	(72)	(6 922)	(9 308)
Other operating income	(129)	1 232	14 910	16 013
Total operating income before impairment losses on loans and advances	242 796	228 825	702 531	1 174 152
Impairment losses on loans and advances	–	–	(126 911)	(126 911)
Operating income	242 796	228 825	575 620	1 047 241
Operating costs	(175 211)	(182 759)	(531 552)	(889 522)
Depreciation on operating leased assets	–	–	(6 044)	(6 044)
Operating profit before goodwill and acquired intangibles	67 585	46 066	38 024	151 675
Operating loss attributable to other non-controlling interests	–	–	2 720	2 720
Operating profit before goodwill, acquired intangibles and after other non-controlling interests	67 585	46 066	40 744	154 395
Profit attributable to Asset Management non-controlling interest	(5 535)	–	–	(5 535)
Operating profit before goodwill, acquired intangibles and after non-controlling interests	62 050	46 066	40 744	148 860
Cost to income ratio	72.2%	79.9%	76.3%	76.2%
Total assets (£'million)	335	931	21 408	22 674
2013*				
Net interest income	492	10 293	350 030	360 815
Fee and commission income	309 933	195 275	248 690	753 898
Fee and commission expense	(92 667)	(11 772)	(25 959)	(130 398)
Investment income	–	555	70 196	70 751
Trading income arising from:				
– customer flow	–	361	57 742	58 103
– balance sheet management and other trading activities	(199)	4	18 210	18 015
Other operating income	4 476	774	31 340	36 590
Total operating income before impairment losses on loans and advances	222 035	195 490	750 249	1 167 774
Impairment losses on loans and advances	–	–	(189 036)	(189 036)
Operating income	222 035	195 490	561 213	978 738
Operating costs	(162 694)	(161 581)	(524 331)	(848 606)
Depreciation on operating leased assets	–	–	(16 072)	(16 072)
Operating profit before goodwill and acquired intangibles	59 341	33 909	20 810	114 060
Operating income attributable to non-controlling interests	–	–	(397)	(397)
Operating profit before goodwill, acquired intangibles and after other non-controlling interests	59 341	33 909	20 413	113 663
Cost to income ratio	73.3%	82.7%	71.4%	73.7%
Total assets (£'million)	366	870	23 116	24 352

* *As restated for restatements detailed in note 57.*

For the year to 31 March £'000	UK and Other	Australia	Total group
1. Combined consolidated segmental analysis (continued)			
Segmental geographical analysis – income statement			
2014			
Net interest income	285 219	71 515	356 734
Fee and commission income	732 339	34 336	766 675
Fee and commission expense	(125 019)	(7 085)	(132 104)
Investment income	99 540	(441)	99 099
Trading income arising from:			
– customer flow	66 377	10 666	77 043
– balance sheet management and other trading activities	(6 529)	(2 779)	(9 308)
Other operating income	15 745	268	16 013
Total operating income before impairment losses on loans and advances	1 067 672	106 480	1 174 152
Impairment losses on loans and advances	(104 792)	(22 119)	(126 911)
Operating income	962 880	84 361	1 047 241
Operating costs	(791 305)	(98 217)	(889 522)
Depreciation on operating lease assets	(6 044)	–	(6 044)
Operating profit before goodwill and acquired intangibles	165 531	(13 856)	151 675
Operating loss attributable to other non-controlling interests	2 720	–	2 720
Operating profit before goodwill, acquired intangibles and after other non-controlling interests	168 251	(13 856)	154 395
Profit attributable to Asset Management non-controlling interest	(5 535)	–	(5 535)
Operating profit before goodwill, acquired intangibles and after non-controlling interests	162 716	(13 856)	148 860
Impairment of goodwill	–	(11 233)	(11 233)
Amortisation of acquired intangibles	(13 393)	–	(13 393)
Costs arising from integration, restructuring and partial disposal of subsidiaries	(3 241)	(15 678)	(18 919)
Net gain on disposal of subsidiaries	9 653	–	9 653
Earnings attributable to shareholders before taxation	155 735	(40 767)	114 968
Taxation on operating profit before goodwill	(31 163)	154	(31 009)
Taxation on acquired intangibles and acquisition/disposal/integration of group operations	7 289	–	7 289
Earnings attributable to shareholders	131 861	(40 613)	91 248
Cost to income ratio	74.5%	92.2%	76.2%
Total assets (£'million)	20 232	2 443	22 674

For the year to 31 March £'000	UK and Other	Australia	Total group
1. Combined consolidated segmental analysis (continued)			
Segmental information – geographical analysis			
2013*			
Net interest income	291 727	69 088	360 815
Fee and commission income	694 467	59 431	753 898
Fee and commission expense	(125 872)	(4 526)	(130 398)
Investment income	70 213	538	70 751
Trading income arising from:			
– customer flow	51 157	6 946	58 103
– balance sheet management and other trading activities	18 579	(564)	18 015
Other operating income	34 781	1 809	36 590
Total operating income before impairment losses on loans and advances	1 035 052	132 722	1 167 774
Impairment losses on loans and advances	(171 187)	(17 849)	(189 036)
Operating income	863 865	114 873	978 738
Operating costs	(737 134)	(111 472)	(848 606)
Depreciation on operating lease assets	(16 072)	–	(16 072)
Operating profit before goodwill and acquired intangibles	110 659	3 401	114 060
Operating income attributable to other non-controlling interests	(397)	–	(397)
Operating profit before goodwill, acquired intangibles and after other non-controlling interests	110 262	3 401	113 663
Impairment of goodwill	(13 409)	–	(13 409)
Amortisation of acquired intangibles	(13 313)	–	(13 313)
Costs arising from integration, restructuring and partial disposal of subsidiaries	(13 119)	–	(13 119)
Net gain on disposal of subsidiaries	–	–	–
Non-operational costs arising from acquisition of subsidiary	(1 369)	–	(1 369)
Earnings attributable to shareholders before taxation	69 052	3 401	72 453
Taxation on operating profit before goodwill	(25 291)	1 430	(23 861)
Taxation on acquired intangibles and acquisition/disposal/integration of group operations	5 977	–	5 977
Earnings attributable to shareholders	49 738	4 831	54 569
Cost to income ratio	72.3%	84.0%	73.7%
Total assets (£'million)	21 106	3 246	24 352

* *As restated for restatements detailed in note 57.*

Annual financial statements

04

For the year to 31 March £'000	Asset Management UK and Other	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. Combined consolidated segmental analysis (continued)								
Segmental business and geographic analysis – income statement								
2014								
Net interest income	277	7 987	276 955	71 515	348 470	285 219	71 515	356 734
Fee and commission income	340 316	219 434	172 589	34 336	206 925	732 339	34 336	766 675
Fee and commission expense	(95 354)	(2 020)	(27 645)	(7 085)	(34 730)	(125 019)	(7 085)	(132 104)
Investment income	–	1 875	97 665	(441)	97 224	99 540	(441)	99 099
Trading income arising from:								
– customer flow	–	389	65 988	10 666	76 654	66 377	10 666	77 043
– balance sheet management and other trading activities	(2 314)	(72)	(4 143)	(2 779)	(6 922)	(6 529)	(2 779)	(9 308)
Other operating income	(129)	1 232	14 642	268	14 910	15 745	268	16 013
Total operating income before impairment losses on loans and advances	242 796	228 825	596 051	106 480	702 531	1 067 672	106 480	1 174 152
Impairment losses on loans and advances	–	–	(104 792)	(22 119)	(126 911)	(104 792)	(22 119)	(126 911)
Operating income	242 796	228 825	491 259	84 361	575 620	962 880	84 361	1 047 241
Operating costs	(175 211)	(182 759)	(433 335)	(98 217)	(531 552)	(791 305)	(98 217)	(889 522)
Depreciation on operating leased assets	–	–	(6 044)	–	(6 044)	(6 044)	–	(6 044)
Operating profit before goodwill and acquired intangibles	67 585	46 066	51 880	(13 856)	38 024	165 531	(13 856)	151 675
Operating loss attributable to other non-controlling interests	–	–	2 720	–	2 720	2 720	–	2 720
Operating profit before goodwill, acquired intangibles and after other non-controlling interests	67 585	46 066	54 600	(13 856)	40 744	168 251	(13 856)	154 395
Operating profit attributable to Asset Management non-controlling interests	(5 535)	–	–	–	–	(5 535)	–	(5 535)
Operating profit before goodwill, acquired intangibles and after non-controlling interests	62 050	46 066	54 600	(13 856)	40 744	162 716	(13 856)	148 860
Selected returns and key statistics								
Cost to income ratio	72.2%	79.9%	73.4%	92.2%	76.3%	74.5%	92.2%	76.2%
Total assets (£'million)	335	931	18 965	2 443	21 408	20 231	2 443	22 674

For the year to 31 March £'000	Asset Management UK and Other	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. Combined consolidated segmental analysis (continued)								
Segmental business and geographic analysis – income statement (continued)								
2013*								
Net interest income	492	10 293	280 942	69 088	350 030	291 727	69 088	360 815
Fee and commission income	309 933	195 275	189 259	59 431	248 690	694 467	59 431	753 898
Fee and commission expense	(92 667)	(11 772)	(21 433)	(4 526)	(25 959)	(125 872)	(4 526)	(130 398)
Investment income	–	555	69 658	538	70 196	70 213	538	70 751
Trading income arising from:								
– customer flow	–	361	50 796	6 946	57 742	51 157	6 946	58 103
– balance sheet management and other trading activities	(199)	4	18 774	(564)	18 210	18 579	(564)	18 015
Other operating income	4 476	774	29 531	1 809	31 340	34 781	1 809	36 590
Total operating income before impairment losses on loans and advances	222 035	195 490	617 527	132 722	750 249	1 035 052	132 722	1 167 774
Impairment losses on loans and advances	–	–	(171 187)	(17 849)	(189 036)	(171 187)	(17 849)	(189 036)
Operating income	222 035	195 490	446 340	114 873	561 213	863 865	114 873	978 738
Operating costs	(162 694)	(161 581)	(412 859)	(111 472)	(524 331)	(737 134)	(111 472)	(848 606)
Depreciation on operating leased assets	–	–	(16 072)	–	(16 072)	(16 072)	–	(16 072)
Operating profit before goodwill and acquired intangibles	59 341	33 909	17 409	3 401	20 810	110 659	3 401	114 060
Operating income attributable to non-controlling interests	–	–	(397)	–	(397)	(397)	–	(397)
Operating profit before goodwill, acquired intangibles and after non-controlling interests	59 341	33 909	17 012	3 401	20 413	110 262	3 401	113 663
Selected returns and key statistics								
Cost to income ratio	73.3%	82.7%	68.6%	84.0%	71.4%	72.3%	84.0%	73.7%
Total assets (£'million)	366	870	19 870	3 246	23 116	21 106	3 246	24 352

* *As restated for restatements detailed in note 57.*

2. Margin analysis

For the year to 31 March 2014 £'000	Notes	UK and Other		Australia		Total group	
		Balance sheet value	Interest received	Balance sheet value	Interest received	Balance sheet value	Interest received
Cash, near cash and bank debt and sovereign debt securities	1	5 276 525	44 571	592 762	17 336	5 869 287	61 907
Core loans and advances	2	6 492 336	382 124	1 729 929	160 356	8 222 265	542 480
Private client		3 777 505	165 077	1 369 078	102 331	5 146 583	267 408
Corporate, institutional and other clients		2 714 831	217 047	360 851	58 025	3 075 682	275 072
Other debt securities and other loans and advances		1 868 182	73 497	33 755	1 101	1 901 937	74 598
Other interest-earning assets	3	2 798 158	124 783	–	–	2 798 158	124 783
Total interest-earning assets		16 435 201	624 975	2 356 446	178 793	18 791 647	803 768

For the year to 31 March 2014 £'000	Notes	UK and Other		Australia		Total group	
		Balance sheet value	Interest paid	Balance sheet value	Interest paid	Balance sheet value	Interest paid
Deposits by banks and other debt related securities	4	3 311 525	64 931	105 617	11 611	3 417 142	76 542
Customer accounts		9 424 256	160 248	1 531 880	62 210	10 956 136	222 458
Other interest-bearing liabilities	5	2 374 594	50 128	449 084	30 638	2 823 678	80 766
Subordinated liabilities		668 008	64 449	72 942	2 819	740 950	67 268
Total interest-bearing liabilities		15 778 383	339 756	2 159 523	107 278	17 937 906	447 034
Net interest income			285 219		71 515		356 734

For the year to 31 March 2013* £'000	Notes	UK and Other		Australia		Total group	
		Balance sheet value	Interest received	Balance sheet value	Interest received	Balance sheet value	Interest received
Cash, near cash and bank debt and sovereign debt securities	1	5 637 080	47 511	707 398	16 076	6 344 478	63 587
Core loans and advances	2	6 045 068	357 343	2 205 046	180 301	8 250 114	537 644
Private client		3 024 629	162 618	1 402 295	112 566	4 426 924	275 184
Corporate, institutional and other clients		3 020 439	194 725	802 751	67 735	3 823 190	262 460
Other debt securities and other loans and advances		2 199 344	144 171	22 506	18 205	2 221 850	162 376
Other interest-earning assets	3	3 106 741	161 727	–	–	3 106 741	161 727
Total interest-earning assets		16 988 233	710 752	2 934 950	214 582	19 923 183	925 334

For the year to 31 March 2013* £'000	Notes	UK and Other		Australia		Total group	
		Balance sheet value	Interest paid	Balance sheet value	Interest paid	Balance sheet value	Interest paid
Deposits by banks and other debt related securities	4	4 015 847	74 012	470 689	32 436	4 486 536	106 448
Customer accounts		9 497 762	219 180	1 692 820	79 411	11 190 582	298 591
Other interest-bearing liabilities	5	2 486 153	63 119	477 903	30 486	2 964 056	93 605
Subordinated liabilities		664 625	62 714	82 620	3 161	747 245	65 875
Total interest-bearing liabilities		16 664 387	419 025	2 724 032	145 494	19 388 419	564 519
Net interest income			291 727		69 088		360 815

* *As restated for restatements detailed in note 57.*

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	2014	2013
3. Net fee and commission income		
Asset Management	244 962	217 266
Wealth & Investment	217 414	183 503
Specialist Banking	172 195	222 731
Net fee and commission income	634 571	623 500

For the year to 31 March £'000	UK and Other	Australia	Total group
2014			
Asset management and wealth management businesses net fee and commission income	462 376	–	462 376
Funds management fees/fees for assets under management	497 863	–	497 863
Private client transactional fees	61 887	–	61 887
Fee and commission expense	(97 374)	–	(97 374)
Specialist Banking net fee and commission income	144 944	27 251	172 195
Corporate and institutional transactional and advisory services	158 040	19 013	177 053
Private client transactional fees	14 548	15 323	29 871
Fee and commission expense	(27 644)	(7 085)	(34 729)
Net fee and commission income	607 320	27 251	634 571
Annuity fees (net of fees payable)	443 583	17 844	461 427
Deal fees	163 737	9 407	173 144
2013*			
Asset management and wealth management businesses net fee and commission income	400 769	–	400 769
Funds management fees/fees for assets under management	451 084	–	451 084
Private client transactional fees	54 124	–	54 124
Fee and commission expense	(104 439)	–	(104 439)
Specialist Banking net fee and commission income	167 826	54 905	222 731
Corporate and institutional transactional and advisory services	168 286	49 850	218 136
Private client transactional fees	20 973	9 581	30 554
Fee and commission expense	(21 433)	(4 526)	(25 959)
Net fee and commission income	568 595	54 905	623 500
Annuity fees (net of fees payable)	392 722	26 138	418 860
Deal fees	175 873	28 767	204 640

* *As restated for restatements detailed in note 57.*

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

4. Investment income

2014	UK and Other	Australia	Total
Realised	52 958	1 028	53 986
Unrealised	36 339	(1 348)	34 991
Dividend income	9 702	1 183	10 885
Funding and other net related costs/income	541	(1 304)	(763)
Investment income	99 540	(441)	99 099

£'000	Investment portfolio (listed and unlisted equities)^	Debt securities (sovereign, bank and other)	Other asset categories	Total
Realised	36 614	11 457	4 887	52 958
Unrealised	50 479	(12 836)	(1 304)	36 339
Dividend income	9 509	–	193	9 702
Funding and other net related income	–	–	541	541
Investment income: UK and Other	96 602	(1 379)	4 317	99 540
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)
Investment income: Australia	3 970	–	(4 411)	(441)
Total investment income	100 572	(1 379)	(94)	99 099

2013* £'000	UK and Other	Australia	Total
Realised	33 534	1 752	35 286
Unrealised	32 235	(1 654)	30 581
Dividend income	2 999	240	3 239
Funding and other net related income	1 445	200	1 645
Investment income	70 213	538	70 751

£'000	Investment portfolio (listed and unlisted equities)^	Debt securities (sovereign, bank and other)	Other asset categories	Total
Realised	917	26 264	6 353	33 534
Unrealised	28 247	5 617	(1 629)	32 235
Dividend income	2 999	–	–	2 999
Funding and other net related income	–	–	1 445	1 445
Investment income: UK and Other	32 163	31 881	6 169	70 213
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
Investment income: Australia	(2 412)	1 617	1 333	538
Total investment income	29 751	33 498	7 502	70 751

* *As restated for restatements detailed in note 57.*

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

5. Other operating income

For the year to 31 March £'000	2014	2013
Rental income from properties	851	1 111
Unrealised gains on other investments	–	5 342
Income from operating leases	9 335	26 661
Operating income from associates	5 827	3 476
	16 013	36 590

6. Operating costs

For the year to 31 March £'000	2014	2013*
Staff costs	616 894	580 086
– Salaries and wages (including directors' remuneration)	503 565	465 581
– Training and other costs	18 043	10 866
– Share-based payment expense	34 169	34 164
– Social security costs	38 446	48 984
– Pensions and provident fund contributions	22 671	20 491
Premises expenses (excluding depreciation)	42 170	42 355
Equipment expenses (excluding depreciation)	31 404	30 466
Business expenses**	146 225	144 311
Marketing expenses	35 673	33 608
Depreciation, amortisation and impairment on property, equipment and intangibles	17 156	17 780
	889 522	848 606
Depreciation on operating leased assets	6 044	16 072
	895 566	864 678
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	331	543
Fees payable to the company's auditors and its associates for other services:		
Audit of the company's subsidiaries pursuant to legislation	5 254	5 906
Audit-related assurance services	153	1 007
Tax compliance services	169	241
Tax advisory services	584	349
Services related to corporate finance transactions	–	–
Other assurance services	10	107
	6 501	8 153
KPMG fees		
Fees payable to the company's auditors for the audit of the company's annual financial statements	–	–
Fees payable to the company's auditors and its associates for other services:		
Audit of the company's subsidiaries pursuant to legislation	503	546
Audit-related assurance services	–	–
Tax compliance services	–	766
Tax advisory services	69	742
Services related to corporate finance transactions	–	114
Other assurance services	223	336
	795	2 504
Total	7 296	10 657

* *As restated for restatements detailed in note 57.*

** *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 are provided in the remuneration report included in the Investec group's 2014 integrated annual report and on our website.

For the year to 31 March £'000	Asset Management	Wealth & Investment	Specialist Banking	Total group
2014				
Equity-settled	2 841	5 715	25 613	34 169
Total income statement charge	2 841	5 715	25 613	34 169
Equity-settled – accelerated charges included in the income statement in operating costs arising from integration restructuring and partial disposal of subsidiaries	1 784	–	787	2 571
	4 625	5 715	26 400	36 740
2013				
Equity-settled	3 274	5 237	25 653	34 164
Total income statement charge	3 274	5 237	25 653	34 164

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	30 054	26 921

	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	50 514 354	0.05	46 076 830	0.06
Granted during the year	9 200 128	0.05	12 112 551	0.03
Exercised during the year*	(12 249 975)	0.01	(5 333 003)	0.01
Expired during the year	–	–	(2 342 024)	0.42
Options forfeited during the year	(4 587 440)	0.19	–	–
Outstanding at the end of the year	42 877 067	0.04	50 514 354	0.05
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)

The exercise price range and weighted average remaining contractual life for the options are as follows:

	UK Schemes	
	2014	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 grants 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 grants at measurement date	£3.27	£2.22
The fair values of options granted, where 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	23 882	31 315
Adjustments in respect of prior years	(8 193)	(7 427)
Corporation tax before double tax relief	15 689	23 888
– Double taxation relief	(611)	(530)
	15 078	23 358
Europe	2 998	370
Australia	–	–
Other	981	151
	3 979	521
Total current taxation	19 057	23 879
Deferred taxation		
UK	4 722	(4 604)
Europe	96	9
Australia	(154)	(1 431)
Other	(1)	31
Total deferred taxation	4 663	(5 995)
Total taxation charge for the year	23 720	17 884
Total taxation charge for the year comprises:		
Taxation on operating profit before goodwill	31 009	23 861
Taxation on acquired intangibles and acquisition/disposal/integration of subsidiaries	(7 289)	(5 977)
	23 720	17 884
Deferred taxation comprises:		
Origination and reversal of temporary differences	3 240	(10 268)
Changes in tax rates	(289)	1 659
Adjustment in respect of prior years	1 712	2 614
	4 663	(5 995)

For the year to 31 March £'000	2014	2013
8. Taxation (continued)		
The rates of corporation tax for the relevant years are:	%	%
UK	23	24
Europe (average)	10	10
Australia	30	30
Profit before taxation	117 783	72 850
Taxation on profit before taxation	23 720	17 884
Effective tax rate	20.10%	24.55%
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%)	27 090	17 484
Taxation adjustments relating to foreign earnings	(9 233)	(16 690)
Taxation relating to prior years	(6 481)	(4 813)
Share options accounting expense	3 828	5 337
Share options exercised during the year	(10 386)	(6 059)
Unexpired share options future tax deduction	4 904	(390)
Non-taxable income	(1 831)	(10 794)
Net other permanent differences	16 217	32 268
Unrealised capital losses	789	1 195
Utilisation of brought forward capital losses	–	(111)
Utilisation of brought forward trading losses	(888)	(1 202)
Change in tax rate	(289)	1 659
Total taxation charge as per income statement	23 720	17 884
Other comprehensive income taxation effects		
Fair value movements on cash flow hedges taken directly to other comprehensive income	2 793	(1 657)
Pre-taxation	3 990	(2 367)
Taxation effect	(1 197)	710
Gains on realisation of available-for-sale assets recycled through the income statement	(2 896)	407
Pre-taxation	(3 978)	535
Taxation effect	1 082	(128)
Fair value movements on available-for-sale assets taken directly to other comprehensive income	1 239	(1 704)
Pre-taxation	1 394	(1 883)
Taxation effect	(155)	179
Remeasurement of net defined pension assets	(5 870)	(7 078)
Pre-taxation	(7 686)	(8 953)
Taxation effect	1 816	1 875

For the year to 31 March	2014 Pence per share	2014 Total £'000	2013 Pence per share	2013 Total £'000
9. Dividends				
Ordinary dividend				
Final dividend for prior year	10.0	32 253	9.0	24 131
Interim dividend for current year	8.0	20 947	8.0	20 870
Total dividend attributable to ordinary shareholders recognised in current financial year	18.0	53 200	17.0	45 001

The directors have proposed a final dividend in respect of the financial year ended 31 March 2014 of 11.0 pence per ordinary share (31 March 2013: 10.0 pence).

This will be paid as follows:

- For Investec plc non-South African shareholders, through a dividend paid by Investec plc of 11 pence per ordinary share
- For Investec plc South African shareholders, through a dividend payment by Investec plc of 4 pence per ordinary share and through a dividend payment on the SA DAS share of 7 pence per ordinary share.

The final dividend will be payable on 15 August 2014 to shareholders on the register at the close of business on 1 August 2014.

For the year to 31 March	2014 Pence per share	2014 Cents per share	2014 Total £'000	2013 Pence per share	2013 Cents per share	2013 Total £'000
Perpetual preference dividend						
Final dividend for prior year	7.48	402.64	1 712	7.52	428.67	1 872
Interim dividend for current year	7.52	404.86	1 683	7.52	419.17	1 824
Total dividend attributable to perpetual preference shareholders recognised in current financial year	15.00	807.50	3 395	15.04	847.84	3 696

The directors have declared a final dividend in respect of the financial year ended 31 March 2014 of 7.48 pence (Investec plc shares traded on the JSE Limited) and 7.48 pence (Investec plc shares traded on the Channel Island Stock Exchange), and 410.58 cents per perpetual preference share. The final dividend will be payable to shareholders on the register at the close of business on Friday, 13 June 2014.

For the year to 31 March	2014	2013
Dividend attributable to perpetual preferred securities	12 021	11 353

The €200 000 000 (2013: €200 000 000) fixed/floating rate guaranteed, non-voting, non-cumulative perpetual preferred securities paid dividends of 7.075% in both years as set out in note 45.

For the year to 31 March £'000	2014	2013
10. Operating lease income and expenses		
Operating lease expenses recognised in operating costs expenses:		
Minimum lease payments	24 788	17 052
	24 788	17 052
Operating lease income recognised in income:		
Minimum lease payments	15 627	28 606
Sub-lease payments	18	–
	15 645	28 606

The majority of the operating lease expenses in the group relate to leases on property.

Rental income from leases is included in 'other operating income', mainly comprising lease of motor vehicles. Rental income from leases is included in 'fee and commission income', mainly comprising leases of properties.

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 instrument		
2014		
Net interest income	(20 661)	14 498
Fee and commission income	41 352	(332)
Fee and commission expense	(124)	(6 116)
Investment income	–	65 025
Trading income arising from:		
– customer flow	75 402	1 677
– balance sheet management and other trading activities	(4 912)	19
Other operating income	–	(129)
Total operating income before impairment losses on loans and advances	91 057	74 642
Impairment losses on loans and advances	–	–
Operating income	91 057	74 642
2013*		
Net interest income	(19 384)	18 454
Fee and commission income	50 003	785
Fee and commission expense	(84)	–
Investment income	–	49 250
Trading income arising from:		
– customer flow	58 146	(53)
– balance sheet management and other trading activities	2 943	2 501
Other operating income	–	4 476
Total operating income before impairment losses on loans and advances	91 624	75 413
Impairment losses on loans and advances	–	–
Operating income	91 624	75 413

* *As restated for restatements detailed in note 57.*

Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non-financial instruments	Other fee income	Total
4 988	691 141	20 718	(361 677)	–	7 727	356 734
–	75 873	134	3 161	3 056	643 431	766 675
(68)	(2 515)	–	(3 136)	(229)	(119 916)	(132 104)
–	6 324	13 595	–	14 155	–	99 099
–	–	–	(36)	–	–	77 043
–	(4 689)	156	118	–	–	(9 308)
–	–	–	–	16 142	–	16 013
4 920	766 134	34 603	(361 570)	33 124	531 242	1 174 152
–	(126 911)	–	–	–	–	(126 911)
4 920	639 223	34 603	(361 570)	33 124	531 242	1 047 241
10 612	766 572	44 768	(471 193)	1 251	9 735	360 815
–	69 790	1 254	(50)	86	632 030	753 898
–	(5 102)	(433)	(7 793)	(269)	(116 717)	(130 398)
576	14 012	(1 355)	–	8 268	–	70 751
						–
–	–	–	10	–	–	58 103
–	17 741	(926)	(3 500)	–	(744)	18 015
–	–	–	–	32 114	–	36 590
11 188	863 013	43 308	(482 526)	41 450	524 304	1 167 774
(5 347)	(183 689)	–	–	–	–	(189 036)
5 841	679 324	43 308	(482 526)	41 450	524 304	978 738

At 31 March 2014 £'000	At fair value through profit or loss Trading	 Designated at inception	Available-for-sale	Total instruments at fair value
12. Analysis of financial assets and liabilities by category of financial instrument				
Assets				
Cash and balances at central banks	7 143	–	–	7 143
Loans and advances to banks	–	110 649	–	110 649
Reverse repurchase agreements and cash collateral on securities borrowed	277 952	–	–	277 952
Sovereign debt securities	–	–	1 232 416	1 232 416
Bank debt securities	–	1 928	166 114	168 042
Other debt securities	–	72 272	132 358	204 630
Derivative financial instruments*	920 015	–	–	920 015
Securities arising from trading activities	503 818	82 888	–	586 706
Investment portfolio	–	274 875	67 722	342 597
Loans and advances to customers	–	48 052	–	48 052
Own originated loans and advances to customers securitised	–	–	–	–
Other loans and advances	–	–	–	–
Other securitised assets	–	624 245	–	624 245
Interests in associated undertakings	–	–	–	–
Deferred taxation assets	–	–	–	–
Other assets	16 695	18 896	–	35 591
Property and equipment	–	–	–	–
Investment properties	–	–	–	–
Goodwill	–	–	–	–
Intangible assets	–	–	–	–
	1 725 623	1 233 805	1 598 610	4 558 038
Liabilities				
Deposits by banks	–	–	–	–
Derivative financial instruments*	668 722	–	–	668 722
Other trading liabilities	391 650	–	–	391 650
Repurchase agreements and cash collateral on securities lent	336 246	–	–	336 246
Customer accounts (deposits)	–	–	–	–
Debt securities in issue	–	323 108	–	323 108
Liabilities arising on securitisation of own originated loans and advances	–	–	–	–
Liabilities arising on securitisation of other assets	–	524 222	–	524 222
Current taxation liabilities	–	–	–	–
Deferred taxation liabilities	–	–	–	–
Other liabilities	42 279	18 050	–	60 329
	1 438 897	865 380	–	2 304 277
Subordinated liabilities	–	–	–	–
	1 438 897	865 380	–	2 304 277

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges. For more information on hedges, please refer to note 51.*

Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
–	1 735 475	–	1 735 475	–	1 742 618
–	1 196 921	–	1 196 921	–	1 307 570
–	937 548	–	937 548	–	1 215 500
–	–	–	–	–	1 232 416
–	203 141	–	203 141	–	371 183
–	24 598	–	24 598	–	229 228
–	–	–	–	–	920 015
–	–	–	–	–	586 706
–	–	–	–	–	342 597
40 234	7 686 341	–	7 726 575	–	7 774 627
–	447 638	–	447 638	–	447 638
–	1 672 709	–	1 672 709	–	1 672 709
–	2 173 913	–	2 173 913	–	2 798 158
–	–	–	–	21 366	21 366
–	–	–	–	105 109	105 109
–	984 245	–	984 245	179 221	1 199 057
–	–	–	–	65 923	65 923
–	–	–	–	61 715	61 715
–	–	–	–	427 011	427 011
–	–	–	–	153 348	153 348
40 234	17 062 529	–	17 102 763	1 013 693	22 674 494
–	–	1 433 141	1 433 141	–	1 433 141
–	–	–	–	–	668 722
–	–	–	–	–	391 650
–	–	278 487	278 487	–	614 733
–	–	10 956 136	10 956 136	–	10 956 136
–	–	1 046 160	1 046 160	–	1 369 268
–	–	449 079	449 079	–	449 079
–	–	1 850 377	1 850 377	–	2 374 599
–	–	–	–	107 271	107 271
–	–	–	–	68 502	68 502
–	–	880 238	880 238	294 120	1 234 687
–	–	16 893 618	16 893 618	469 893	19 667 788
–	–	740 950	740 950	–	740 950
–	–	17 634 568	17 634 568	469 893	20 408 738

12. Analysis of financial assets and liabilities by category of financial instrument (continued)

At 31 March 2013** £'000	At fair value through profit or loss: Trading	At fair value through profit or loss: Designated at inception	Available-for-sale	Total instruments at fair value
Assets				
Cash and balances at central banks	–	–	–	–
Loans and advances to banks	–	108 954	–	108 954
Reverse repurchase agreements and cash collateral on securities borrowed	321 413	–	–	321 413
Sovereign debt securities	–	–	1 660 377	1 660 377
Bank debt securities	–	–	252 123	252 123
Other debt securities	1 973	79 022	101 999	182 994
Derivative financial instruments*	1 135 058	–	–	1 135 058
Securities arising from trading activities	673 763	–	–	673 763
Investment portfolio	–	280 590	76 564	357 154
Loans and advances to customers	–	82 501	–	82 501
Own originated loans and advances to customers securitised	–	–	–	–
Other loans and advances	–	4 612	–	4 612
Other securitised assets	–	645 400	–	645 400
Interests in associated undertakings	–	–	–	–
Deferred taxation assets	–	–	–	–
Other assets	430 249	47 698	–	477 947
Property and equipment	–	–	–	–
Investment properties	–	–	–	–
Goodwill	–	–	–	–
Intangible assets	–	–	–	–
	2 562 456	1 248 777	2 091 063	5 902 296
Liabilities				
Deposits by banks	–	–	–	–
Derivative financial instruments*	817 526	–	–	817 526
Other trading liabilities	372 762	–	–	372 762
Repurchase agreements and cash collateral on securities lent	350 308	–	–	350 308
Customer accounts (deposits)	1 411	–	–	1 411
Debt securities in issue	–	–	–	–
Liabilities arising on securitisation of own originated loans and advances	–	–	–	–
Liabilities arising on securitisation of other assets	–	532 106	–	532 106
Current taxation liabilities	–	–	–	–
Deferred taxation liabilities	–	–	–	–
Other liabilities	428 165	48 259	–	476 424
	1 970 172	580 365	–	2 550 537
Subordinated liabilities	–	–	–	–
	1 970 172	580 365	–	2 550 537

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges. For more information on hedges, please refer to note 51.*

** *As restated for restatements detailed in note 57.*

Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
–	1 375 670	–	1 375 670	–	1 375 670
–	1 215 683	–	1 215 683	–	1 324 637
–	1 207 180	–	1 207 180	–	1 528 593
–	–	–	–	–	1 660 377
–	203 078	–	203 078	–	455 201
7 516	–	–	7 516	–	190 510
–	–	–	–	–	1 135 058
–	–	–	–	–	673 763
–	–	–	–	–	357 154
90 054	7 586 365	–	7 676 419	–	7 758 920
–	491 194	–	491 194	–	491 194
217	2 026 511	–	2 026 728	–	2 031 340
–	2 461 341	–	2 461 341		3 106 741
–	–	–	–	24 707	24 707
–	–	–	–	126 822	126 822
–	603 083	–	603 083	301 774	1 382 804
–	–	–	–	87 992	87 992
–	–	–	–	11 500	11 500
–	–	–	–	456 646	456 646
–	–	–	–	172 131	172 131
97 787	17 170 105	–	17 267 892	1 181 572	24 351 760
–	–	1 781 802	1 781 802	–	1 781 802
–	–	–	–	–	817 526
–	–	–	–	–	372 762
–	–	592 088	592 088	–	942 396
–	–	11 189 171	11 189 171	–	11 190 582
–	–	1 762 338	1 762 338	–	1 762 338
–	–	477 870	477 870	–	477 870
–	–	1 954 080	1 954 080	–	2 486 186
–	–	–	–	87 291	87 291
–	–	–	–	77 851	77 851
–	–	549 832	549 832	356 892	1 383 148
–	–	18 307 181	18 307 181	522 034	21 379 752
–	–	747 245	747 245	–	747 245
–	–	19 054 426	19 054 426	522 034	22 126 997

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13. Reclassifications of financial instruments

During the year ended 31 March 2009, the group reclassified certain financial instruments out of fair value through profit or loss. These assets were originally classified as held for trading but the group's intentions in regard to these assets changed and the group reclassified £112.3 million and £7.8 million to the loans and receivables and available for sale classifications, respectively. The amount reclassified reflected the fair value of the financial assets at the date of reclassification.

The group did not undertake any further reclassifications under the amendment to IAS 39 in the current year.

The following table shows carrying values and fair values of the assets reclassified:

At 31 March £'000	2014 Carrying value	2014 Fair value	2013 Carrying value	2013 Fair value
Trading assets reclassified to loans and receivables	31 746	16 441	46 025	26 784
	31 746	16 441	46 025	26 784

If the reclassifications had not been made, the group's income before tax in 2014 would have increased by £3.9 million (2013: a decrease of £8.6 million).

In the current year the reclassified assets have contributed £268 000 loss to profit or loss through the margin line and a loss of £4.1 million through impairments before taxation. In the prior year, after reclassification, the assets contributed £372 000 loss to profit and loss through the margin line and a loss of £4.9 million through impairments before taxation.

14. Fair value hierarchy

Financial instruments carried at fair value

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 199.

14. Fair value hierarchy (continued)

At 31 March £'000	Total instruments at fair value	Level within the fair value hierarchy Level 1	Level 2	Level 3
2014				
Assets				
Cash and balances at central banks	7 143	7 143	–	–
Loans and advances to banks	110 649	110 649	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	277 952	–	277 952	–
Sovereign debt securities	1 232 416	1 232 416	–	–
Bank debt securities	168 042	29 659	138 383	–
Other debt securities	204 630	1 808	130 688	72 134
Derivative financial instruments	920 015	164 785	632 919	122 311
Securities arising from trading activities	586 706	586 706	–	–
Investment portfolio	342 597	70 535	97 626	174 436
Loans and advances to customers	48 052	–	4 899	43 153
Own originated loans and advances to customers securitised		–	–	–
Other securitised assets	624 245	1	–	624 244
Other assets	35 591	34 318	426	847
	4 558 038	2 238 020	1 282 893	1 037 125
Liabilities				
Derivative financial instruments	668 722	267 895	389 522	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	60 329	60 329	–	–
	2 304 277	719 874	1 048 260	536 143
Net assets	2 253 761	1 518 146	234 633	500 982

At 31 March £'000	Total instruments at fair value	Level within the fair value hierarchy Level 1	Level 2	Level 3
14. Fair value hierarchy (continued)				
2013				
Assets				
Loans and advances to banks	108 954	108 954	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	321 413	–	321 413	–
Sovereign debt securities	1 660 377	1 365 463	294 914	–
Bank debt securities	252 123	72 095	180 028	–
Other debt securities	182 994	88 766	59 585	34 643
Derivative financial instruments	1 135 058	253 468	807 204	74 386
Securities arising from trading activities	673 763	651 768	21 995	–
Investment portfolio	357 154	59 153	100 580	197 421
Loans and advances to customers	82 501	–	18 221	64 280
Other loans and advances	4 612	–	–	4 612
Other securitised assets	645 400	–	–	645 400
Other assets	477 947	476 027	1 133	787
	5 902 296	3 075 694	1 805 073	1 021 529
Liabilities				
Derivative financial instruments	817 526	205 556	608 685	3 285
Other trading liabilities	372 762	372 762	–	–
Repurchase agreements and cash collateral on securities lent	350 308	–	350 308	–
Customer accounts (deposits)	1 411	–	1 411	–
Debt securities in issue	–	–	–	–
Liabilities arising on securitisation of other assets	532 106	–	–	532 106
Other liabilities	476 424	474 058	–	2 366
	2 550 537	1 052 376	960 404	537 757
Net assets	3 351 759	2 023 318	844 669	483 772

Transfers between level 1 and level 2

There were no significant transfers between level 1 and level 2 for the current or prior year.

14. Fair value hierarchy (continued)

Level 3 instruments

The following table is a reconciliation of the opening balances to the closing balances for fair value measurements in level 3 of the fair value hierarchy:

	Total level 3 financial instruments	Fair value movements through income statement	Fair value movements through compre-hensive income
Balance at 1 April 2012	458 336	445 677	12 659
Transfers due to application of IFRS 10	(29 054)	(29 054)	–
Restated opening balance	429 282	416 623	12 659
Total gains or losses	52 438	54 946	(2 508)
In the income statement	54 035	54 946	(911)
In the statement of comprehensive income	(1 597)	–	(1 597)
Purchases	113 486	62 967	50 519
Sales	(59 261)	(24 794)	(34 467)
Settlements	(2 780)	(2 780)	–
Transfers into level 3	130 749	130 173	576
Transfers out of level 3	(185 331)	(184 791)	(540)
Foreign exchange adjustments	5 189	2 504	2 685
Balance at 31 March 2013	483 772	454 848	28 924
Total gains or losses	44 441	45 759	(1 318)
In the income statement	45 658	45 658	–
In the statement of comprehensive income	(1 217)	101	(1 318)
Purchases	72 393	72 393	–
Sales	(69 030)	(65 953)	(3 077)
Issues	537	537	–
Settlements	(22 370)	(22 364)	(6)
Transfers into level 3	33 965	33 965	–
Transfers out of level 3	(19 240)	(19 831)	591
Foreign exchange adjustments	(23 486)	(23 517)	31
Balance at 31 March 2014	500 982	475 837	25 145

For the year ended 31 March 2014, instruments to the value of £19.2 million (2013: £185.3 million) were transferred from level 3 into level 2. The valuation methodologies were reviewed and observable inputs are used to determine the fair value.

14. Fair value hierarchy (continued)

Level 3 instruments (continued)

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 ended 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)
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	(5 732)	(952)
Other operating income	847	803
	45 658	54 035
Total gains or losses included in other comprehensive income for the year		
Gains 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	(1 318)	(1 597)
	(1 217)	(1 597)

For the year ended 31 March 2014, £44.8 million of the total gains and losses recognised in the group are unrealised.

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 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 value of financial instruments in level 3 are measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable market data. The following table shows the sensitivity of these fair values to reasonably possible alternative assumptions, determined at a transactional level:

At 31 March 2014	Balance sheet value £'000	Significant unobservable input changed	Range which unobservable input has been stressed	Reflected in income statement £'000 Favourable changes	Reflected in income statement £'000 Unfavourable changes
Assets					
Other debt securities	72 134			2 004	(1 688)
		Discount rates	(5%) – 5%	5	(20)
		Credit spreads	(2%) – 3%	1 135	(1 037)
		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	(5 615)
		Cash flows	(9%) – 3%	1 337	(4 076)
		Other		1 102	(1 539)
Other securitised assets*	624 244	Credit spreads, prices from illiquid markets	(6.5bps) – 6.5bps – 6 months/+ 12 month adjustment to	8 122	(8 810)
Other assets	847	Discount rates	(5%) – 5%	30	(28)
				34 495	(29 442)
Liabilities					
Derivative financial instruments	11 305	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)
				6 741	(6 566)

* *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 £'000	Reflected in other comprehensive income: Unfavourable changes £'000
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.

14. Fair value hierarchy (continued)

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
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

At 31 March £'000	Carrying amount	Fair value	Level within the fair value hierarchy Level 1	Level 2	Level 3
15. Fair value of financial instruments at amortised cost					
2014					
Assets					
Cash and balances at central banks	1 735 475	1 735 471	^	^	^
Loans and advances to banks	1 196 921	1 190 585	1 118 665	71 920	–
Reverse repurchase agreements and cash collateral on securities borrowed	937 548	937 548	^	^	^
Bank debt securities	203 141	203 460	–	203 460	–
Other debt securities	24 598	24 061	–	–	24 061
Loans and advances to customers	7 726 575	7 720 541	49 316	955 934	6 715 291
Own originated loans and advances to customers securitised	447 638	465 235	^	^	^
Other loans and advances	1 672 709	1 508 952	1 196	445 980	1 061 776
Other securitised assets	2 173 913	2 210 065	392 584	–	1 817 481
Other assets	984 245	975 008	740 740	221 953	12 315
	17 102 763	16 970 926			
Liabilities					
Deposits by banks	1 433 141	1 429 262	679 149	685 282	64 831
Repurchase agreements and cash collateral on securities lent	278 487	278 487	278 487	–	–
Customer accounts (deposits)	10 956 136	10 937 293	4 457 330	6 479 963	–
Debt securities in issue	1 046 160	1 030 211	29 712	720 554	279 945
Liabilities arising on securitisation of own originated loans and advances	449 079	449 079	^	^	^
Liabilities arising on securitisation of other assets	1 850 377	1 771 834	–	1 414 274	357 560
Other liabilities	880 238	866 909	692 985	144 545	29 379
Subordinated liabilities	740 950	737 184	737 184	–	–
	17 634 568	17 500 259			

^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 and have been reflected in level 1. This assumption also applies to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Financial instruments for which fair value does not approximate carrying value

Fixed rate financial instruments

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

At 31 March £'000	Carrying amount	Fair value
15. Fair value of financial instruments at amortised cost (continued)		
2013		
Assets		
Cash and balances at central banks	1 375 670	1 375 670
Loans and advances to banks	1 215 683	1 215 683
Reverse repurchase agreements and cash collateral on securities borrowed	1 207 180	1 207 180
Bank debt securities	203 078	213 252
Other debt securities	7 516	7 516
Loans and advances to customers	7 676 419	7 669 726
Own originated loans and advances to customers securitised	491 194	501 596
Other loans and advances	2 026 728	2 002 823
Other securitised assets	2 461 341	2 419 511
Other assets	603 083	597 633
	17 267 892	17 210 590
Liabilities		
Deposits by banks	1 781 802	1 779 250
Repurchase agreements and cash collateral on securities lent	592 088	592 088
Customer accounts (deposits)	11 189 171	11 181 138
Debt securities in issue	1 762 338	1 754 393
Liabilities arising on securitisation of own originated loans and advances*	477 870	477 870
Liabilities arising on securitisation of other assets	1 954 080	1 638 500
Other liabilities	549 832	550 410
Subordinated liabilities	747 245	800 286
	19 054 426	18 773 935

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.
Other liabilities	Where the other liabilities are short term in nature carrying amounts are assumed to approximate fair value.
Subordinated liabilities	Valued with reference to market prices.

16. Designated at fair value: loans and receivables and financial liabilities

Loans and receivables designated at fair value through profit or loss

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
2014						
Loans and advances to banks	110 649	–	–	–	–	110 649
Loans and advances to customers	48 052	(1 363)	(3 172)	–	–	48 052
Other securitised assets	624 245	26 674	(99 870)	26 674	(123 546)	624 245
Other assets	847	59	847	–	–	847
	783 793	25 370	(102 195)	26 674	(123 546)	783 793
2013*						
Loans and advances to banks	108 954	–	–	–	–	108 954
Other debt securities	16 052	–	16 052	–	–	16 052
Loans and advances to customers	82 501	3 111	20 455	–	–	82 501
Other loans and advances	4 612	–	–	–	–	4 612
Other securitised assets	645 400	(66 142)	(145 636)	(43 683)	(83 818)	645 400
Other assets	1 805	787	787	–	–	1 805
	859 324	(62 244)	(108 342)	(43 683)	(83 818)	859 324

* *As restated for restatements detailed in note 57.*

Financial liabilities designated at fair value through profit or loss

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
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)
Other liabilities	18 050	18 050	–	–	–	–
	865 380	978 506	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	48 259	45 893	846	2 366	–	–
	580 365	769 371	(81 040)	(178 087)	10 241	(88 326)

* *Restated.*

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.

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	1 681 929	1 219 563
Europe (excluding UK)	24 490	8 827
Australia and Other	36 199	147 280
Total	1 742 618	1 375 670

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	31 125	3 645
United Kingdom	893 448	791 380
Europe (excluding UK)	167 479	376 668
Australia	75 270	81 805
Asia	19 292	21 430
United States of America	120 863	45 359
Other	93	4 350
Total	1 307 570	1 324 637

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 million (2013: £574 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: £2 380.3 million). They are pledged as security for the term of the underlying repurchase agreement.

At 31 March £'000	Group 2014	 2013
20. Sovereign debt securities		
Bonds	357 341	595 872
Commercial paper	–	20 462
Treasury bills	826 220	871 525
Floating rate notes	48 855	172 518
	1 232 416	1 660 377
The country risk of the sovereign debt securities lies in the following geographies:		
United Kingdom	826 220	1 131 343
Europe (excluding UK)*	119 785	234 120
Australia	286 411	294 914
Total	1 232 416	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	248 948	198 377
Liquid asset bills	–	10 255
Other	1 928	–
	371 183	455 201
The country risk of bank debt securities lies in the following geographies:		
South Africa	6 042	6 662
United Kingdom	131 383	140 467
Europe (excluding UK)	128 561	143 334
Australia	99 661	141 059
United States of America	–	23 679
Other	5 536	–
Total	371 183	455 201

At 31 March £'000	2014	2013*
22. Other debt securities		
Bonds	40 361	23 099
Floating rate notes	23 105	31 240
Government securities	1 823	–
Asset-based securities	154 599	86 811
Residual notes	9 340	46 136
Other investments	–	3 224
	229 228	190 510
The country risk of other debt securities lies in the following geographies:		
United Kingdom	141 477	93 326
Europe (excluding UK)	55 480	58 428
Australia	8 150	22 704
United States of America	24 121	16 052
Total	229 228	190 510

* *As restated for restatements detailed in note 57.*

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
23. Derivative financial instruments (continued)						
Foreign exchange derivatives						
Forward foreign exchange contracts	4 222 309	23 491	13 557	4 169 616	28 345	29 777
Currency swaps	7 375 755	230 193	69 037	7 766 032	291 634	134 708
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	14 303 214	294 784	122 828	14 277 295	339 816	185 783
Interest rate derivatives						
Caps and floors	685 563	4 660	7 258	764 691	5 566	3 307
Swaps	20 516 636	193 330	97 705	18 197 371	280 177	188 061
Forward rate agreements	454 785	16	64	360 323	30	66
Other interest rate contracts	–	–	–	692 291	6	–
OTC derivatives	21 656 984	198 006	105 027	20 014 676	285 779	191 434
Exchange traded futures	28 636	87	65	48 681	–	233
	21 685 620	198 093	105 092	20 063 357	285 779	191 667
Equity and stock index derivatives						
OTC options bought and sold	2 050 659	33 556	93 273	2 343 310	37 332	78 433
Equity swaps and forwards	177 105	3 832	77	193 194	7 128	17 103
OTC derivatives	2 227 764	37 388	93 350	2 536 504	44 460	95 536
Exchange traded futures	1 748 014	38 532	75 663	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	–
	8 766 224	196 031	327 059	9 628 443	262 620	271 687
Commodity derivatives						
OTC options bought and sold	58 549	118	–	41 347	3 056	1 975
Commodity swaps and forwards	748 682	105 920	107 738	586 580	163 239	162 687
OTC derivatives	807 231	106 038	107 738	627 927	166 295	164 662
Credit derivatives	452 349	13 496	6 005	200 075	8 361	3 727
Embedded derivatives*		111 573	–		72 187	–
Derivatives per balance sheet		920 015	668 722		1 135 058	817 526

* *Mainly includes profit shares received as part of lending transactions.*

** *As restated for restatements detailed in note 57.*

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	53 225
Unlisted equities*	278 728	303 929
	342 597	357 154

* *Unlisted equities includes loan instruments that are convertible into equity.*
** *As restated for restatements detailed in note 57.*

At 31 March £'000	2014	2013*
26. Loans and advances to customers and other loans and advances		
Gross loans and advances to customers	7 967 313	7 951 550
Impairments of loans and advances to customers	(192 686)	(192 630)
Net loans and advances to customers	7 774 627	7 758 920
Gross other loans and advances to customers	1 875 637	2 214 650
Impairments of other loans and advances to customers	(202 928)	(183 310)
Net other loans and advances to customers	1 672 709	2 031 340

* *As restated for restatements detailed in note 57.*

For further analysis on loans and advances refer to pages 55 to 67 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	186 353	160 236
Charge to the income statement	76 420	111 210
Reversals and recoveries recognised in the income statement	(4 701)	(23 722)
Utilised	(77 210)	(60 858)
Disposals	–	–
Exchange adjustment	(4 273)	(513)
Balance at the end of the year	176 589	186 353
Portfolio impairment		
Balance at the beginning of the year	6 277	2 813
Charge to the income statement	10 068	3 352
Exchange adjustment	(247)	112
Balance at the end of the year	16 098	6 277
Other loans and advances		
Specific impairment		
Balance at the beginning of the year	76 446	66 362
Charge to the income statement	28 916	38 528
Utilised	(19 676)	(23 689)
Exchange adjustment	288	(4 755)
Balance at the end of the year	85 974	76 446
Portfolio impairment		
Balance at the beginning of the year	106 864	95 413
Charge to the income statement	10 165	11 456
Transfer to securitised assets	–	(918)
Exchange adjustment	(75)	913
Balance at the end of the year	116 954	106 864
Total specific impairments	262 563	262 799
Total portfolio impairments	133 052	113 141
Total impairments	395 615	375 940
Interest income recognised on loans that have been impaired	19 125	37 465
Reconciliation of income statement charge:		
Loans and advances to customers	81 788	90 840
Specific impairment charged to income statement	71 720	87 488
Portfolio impairment charged to income statement	10 068	3 352
Securitised assets (refer to note 27)	6 042	48 212
Specific impairment charged to the income statement	20 574	31 276
Portfolio impairment charged to the income statement	(14 532)	16 936
Other loans and advances	39 081	49 984
Specific impairment charged to the income statement	28 916	38 528
Portfolio impairment charged to the income statement	10 165	11 456
Total income statement charge	126 911	189 036

* *As restated for restatements detailed in note 57.*

At 31 March £'000	Group 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	925 719	1 002 445
Kensington securitised assets net of impairments	1 786 849	2 001 712
Other debt securities	–	42 559
Total other securitised assets	2 798 158	3 106 741
The associated liabilities are recorded on balance sheet in the following line items:		
Liabilities arising on securitisation of own originated loans and advances	449 079	477 870
Liabilities arising on securitisation of other assets	2 374 599	2 486 186
Specific and portfolio impairments		
Reconciliation of movements in group specific and portfolio impairments:		
Specific impairment		
Balance at the beginning of the year	(2 421)	(2 427)
Charge to the income statement	20 574	31 276
Utilised	(20 224)	(31 562)
Exchange adjustment	(1 309)	292
Balance at the end of the year	(3 380)	(2 421)
Own originated loans and advances to customers securitised	277	140
Kensington loans and advances securitised and other securitised assets	(3 657)	(2 561)
Portfolio impairment		
Balance at the beginning of the year	45 038	27 279
(Credit)/charge to the income statement	(14 532)	16 936
Transfer from other loans and advances	–	918
Disposals	–	(116)
Exchange adjustment	37	21
Balance at the end of the year	30 543	45 038
Own originated loans and advances to customers securitised	340	419
Kensington loans and advances securitised and other securitised assets	30 203	44 619
Total portfolio and specific impairments on balance sheet	27 163	42 617

* *As restated for restatements detailed in note 57.*

At 31 March £'000	2014	2013
28. Interests in associated undertakings		
Interests in associated undertakings consist of:		
Net asset value	14 300	17 666
Goodwill	7 066	7 041
Investment in associated undertakings	21 366	24 707
Associated undertakings comprise unlisted investments		
Analysis of the movement in our share of net assets:		
At the beginning of the year	17 666	17 375
Exchange adjustments	(1 344)	697
Disposals	(6 527)	(3 323)
Acquisitions	296	–
Operating income from associates (included in other operating income)	5 827	3 476
Dividends received	(1 618)	(559)
At the end of the year	14 300	17 666
Analysis of the movement in goodwill:		
At the beginning of the year	7 041	7 055
Exchange adjustments	25	(14)
At the end of the year	7 066	7 041
Associated undertakings:		
Unlisted	21 366	27 707
	21 366	24 707

At 31 March £'000	2014	2013
29. Deferred taxation		
Deferred taxation assets	105 109	126 822
Deferred taxation liabilities	(68 502)	(77 851)
Net deferred taxation assets	36 607	48 971
The net deferred taxation assets arise from:		
Deferred capital allowances	26 362	23 803
Income and expenditure accruals	(2 861)	2 649
Asset in respect of unexpired options	21 833	31 873
Unrealised fair value adjustments on financial instruments	480	1 920
Losses carried forward	37 713	45 741
Liability in respect of pensions surplus	(5 112)	(5 440)
Asset in respect of pension contributions	569	–
Deferred tax on acquired intangibles	(28 844)	(35 251)
Debt buy-back	(15 839)	(19 210)
Other temporary differences	2 306	2 886
Net deferred taxation assets	36 607	48 971
Reconciliation of net deferred taxation assets:		
At the beginning of the year	48 971	36 692
(Debit)/credit to income statement – current year taxation	(4 663)	5 995
Credit directly in other comprehensive income	1 891	772
Other	(243)	2 144
Exchange adjustments	(9 349)	3 368
At year end	36 607	48 971

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 £131.5 million, capital losses carried forward of £26.2 million and management expenses of £12.5 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 in the UK 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	891 759	930 534
Dealing properties	40 343	119 539
Accruals	54 982	52 991
Prepayments	29 388	29 771
Pension assets (refer to note 39)	25 560	28 083
Trading initial margin	426	60 650
Other	156 599	161 236
	1 199 057	1 382 804

* *As restated for restatements detailed in note 57.*

At 31 March £'000	Freehold properties	Leasehold property and improvements	Furniture and vehicles	Equipment	Operating leases*	Total
31. Property and equipment						
2014						
Cost						
At the beginning of the year	2 721	66 126	16 461	28 888	63 247	177 443
Exchange adjustments	(30)	(1 468)	(529)	(614)	–	(2 641)
Disposal of subsidiary undertakings	–	(1 824)	(1 951)	(1 722)	–	(5 497)
Additions	–	8 422	543	4 338	3 428	16 731
Disposals	(26)	(1 414)	(3 136)	(2 413)	(33 843)	(40 832)
At the end of the year	2 665	69 842	11 388	28 477	32 832	145 204
Accumulated depreciation						
At the beginning of the year	(376)	(23 818)	(10 642)	(21 822)	(32 793)	(89 451)
Exchange adjustments	–	649	426	458	–	1 533
Disposal of subsidiary undertakings	–	1 379	939	1 443	–	3 761
Disposals	–	1 007	3 136	2 282	16 279	22 704
Depreciation charge for the year	(43)	(5 414)	(1 996)	(4 331)	(6 044)	(17 828)
At the end of the year	(419)	(26 197)	(8 137)	(21 970)	(22 558)	(79 281)
Net carrying value	2 246	43 645	3 251	6 507	10 274	65 923
2013**						
Cost						
At the beginning of the year	3 316	55 764	15 789	30 199	104 675	209 743
IFRS 10 adjustments	–	4 088	–	–	–	4 088
Revised beginning of the year	3 316	59 852	15 789	30 199	104 675	213 831
Exchange adjustments	339	398	147	204	–	1 088
Acquisition of subsidiary undertakings	–	–	423	742	–	1 165
Additions	–	8 196	1 268	4 901	9 338	23 703
Disposals	(934)	(2 320)	(1 166)	(7 158)	(50 766)	(62 344)
At the end of the year	2 721	66 126	16 461	28 888	63 247	177 443
Accumulated depreciation						
At the beginning of the year	(174)	(19 488)	(8 971)	(21 024)	(32 589)	(82 246)
Exchange adjustments	(15)	(226)	(130)	(150)	–	(521)
Disposals	99	905	1 017	3 528	15 868	21 417
Depreciation charge for the year	(286)	(5 009)	(2 558)	(4 176)	(16 072)	(28 101)
At the end of the year	(376)	(23 818)	(10 642)	(21 822)	(32 793)	(89 451)
Net carrying value	2 345	42 308	5 819	7 066	30 454	87 992

* *These are assets held by the group, in circumstances where the group is the lessor.*

** *As restated for restatements detailed in note 57.*

On 3 December 2010 the group acquired a portfolio of operating leased assets comprising motor vehicles. The operating lease income from this portfolio has been included in other operating income (note 5) and the depreciation of these operating leased assets has been shown separately on the face of the income statement.

At 31 March

£'000	2014	2013
32. Investment property		
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

Investment properties are carried at fair value and are classified as level 3 in the fair value hierarchy.

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 discounted cash flow method (DCF).

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 expected rental or usage value 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	564 394	581 813
Acquisition of subsidiaries	–	12 159
Disposal of subsidiaries	(8 148)	–
Written off	(17 327)	(32 649)
Exchange adjustments	(10 254)	3 071
At the end of the year	528 665	564 394
Accumulated impairments		
At the beginning of the year	(107 748)	(127 190)
Income statement amount	(11 233)	(13 409)
Written off	17 327	32 649
Exchange adjustments	–	202
At the end of the year	(101 654)	(107 748)
Net carrying value	427 011	456 646
Analysis of goodwill by line of business and geography		
UK and Other		
Asset Management	88 045	88 045
Wealth & Investment	242 951	243 102
Specialist Banking	66 760	75 242
	397 756	406 389
Australia		
Specialist Banking	29 255	50 257
Total group	427 011	456 646

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 three most significant cash-generating units giving rise to goodwill are Investec Asset Management, Kensington and Investec Wealth & Investment (IWI) which now includes the business of Williams de Broë (acquired in 2012 as part of the Evolution Group) which was merged with IWI in August 2012.

For IWI, goodwill of £236.3 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 2.0% (March 2013: 2.0%). 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.

For Investec Asset Management, the fair valuation calculation based on the value placed on the business in the sale completed in July 2013 of 15% of the company to management comfortably supports the value of the goodwill of £88 million.

As announced on 6 February 2014, Investec is in the process of exploring a sale of Kensington. The sale process is ongoing and there are no indications from this process that there is any impairment of the goodwill of £39.7 million.

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

2014

Goodwill cost and impairment reduced following the disposal of certain subsidiaries in 2014 (as detailed in note 35).

2013

Goodwill arising from acquisitions relates to the following acquisitions in 2013 (as detailed in note 35):

- Neontar Limited (the holding company of the NCB group) – £6.4 million
- Investec Asset Finance & Leasing (Pty) Ltd – £2.6 million
- The Evolution Group (EVG) – £3.2 million.

At 31 March £'000	Acquired software	Intellectual property	Management contracts	Client relationships	Total
34. Intangible assets					
2014					
Cost					
At the beginning of the year	48 485	3 526	883	185 253	238 147
Exchange adjustments	(2 276)	(565)	33	(169)	(2 977)
Additions	2 368	727	–	–	3 095
Disposals	(1 276)	(1 654)	–	–	(2 930)
At the end of the year	47 301	2 034	916	185 084	235 335
Accumulated amortisation and impairments					
At the beginning of the year	(37 122)	(328)	(79)	(28 487)	(66 016)
Exchange adjustments	1 603	84	(3)	180	1 864
Disposals	929	–	–	–	929
Amortisation	(5 237)	(134)	(134)	(13 259)	(18 764)
At the end of the year	(39 827)	(378)	(216)	(41 566)	(81 987)
Net carrying value	7 474	1 656	700	143 518	153 348
2013					
Cost					
At the beginning of the year	52 265	3 376	–	181 827	237 468
Exchange adjustments	519	200	61	234	1 014
Acquisition of a subsidiary undertaking	–	–	822	3 192	4 014
Additions	1 874	205	–	–	2 079
Disposals	(6 173)	(255)	–	–	(6 428)
At the end of the year	48 485	3 526	883	185 253	238 147
Accumulated amortisation and impairments					
At the beginning of the year	(37 520)	(298)	–	(15 453)	(53 271)
Exchange adjustments	(359)	(30)	–	200	(189)
Disposals	6 507	–	–	–	6 507
Amortisation	(5 750)	–	(79)	(13 234)	(19 063)
At the end of the year	(37 122)	(328)	(79)	(28 487)	(66 016)
Net carrying value	11 363	3 198	804	156 766	172 131

Client relationships all relate to the acquisition of Rensburg Sheppards plc in June 2010 and EVG in December 2011, Investec Capital Asia Limited in April 2011 and NCB Group in June 2012.

35. Acquisitions and disposals

2014

Acquisitions

There were no significant acquisitions of subsidiaries during the year ended 31 March 2014.

Disposals

The net gain on the sale of subsidiaries of £9.7 million in the income statement arises from the sale of Lease Direct Finance Limited and the sale of Investec Trust (Switzerland) S.A. and Investec Trust (Jersey) Limited.

The net cash inflow on these items amount to £37.8 million.

On 31 July 2013, Investec completed the sale of 15% of its Asset Management business, owned by Investec plc, for a consideration of £77.9 million in cash to the senior management of the business who have also been granted options to acquire, over a period of seven years beginning on 1 April 2013, a further 5% interest. As part of this transaction Investec plc has realised a gain of £61.6 million on the disposal of a non-controlling interest in its subsidiary, Investec Asset Management Limited, which is reflected in equity together with an increase in non-controlling interests of £11.0 million.

2013

Acquisitions

On 11 June 2012 Investec plc acquired the entire issued share capital of Neontar Limited (parent of the NCB Group). The assets and liabilities at the date of acquisition, goodwill arising and total consideration paid are shown below:

	Book value of assets and liabilities			Fair value of assets and liabilities		
£'000	NCB	Other	Total	NCB	Other	Total
Loans and advances to banks	10 277	–	10 277	10 277	–	10 277
Trading securities	789	–	789	789	–	789
Investment securities	6 548	–	6 548	6 548	–	6 548
Deferred taxation assets	69	–	69	679	–	679
Other assets	51 393	–	51 393	50 513	1 009	51 522
Property and equipment	1 165	–	1 165	1 165	–	1 165
Intangible assets	–	–	–	4 014	–	4 014
Goodwill*	–	–	–	6 350	5 809	12 159
	70 241	–	70 241	80 335	6 818	87 153
Current taxation liabilities	74	–	74	74	–	74
Deferred taxation liabilities	–	–	–	502	–	502
Other trading liabilities	278	–	278	278	–	278
Other liabilities	45 366	–	45 366	50 981	4 207	55 188
	45 718	–	45 718	51 835	4 207	56 042
Net assets/fair value of net assets acquired	24 523	–	24 523	28 500	2 611	31 111
Fair value of cash consideration				28 500	2 611	31 111
				28 500	2 611	31 111
Loans and advances to banks at acquisition						10 277
Fair value of cash consideration						(31 111)
Net cash outflow						(20 834)

* *The goodwill arising from the acquisition of NCB consists largely of the benefits expected to arise from the enhancement of the group's Wealth & Investment offering through the combination of NCB's wealth and investment business with the group's existing business.*

For the post-acquisition period 12 June 2012 to 31 March 2013, the operating income of NCB totalled £12.705 million and losses before taxation totalled £2.609 million.

The group's operating income before impairment losses on loans and advances of Investec would have been £1 179.183 million and the group's operating profit would have totalled £82.676 million, if the acquisition of NCB had been on 1 April 2012 as opposed to 11 June 2012.

Disposals

There were no significant disposals of subsidiaries during the year ended 31 March 2013.

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	136 499	72 053
One to five years	142 660	92 029
Greater than five years	34 427	5 638
	322 796	203 485
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	550 599	316 613
	1 046 472	1 558 853
	1 369 268	1 762 338

At 31 March £'000	2014	2013
38. Other liabilities		
Settlement liabilities	732 906	911 512
Other creditors and accruals	362 312	306 307
Other non-interest-bearing liabilities	139 469	165 329
	1 234 687	1 383 148

At 31 March £'000	2014	2013 Restated
39. Pension commitments		
Income statement charge		
Defined benefit obligations net income included net interest income	(1 329)	(1 207)
Defined benefit net costs included in administration costs	482	344
Cost of defined contribution schemes included in staff costs	22 671	20 507
Net income statement expense in respect of pensions	21 824	19 644

The group operates pension schemes throughout its areas of operation. The majority of the schemes are defined contribution schemes, with the exception of two schemes in the United Kingdom, being the Guinness Mahon Pension Fund scheme (GM scheme) and the Investec Asset Management Pension scheme (IAM scheme). Both schemes are final salary pension plans with assets held in separate trustee administered funds. The 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.

	2014	2013
39. Pension commitments (continued)		
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 PCMA00 MC and PCFA00 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

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 revalauation 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 100.

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.

At 31 March £'000	2014	2013
39. Pension commitments (continued)		
The plan assets held in the schemes were:		
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 associate with lower than expected returns.

At 31 March	2014			2013 (restated)		
£'000	GM	IAM	Total	GM	IAM	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 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/(loss) 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

At 31 March £'000	GM	IAM	Total
39. Pension commitments (continued)			
Changes in the net asset 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 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 plc		
Subordinated fixed rate medium-term notes	577 941	577 470
Issued by Investec Bank Australia Limited		
Subordinated floating rate medium-term notes	39 106	45 633
Issued by Kensington Group plc		
Callable subordinated notes	71 174	71 173
	740 950	747 245
Remaining maturity:		
In one year or less, or on demand	–	–
In more than one year, but not more than two years	105 153	–
In more than two years, but not more than five years*	18 750	124 142
In more than five years	617 047	623 103
	740 950	747 245

* *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.

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.

40. Subordinated liabilities (continued)

Medium-term notes

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).

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 Bank Bills Swap Rate (BBSW) plus 5.50% margin. The maturity date is 20 December 2022. Interest is payable monthly up to and including the maturity date. Early redemption, at the option of the Issuer, is on each interest payment date from and including 20 December 2017 until, and including, the maturity date.

Callable subordinated notes

Kensington Group plc has in issue £69 767 000 callable subordinated notes due 2015. As from the reset date of 21 December 2010, interest is payable at the rate of 7.285%, annually in arrears. The issuer may, at its option, redeem all, but not only some of the notes at any time at par plus accrued interest, in the event of certain tax changes. The notes mature on 21 December 2015.

At 31 March	2014	2013
41. Ordinary share capital		
Investec plc		
Issued, allotted and fully paid		
Number of ordinary shares	Number	Number
At the beginning of the year	605 196 771	598 339 612
Issued during the year	3 559 572	6 857 159
At the end of the year	608 756 343	605 196 771
Nominal value of ordinary shares	£'000	£'000
At the beginning of the year	121	120
Issued during the year	1	1
At the end of the year	122	121
Number of special converting shares	Number	Number
At the beginning of the year	279 639 164	276 020 221
Issued during the year	3 295 365	3 618 943
At the end of the year	282 934 529	279 639 164
Nominal value of special converting shares	£'000	£'000
At the beginning of the year	56	55
Issued during the year	–	1
At the end of the year	56	56
Number of UK DAN shares	Number	Number
At the beginning and the end of the year	1	1
Nominal value of UK DAN share	£'000	£'000
At the beginning and the end of the year	*	*
Number of UK DAS shares	Number	Number
At the beginning and the end of the year	1	1
Nominal value of UK DAS share	£'000	£'000
At the beginning and the end of the year	*	*
Number of special voting shares	Number	Number
At the beginning and the end of the year	1	1
Nominal value of special voting share	£'000	£'000
At the beginning and the end of the year	*	*

* *Less than £1 000.*

41. Ordinary share capital (continued)

Staff share scheme

The group operates a share option and a share purchase scheme for employees. The number of ordinary shares conditionally allocated to employees are disclosed in note 7.

Movements in the number of share options issued to (each option is in respect of one share) employees are as follows:

For the year to 31 March	Number 2014	Number 2013
Opening balance	50 514 354	46 076 830
Issued during the year	9 200 128	12 112 551
Exercised	(12 249 975)	(5 333 003)
Lapsed	(4 587 440)	(2 342 024)
Closing balance	42 877 067	50 514 354

The purpose of the staff share scheme is to promote an *esprit de corps* within the organisation, create an awareness of Investec's performance and provide an incentive to maximise individual and group performance by allowing all staff to share in the risks and rewards of the group.

The group makes awards available to staff members via the underlying share trusts. The particular instrument used varies from time to time depending on taxation legislation and factors affecting the group structure. Nevertheless, whatever the instrument chosen, its underlying value depends solely on the performance of the group's share price.

At present, the practice of the group is to give all permanent staff members a share allocation based on their annual package after completing six months of employment. In line with the objective of providing a long-term incentive for staff these share awards vest over periods varying from four to five years.

After the initial allocation referred to above, additional allocations are made to staff members at the discretion of group management and depending on the individual performance and contribution made by the respective staff members.

At 31 March £'000	2014	2013
42. Perpetual preference shares of holding company		
Perpetual preference share capital	151	151
Perpetual preference share premium (refer to note 43)	149 449	149 449
	149 600	149 600
Issued by Investec plc		
9 381 149 (2013: 9 381 149) non-redeemable, non-cumulative, non-participating preference shares of £0.01 each, issued at a premium of £8.58 per share.		
– Preference share capital	94	94
– Preference share premium	79 490	79 490
5 700 000 (2013: 5 700 000) non-redeemable, non-cumulative, non-participating preference shares of £0.01 each, issued at a premium of £8.86 per share.		
– Preference share capital	57	57
– Preference share premium	49 917	49 917
Preference shareholders will receive an annual dividend if declared based on the coupon rate (being equivalent to the base rate plus 1%) multiplied by the deemed value on a daily basis and payable in two semi-annual instalments.		
An ordinary dividend will not be declared by Investec plc unless the preference dividend has been declared.		
If declared preference dividends are payable semi-annually at least seven business days prior to the date on which Investec plc pays its ordinary dividends, if any, but shall be payable no later than 120 business days after 31 March and 30 September, respectively.		
Issued by Investec plc – Rand denominated		
1 859 000 (2013: 1 859 900) non-redeemable, non-cumulative, non-participating perpetual preference shares of ZAR0.001 each, issued at a premium of ZAR99.999 per share on 29 June 2011.		
– Preference share capital	*	*
– Preference share premium	16 601	16 601
416 040 (2013: 416 040) non-redeemable, non-cumulative, non-participating perpetual preference shares of ZAR0.001 each, issued at a premium of ZAR 99.999 per share on 11 August 2011.		
– Preference share capital	*	*
– Preference share premium	3 441	3 441
Rand denominated preference shareholders will receive a dividend if declared based on the coupon rate (being equivalent to South African prime rate multiplied by 95%) multiplied by the deemed value on a daily basis and payable in two semi-annual instalments.		
An ordinary dividend will not be declared by Investec plc unless the Rand preference dividend has been declared.		
If declared Rand preference dividends are payable semi-annually at least seven business days prior to the date on which Investec pays its ordinary dividends, if any, but shall be payable no later than 120 business days after 31 March and 30 September, respectively.		
	149 600	149 600

* *Less than £1 000.*

At 31 March £'000	2014	2013
43. Share premium		
Share premium account Investec plc	997 099	980 761
Perpetual preference share premium	149 449	149 449
	1 146 548	1 130 210

At 31 March	2014	2013
44. Treasury shares	£'000	£'000
Treasury shares held by subsidiaries of Investec plc	56 997	52 098
	Number	Number
Investec plc shares held by subsidiaries	12 539 920	11 079 853
Reconciliation of treasury shares	Number	Number
At the beginning of the year	11 079 853	7 810 932
Purchase of own shares by subsidiary companies	15 062 850	8 905 711
Shares disposed of by subsidiaries	(13 602 783)	(5 636 790)
At the end of the year	12 539 920	11 079 853
Market value of treasury shares:	£'000	£'000
Investec plc	60 794	50 857
	60 794	50 857

At 31 March £'000	2014	2013
45. Non-controlling interests		
Perpetual preferred securities issued by subsidiaries	165 319	169 106
Non-controlling interests in partially held subsidiaries	11 392	(4 552)
	176 711	164 554
Perpetual preferred securities issued by subsidiaries		
Issued by Investec plc subsidiaries	165 319	169 106
€200 000 000 (2013: €200 000 000) fixed/floating rate guaranteed non-voting non-cumulative perpetual preferred securities (preferred securities) were issued by Investec Tier 1 (UK) LP (a limited partnership organised under the laws of England and Wales) on 24 June 2005. The preferred securities which are guaranteed by Investec plc are callable at the option of the issuer subject to the approval of the UK Regulator on the tenth anniversary of the issue and if not called are subject to a step-up in coupon of one and a half times the initial credit spread above the three-month Eurozone interbank offered rate. Until the tenth anniversary of the issue the dividend on the preferred securities will be at 7.075%.		
The issuer has the option not to pay a distribution when it falls due but this would then prevent the payment of ordinary dividends by the company.		
Under the terms of the issue there are provisions for the preferred securities to be substituted for preference shares issued by the company if Investec plc's capital ratios fall below the minimum level permitted by the regulator.		
	165 319	169 106

45. Non-controlling interests (continued)

	Investec Asset Management Limited	
	2014	2013
The following table summarises the information relating to the group's subsidiary that has material non-controlling interests.		
Non-controlling interests (NCI) percentage	15.0%	0.0%
Summarised financial information	£'000	£'000
Total assets	335 020	–
Total liabilities	(237 589)	–
Revenue	242 796	–
Profit	67 585	–
Carrying amount of NCI	14 614	–
Profit allocated to NCI	5 535	–

46. Finance lease disclosures

At 31 March £'000	2014 Total future minimum payments	2014 Present value	2013 Total future minimum payments	2013 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*
47. Notes to cash flow statement		
Profit before taxation adjusted for non-cash items is derived as follows:		
Profit before taxation	117 783	72 850
Adjustment for non-cash items included in net income before taxation:		
Impairment of goodwill	11 233	13 409
Amortisation of acquired intangible assets	13 393	13 313
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	17 156	17 780
Impairment of loans and advances	126 911	189 036
Operating income from associates	(5 827)	(3 476)
Dividends from associates	1 618	559
Share-based payment charges	36 740	36 164
Profit before taxation adjusted for non-cash items	315 398	353 707
Decrease/(increase) in operating assets		
Loans and advances to banks	49 847	(264 689)
Reverse repurchase agreements and cash collateral on securities borrowed	313 093	(369 455)
Sovereign debt securities	427 961	(13 106)
Bank debt securities	84 018	369 351
Other debt securities	(38 718)	16 606
Derivative financial instruments	217 836	(83 693)
Securities arising from trading activities	87 057	(300 404)
Investment portfolio	12 900	(60 301)
Loans and advances to customers	205 333	55 413
Securitised assets	346 097	(12 197)
Other assets	193 084	(21 919)
Investment properties	(50 215)	–
	1 848 293	(684 394)
(Decrease)/increase in operating liabilities		
Deposits by banks	(348 059)	(134 627)
Derivative financial instruments	(148 804)	83 268
Other trading liabilities	18 888	100 857
Repurchase agreements and cash collateral on securities lent	(327 663)	(78 274)
Customer accounts	(234 446)	250 719
Debt securities in issue	(393 070)	(417 114)
Securitised liabilities	(140 378)	(63 864)
Other liabilities	(170 795)	126 140
	(1 744 327)	(132 895)

* *As restated for restatements detailed in note 57.*

At 31 March £'000	2014	2013
48. Commitments		
Undrawn facilities	850 283	638 113
Other commitments	13 022	14 283
	863 305	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	27 552	27 021
One to five years	86 045	97 894
Later than five years	28 669	54 542
	142 266	179 457
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 term 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
49. Contingent liabilities		
Guarantees and assets pledged as collateral security		
– Guarantees and irrevocable letters of credit	77 536	83 411
	77 536	83 411

The amounts shown above are intended only to provide an indication of the volume of business outstanding at the balance sheet date.

Guarantees are issued by Investec plc and Investec Limited on behalf of third parties and other group companies. The guarantees are issued as part of the banking business.

Financial Services Compensation Scheme

The 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 ITG Limited (formerly Investec Trust (Guernsey) Limited), a subsidiary of Investec 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.

At 31 March £'000	2014	2013
50. 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	43 463	34 092
Increase in loans	5 666	20 497
Repayment of loans	(11 026)	(11 126)
Exchange adjustment	(4 631)	–
At the end of the year	33 472	43 463
Guarantees		
At the beginning of the year	4 757	367
Additional guarantees granted	4 409	5 552
Guarantees cancelled	(4 591)	(1 162)
Exchange adjustment	(166)	–
At the end of the year	4 409	4 757
Deposits		
At the beginning of the year	(53 544)	(46 657)
Increase in deposits	(20 463)	(33 041)
Decrease in deposits	26 089	26 154
Exchange adjustment	20 250	–
At the end of the year	(27 668)	(53 544)

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.

At 31 March £'000	Investec Limited and subsidiaries 2014	Investec Limited and subsidiaries 2013
50. Related party transactions (continued)		
Transactions with other related parties		
Assets		
Loans and advances to banks	30 547	6 854
Other loans and advances	1 196	1 554
Reverse repo	306 063	305 342
Derivative financial instruments	1 146	22 826
Other assets	16 269	28 659
Liabilities		
Deposits by banks	(16 445)	(13 948)
Customer accounts	(17 346)	(8 014)
Debt securities in issue	(261 066)	(297 820)
Derivative financial instruments	(25 852)	(36 090)
Other liabilities	(42 279)	(8 855)
Subordinated liabilities	(27 874)	(34 427)

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. Interest of £1.7 million (2013: £29.8 million) was received from Investec Limited group. In the normal course of business, services are rendered between Investec and Investec Limited entities. In the year to 31 March 2014, this resulted in a net payment to Investec Limited of £8.6 million (2013: £7.0 million). Specific transactions of an advisory nature between group entities have resulted in a net fee payment to Investec Limited of £nil (2013: £nil).

£'000	2014	2013
Amounts due from associates	16 409	9 529
Interest income from associates	959	631
Fees and commissions loans to associates	108	115

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.

51. 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
51. Hedges (continued)						
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	5 614	5 614	(13 991)	(5 534)	14 774
	Cross-currency swap	(124)	(124)	336	124	(336)
		3 286	3 286	25 741	(8 956)	(24 065)
2013						
Assets	Interest rate swap	(41 909)	(42 344)	(19 068)	35 744	12 072
	Cross-currency swap	(582)	(582)	29	582	(29)
Liabilities	Interest rate swap	20 479	20 479	(8 644)	(21 231)	8 417
	Cross-currency swap	(3 081)	(3 081)	179	3 101	7
		(25 093)	(25 528)	(27 504)	18 196	20 467

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)	Three months to five years
		(6 093)	

There was no ineffective portion recognised in the income statement.

Release to the income statement for cash flow hedges is included in net interest income.

Hedges of net investments in foreign operations

The group has entered into foreign exchange contracts to hedge the exposure of the Investec plc group balance sheet to its net investment, in Australian Dollars, in the Australian operations of the group.

At 31 March £'000	Hedging instrument fair value
2014	(1 081)
2013	323

There was no ineffective portion recognised in the income statement.

52. Liquidity analysis of financial liabilities based on undiscounted cash flows

At 31 March £'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
2014								
Liabilities								
Deposits by banks	385 512	294 581	117 402	76 151	132 408	341 101	196 566	1 543 721
Derivative financial instruments	227 877	3 148	147 275	6 727	42 625	194 881	76 692	699 225
Derivative financial instruments – held for trading	200 406	–	–	–	–	–	–	200 406
Derivative financial instruments – held for hedging risk	27 471	3 148	147 275	6 727	42 625	194 881	76 692	498 819
Other trading liabilities	391 650	–	–	–	–	–	–	391 650
Repurchase agreements and cash collateral on securities lent	425 391	–	–	–	189 773	–	–	615 164
Customer accounts (deposits)	2 213 489	1 395 270	2 686 124	2 931 338	715 480	1 057 359	98 463	11 097 523
Debt securities in issue	3 947	15 730	154 990	121 244	284 188	532 296	590 763	1 703 158
Liabilities arising on securitisation of own originated loans and advances	300	15 499	41 311	47 388	165 880	230 499	3 352	504 229
Liabilities arising on securitisation of other assets	–	25 277	92 218	94 165	178 694	1 008 438	1 316 309	2 715 101
Other liabilities	204 009	722 051	109 234	85 639	29 086	69 760	14 906	1 234 685
Subordinated liabilities	–	222	942	1 732	77 247	424 853	830 973	1 335 969
Total on-balance sheet liabilities	3 852 175	2 471 778	3 349 496	3 364 384	1 815 381	3 859 187	3 128 024	21 840 425
Contingent liabilities	40 624	3 095	17 781	4 394	4 068	7 434	140	77 536
Commitments	443 739	42 436	25 784	8 379	76 806	250 465	15 696	863 305
Total liabilities	4 336 538	2 517 309	3 393 061	3 377 157	1 896 255	4 117 086	3 143 860	22 781 266

52. Liquidity analysis of financial liabilities based on undiscounted cash flows

(continued)

At 31 March £'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
2013								
Liabilities								
Deposits by banks	314 044	337 017	84 820	77 293	181 393	723 501	198 914	1 916 982
Derivative financial instruments	360 152	19 713	53 259	39 930	61 510	292 723	117 464	944 751
Derivative financial instruments – held for trading	119 569	–	–	–	–	–	–	119 569
Derivative financial instruments – held for hedging risk	240 583	19 713	53 259	39 930	61 510	292 723	117 464	825 182
Other trading liabilities	–	–	–	–	–	–	–	–
Repurchase agreements and cash collateral on securities lent	450 906	–	–	–	–	501 799	–	952 705
Customer accounts (deposits)	1 527 668	1 081 114	3 340 883	3 026 485	862 133	1 391 865	30 715	11 260 863
Debt securities in issue	–	59 122	110 189	151 365	270 099	1 010 114	520 003	2 120 892
Liabilities arising on securitisation of own originated loans and advances	376	17 304	53 713	56 091	159 582	263 409	10 904	561 379
Liabilities arising on securitisation of other assets	–	–	95 815	85 024	155 896	1 135 896	1 794 077	3 266 708
Other liabilities	567 132	785 086	146 074	20 837	115 705	103 498	18 791	1 757 123
Subordinated liabilities	891	247	391	2 161	65 874	454 100	760 954	1 284 618
Total on-balance sheet liabilities	3 221 169	2 299 603	3 885 144	3 459 186	1 872 192	5 876 905	3 451 822	24 066 021
Contingent liabilities	40 394	991	3 524	4 024	5 014	21 112	8 352	83 411
Commitments	136 710	15 766	161 268	50 918	73 204	192 367	22 163	652 396
Total liabilities	3 398 273	2 316 360	4 049 936	3 514 128	1 950 410	6 090 384	3 482 337	24 801 828

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 92 to 94.

53. Principal subsidiaries and associated companies – Investec plc

At 31 March	Principal activity	Country of incorporation	Interest % 2014	Interest % 2013
Direct subsidiaries of Investec plc				
Investec 1 Limited	Investment holding	England and Wales	100.0%	100.0%
Investec Holding Company Limited	Investment holding	England and Wales	100.0%	100.0%
Indirect subsidiaries of Investec plc				
Investec Asset Finance plc	Leasing company	England and Wales	100.0%	100.0%
Investec Asset Finance & Leasing (Pty) Ltd (formerly Alliance Equipment Finance (Pty) Ltd)	Leasing company	Australia	100.0%	100.0%
Investec Asset Management Limited	Asset management	England and Wales	85.0%	100.0%
Investec Bank plc	Banking institution	England and Wales	100.0%	100.0%
Investec Holdings (Australia) Limited	Holding company	Australia	100.0%	100.0%
Investec Bank (Australia) Limited	Banking institution	Australia	100.0%	100.0%
Investec Bank (Channel Islands) Limited	Banking institution	Guernsey	100.0%	100.0%
Investec Bank (Switzerland) AG	Banking institution	Switzerland	100.0%	100.0%
Investec Capital Asia Limited	Investment banking	Hong Kong	100.0%	100.0%
Investec Capital & Investments (Ireland) Limited (formerly NCB Stockbrokers Limited)	Financial services	Ireland	100.0%	100.0%
Investec Professional Finance (Pty) Ltd (formerly Investec Experien (Pty) Ltd)	Financial services	Australia	100.0%	100.0%
Investec Finance plc	Debt issuer	England and Wales	100.0%	100.0%
Investec Group (UK) plc	Holding company	England and Wales	100.0%	100.0%
Investec Group Investments (UK) Limited	Investment holding	England and Wales	100.0%	100.0%
Investec Investments (UK) Limited (formerly Guinness Mahon & Co Limited)	Investment holding	England and Wales	100.0%	100.0%
Investec Ireland Limited	Financial services	Ireland	100.0%	100.0%
Investec Securities (US) LLC	Financial services	USA	100.0%	100.0%
Investec Trust Holdings AG	Investment holding	Switzerland	100.0%	100.0%
Investec Trust (Switzerland) S.A.	Trust company	Switzerland	–	100.0%
Investec Trust (Jersey) Limited	Trust company	Jersey	–	100.0%
Investec Wealth & Investment Limited	Stockbroking and portfolio management	England and Wales	100.0%	100.0%
Kensington Group plc	Financial services	England and Wales	100.0%	100.0%
Lease Direct Finance Limited	Finance broker	England and Wales	–	100.0%
Reichmans Geneva SA	Trade finance	Switzerland	100.0%	100.0%
Rensburg Sheppards plc	Holding company	England and Wales	100.0%	100.0%
St James's Park Mortgage Funding Limited	Financial services	England and Wales	100.0%	100.0%
Start Funding No 1 Limited	Financial services	Ireland	100.0%	100.0%
Start Funding No 2 Limited	Financial services	Ireland	100.0%	100.0%
Williams de Broë Limited	Stockbroking and portfolio management	England and Wales	100.0%	100.0%

All of the above subsidiary undertakings are included in the consolidated 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 annual financial statements. A complete list of subsidiary and associated undertakings will be included in the next Investec plc annual return filed with the Registrar of Companies.

53. Principal subsidiaries and associated companies – Investec plc (continued)

At 31 March	Principal activity	Country of incorporation	Interest % 2014	Interest % 2013
Principal associated companies				
Hargreave Hale Limited	Stockbroking and portfolio management	England and Wales	35.0%	35.0%

For more details on associated companies refer to note 28.

Consolidated structured entities

Investec 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)
Kensington Mortgage Securities plc	Securitised Residential Mortgages (UK)
Landmark Mortgage Securities No 1 plc	Securitised Residential Mortgages (UK)
Landmark Mortgage Securities No 2 plc	Securitised Residential Mortgages (UK)
Landmark Mortgage Securities No 3 plc	Securitised Residential Mortgages (UK)
Money Partners Securities 1 plc	Securitised Residential Mortgages (UK)
Money Partners Securities 2 plc	Securitised Residential Mortgages (UK)
Money Partners Securities 3 plc	Securitised Residential Mortgages (UK)
Money Partners Securities 4 plc	Securitised Residential Mortgages (UK)
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
Residential Mortgage Securities 19 plc	Securitised Residential Mortgages (UK)
Residential Mortgage Securities 20 plc	Securitised Residential Mortgages (UK)
Residential Mortgage Securities 21 plc	Securitised Residential Mortgages (UK)
Residential Mortgage Securities 22 plc	Securitised Residential Mortgages (UK)
Residential Mortgage Securities 23 plc	Securitised Residential Mortgages (UK)
Residential Mortgage Securities 26 plc	Securitised Residential Mortgages (UK)
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. For details of the risks to which the group is exposed through its securitisations are included in the risk management report on page 71.

53. Principal subsidiaries and associated companies – Investec plc (continued)

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. 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 101 to 105.

53. Principal subsidiaries and associated companies – Investec plc (continued)

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 note 19 and note 56.

Non-controlling interests of subsidiaries

The information relating to the group's subsidiary that has material non-controlling interests is disclosed in note 45.

Other than the increase in NCI in Investec Asset Management Limited during the year there have not been any changes in ownership interests that do not result in loss of control during the year. There have not been any changes in circumstances that have resulted in the loss of control during the year.

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.

31 March 2014 £'000	Line on the balance sheet	Carrying value £'000	Maximum exposure to loss (if its not carrying value as stated above)	Income earned from structured entity	£'000
Aircraft investment funds	Investment portfolio	39 883	Limited to the carrying value	Investment income	1 825

54. Unconsolidated structured entities

At 31 March 2014

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 148.

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.

£'000	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.

54. Unconsolidated structured entities (continued)

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 interest is included in the risk management report on page 72.

Interests in Asset Management and Wealth & Investment Funds

Management have concluded that the investment funds in the Asset Management and Wealth & Investment businesses do not meet the definition of structured entities as the group does not hold material interests in these funds and currently does not provide financial support or other support. Transactions with these funds are conventional customer-supply relationships.

55. Offsetting

At 31 March 2014 £'000	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Cash collateral	Net amount
	Amounts subject to enforceable netting arrangements					
	Effects of offsetting on-balance sheet			Related amounts not offset		
Assets						
Cash and balances at central banks	1 742 618	–	1 742 618	–	–	–
Loans and advances to banks	1 309 043	(1 473)	1 307 570	–	(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	1 232 416	–	1 232 416	(196 073)	–	(196 073)
Bank debt securities	371 183	–	371 183	(44 656)	–	(44 656)
Other debt securities	229 228	–	229 228	–	–	–
Derivative financial instruments	2 075 207	(1 155 192)	920 015	(158 514)	(356 769)	(515 283)
Securities arising from trading activities	586 706	–	586 706	(417 401)	–	(417 401)
Investment portfolio	342 597	–	342 597	–	–	–
Loans and advances to customers	7 812 755	(38 128)	7 774 627	–	(150)	(150)
Own originated loans and advances to customers securitised	447 638	–	447 638	–	–	–
Other loans and advances	1 672 709	–	1 672 709	–	–	–
Other securitised assets	2 798 158	–	2 798 158	–	–	–
Other assets*	24 333 092	(23 134 035)	1 199 057	–	(15 661)	(15 661)
	46 374 489	(24 534 467)	21 840 022	(1 089 490)	(663 138)	(1 752 628)
Liabilities						
Deposits by banks	1 433 152	(11)	1 433 141	–	(226 667)	(226 667)
Derivative financial instruments	674 775	(6 053)	668 722	(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)	10 994 264	(38 128)	10 956 136	–	(33 748)	(33 748)
Debt securities in issue	1 369 268	–	1 369 268	(321 884)	(1 224)	(323 108)
Liabilities arising on securitisation of own originated loans and advances	449 079	–	449 079	–	–	–
Liabilities arising on securitisation of other assets	2 374 599	–	2 374 599	–	–	–
Other liabilities	1 742 982	(508 295)	1 234 687	–	–	–
Subordinated liabilities	740 950	–	740 950	–	–	–
	44 767 432	(24 534 467)	20 232 965	(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.*

55. 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	1 375 670	–	1 375 670	–	–	–
Loans and advances to banks	1 327 474	(2 837)	1 324 637	–	(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	190 510	–	190 510	–	–	–
Derivative financial instruments	2 302 375	(1 167 317)	1 135 058	(133 936)	(438 200)	(572 136)
Securities arising from trading activities	673 763	–	673 763	(496 216)	–	(496 216)
Investment portfolio	357 154	–	357 154	–	–	–
Loans and advances to customers	7 793 714	(34 794)	7 758 920	–	–	–
Own originated loans and advances to customers securitised	491 194	–	491 194	–	–	–
Other loans and advances	2 031 340	–	2 031 340	–	–	–
Other securitised assets	3 106 741	–	3 106 741	–	–	–
Other assets*	19 845 738	(18 462 934)	1 382 804	–	(18 889)	(18 889)
	43 139 844	(19 667 882)	23 471 962	(1 095 865)	(755 032)	(1 850 897)
Liabilities						
Deposits by banks	1 781 929	(127)	1 781 802	–	(261 275)	(261 275)
Derivative financial instruments	1 304 233	(486 707)	817 526	(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)	11 225 376	(34 794)	11 190 582	–	(31 508)	(31 508)
Debt securities in issue	1 762 338	–	1 762 338	(359 115)	(6 120)	(365 235)
Liabilities arising on securitisation of own originated loans and advances	477 870	–	477 870	–	–	–
Liabilities arising on securitisation of other assets	2 486 186	–	2 486 186	–	–	–
Other liabilities	1 581 664	(198 516)	1 383 148	–	–	–
Subordinated liabilities	747 245	–	747 245	–	–	–
	41 629 737	(19 667 882)	21 961 855	(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.*

56. 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.

57. 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 a relatively immaterial impact.

57. Restatements (continued)

Consolidated income statement

The impact to the comparative balance sheets and income statements are provided in the tables below:

For the year to £'000	31 March 2013 As reported	IFRS 10	IAS 19	31 March 2013 Restated
Interest income	924 384	(301)	1 251	925 334
Interest expense	(564 650)	131	–	(564 519)
Net interest income	359 734	(170)	1 251	360 815
Fee and commission income	761 051	(7 153)	–	753 898
Fee and commission expense	(131 696)	1 298	–	(130 398)
Investment income	73 620	(2 869)	–	70 751
Trading income arising from:				
– customer flow	58 103	–	–	58 103
– balance sheet management and other trading activities	19 375	(1 360)	–	18 015
Other operating income	36 590	–	–	36 590
	1 176 777	(10 254)	1 251	1 167 774
Total operating income before impairment on loans and advances	1 176 777	(10 254)	1 251	1 167 774
Impairment losses on loans and advances	(189 036)	–	–	(189 036)
Operating income	987 741	(10 254)	1 251	978 738
Operating costs	(848 502)	–	(104)	(848 606)
Depreciation on operating leased assets	(16 072)	–	–	(16 072)
Operating profit before goodwill and acquired intangibles	123 167	(10 254)	1 147	114 060
Impairment of goodwill	(13 409)	–	–	(13 409)
Amortisation of acquired intangibles	(13 313)	–	–	(13 313)
Cost arising from integration of acquired subsidiaries	(13 119)	–	–	(13 119)
Operating profit	83 326	(10 254)	1 147	74 219
Non-operational costs arising from acquisition of subsidiary	(1 369)	–	–	(1 369)
Profit before taxation	81 957	(10 254)	1 147	72 850
Taxation on operating profit before goodwill	(23 597)	–	(264)	(23 861)
Taxation on acquired intangibles and acquisition/disposal/ integration of subsidiaries	5 977	–	–	5 977
Profit after taxation	64 337	(10 254)	883	54 966
Operating attributable to non-controlling interests	(397)	–	–	(397)
Earnings attributable to shareholders	63 940	(10 254)	883	54 569

57. Restatements (continued)

Consolidated balance sheet

£'000	31 March 2013 As reported	IFRS 10	IAS 19	31 March 2013 Restated
Assets				
Cash and balances at central banks	1 375 670	–	–	1 375 670
Loans and advances to banks	1 318 232	6 405	–	1 324 637
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	198 946	(8 436)	–	190 510
Derivative financial instruments	1 134 497	561	–	1 135 058
Securities arising from trading activities	673 763	–	–	673 763
Investment portfolio	388 625	(31 471)	–	357 154
Loans and advances to customers	7 758 920	–	–	7 758 920
Own originated loans and advances to customers securitised	491 194	–	–	491 194
Other loans and advances	2 082 081	(50 741)	–	2 031 340
Other securitised assets	2 769 126	337 615	–	3 106 741
Interests in associated undertakings	24 707	–	–	24 707
Deferred taxation assets	126 822	–	–	126 822
Other assets	1 381 370	1 434	–	1 382 804
Property and equipment	80 429	7 563	–	87 992
Investment properties	11 500	–	–	11 500
Goodwill	456 646	–	–	456 646
Intangible assets	172 131	–	–	172 131
	24 088 830	262 930	–	24 351 760
Liabilities				
Deposits by banks	1 710 630	71 172	–	1 781 802
Derivative financial instruments	817 526	–	–	817 526
Other trading liabilities	372 762	–	–	372 762
Repurchase agreements and cash collateral on securities lent	942 396	–	–	942 396
Customer accounts (deposits)	11 261 754	(71 172)	–	11 190 582
Debt securities in issue	1 762 338	–	–	1 762 338
Liabilities arising on securitisation of own originated loans and advances	477 870	–	–	477 870
Liabilities arising on securitisation of other assets	2 195 455	290 731	–	2 486 186
Current taxation liabilities	87 291	–	–	87 291
Deferred taxation liabilities	77 851	–	–	77 851
Other liabilities	1 375 459	7 689	–	1 383 148
	21 081 332	298 420	–	21 379 752
Subordinated liabilities	747 245	–	–	747 245
	21 828 577	298 420	–	22 126 997
Equity				
Ordinary share capital	177	–	–	177
Perpetual preference share capital	151	–	–	151
Share premium	1 130 210	–	–	1 130 210
Treasury shares	(52 098)	–	–	(52 098)
Other reserves	409 206	(37)	–	409 169
Retained income	608 053	(35 453)	–	572 600
Shareholders' equity excluding non-controlling interests	2 095 699	(35 490)	–	2 060 209
Non-controlling interests	164 554	–	–	164 554
– Perpetual preferred securities issued by subsidiaries	169 106	–	–	169 106
– Non-controlling interests in partially held subsidiaries	(4 552)	–	–	(4 552)
Total equity	2 260 253	(35 490)	–	2 224 763
Total liabilities and equity	24 088 830	262 930	–	24 351 760

57. Restatements (continued)

Consolidated balance sheet (continued)

£'000	31 March 2012 As reported	IFRS 10	IAS 19	31 March 2012 Restated
Assets				
Cash and balances at central banks	1 835 849	–	–	1 835 849
Loans and advances to banks	1 060 122	124	–	1 060 246
Non-sovereign and non-bank cash placements	–	–	–	–
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	207 116	–	–	207 116
Derivative financial instruments	1 051 365	–	–	1 051 365
Securities arising from trading activities	372 570	–	–	372 570
Investment portfolio	320 111	(27 038)	–	293 073
Loans and advances to customers	7 201 417	–	–	7 201 417
Own originated loans and advances to customers securitised	535 008	–	–	535 008
Other loans and advances	2 789 738	(4 658)	–	2 785 080
Other securitised assets	2 961 969	136 973	–	3 098 942
Interests in associated undertakings	24 430	–	–	24 430
Deferred taxation assets	119 690	–	–	119 690
Other assets	1 326 907	–	–	1 326 907
Property and equipment	127 497	4 088	–	131 585
Investment properties	11 500	–	–	11 500
Goodwill	454 623	–	–	454 623
Intangible assets	184 197	–	–	184 197
	24 215 070	109 489	–	24 324 559
Liabilities				
Deposits by banks	1 848 534	67 895	–	1 916 429
Derivative financial instruments	732 601	–	–	732 601
Other trading liabilities	271 627	–	–	271 627
Repurchase agreements and cash collateral on securities lent	1 020 670	–	–	1 020 670
Customer accounts (deposits)	11 007 758	(67 895)	–	10 939 863
Debt securities in issue	2 179 452	–	–	2 179 452
Liabilities arising on securitisation of own originated loans and advances	526 945	–	–	526 945
Liabilities arising on securitisation of other assets	2 361 986	138 989	–	2 500 975
Current taxation liabilities	77 188	–	–	77 188
Deferred taxation liabilities	82 998	–	–	82 998
Other liabilities	1 161 483	(4 301)	–	1 157 182
	21 271 242	134 688	–	21 405 930
Subordinated liabilities	708 276	–	–	708 276
	21 979 518	134 688	–	22 114 206
Equity				
Ordinary share capital	175	–	–	175
Perpetual preference share capital	151	–	–	151
Share premium	1 107 651	–	–	1 107 651
Treasury shares	(41 941)	–	–	(41 941)
Other reserves	424 271	–	–	424 271
Retained income	580 833	(25 199)	–	555 634
Shareholders' equity excluding non-controlling interests	2 071 140	(25 199)	–	2 045 941
Non-controlling interests	164 412	–	–	164 412
– Perpetual preferred securities issued by subsidiaries	166 762	–	–	166 762
– Non-controlling interests in partially held subsidiaries	(2 350)	–	–	(2 350)
Total equity	2 235 552	(25 199)	–	2 210 353
Total liabilities and equity	24 215 070	109 489	–	24 324 559

58. 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's) Professional Finance and 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.

Balance sheet

At 31 March £'000	Notes	2014	2013
Assets			
Fixed assets			
Investments in subsidiary undertakings	b	1 817 840	1 817 840
Current assets			
Amounts owed by group undertakings		545 581	569 819
Tax		14 550	5 979
Other debtors		32	22
Prepayments and accrued income		371	126
Cash at bank and in hand			
– balances with other banks		567	726
		561 101	576 672
		2 378 941	2 394 512
Current liabilities			
Bank loans	c		
– with subsidiary undertaking		44 498	8 814
– with other banks		40 013	128 419
Debt securities in issue		29 712	–
Derivative financial instruments		178	–
Amounts owed to group undertakings		754 940	754 617
Other liabilities		509	768
Accruals and deferred income		3 094	3 950
		872 944	896 568
Capital and reserves			
Called-up share capital	d	178	177
Perpetual preference shares	d	151	151
Share premium account	d	1 146 548	1 130 210
Capital reserve	d	356 292	356 292
Retained income	d	2 828	11 114
Total capital and reserves		1 505 997	1 497 944
Total capital and liabilities		2 378 941	2 394 512

The notes on pages 238 and 239 form an integral part of the annual financial statements.

Approved and authorised for issue by the board of directors on 11 June 2014 and signed on its behalf by:

Stephen Koseff
Chief executive officer

11 June 2014

Notes to the Investec plc parent company annual financial statements

a Accounting policies

Basis of preparation

The parent annual financial statements of Investec plc are prepared under the historical cost convention and in accordance with UK Accounting Standards, and on a going concern basis.

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into Pounds Sterling at exchange rates ruling at the balance sheet date. All foreign currency transactions are translated into Pounds Sterling at the exchange rate ruling at the time of the transaction. Forward foreign exchange contracts are revalued at the market rates ruling at the date applicable to their respective maturities. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the income statement.

Investments

Investments are stated at cost less any impairment in value.

Income

Dividends from subsidiaries are recognised when paid. Interest is recognised on an accrual basis.

Taxation

Corporate tax is provided on taxable profits at the current rate.

Company's own profit and loss account

The company has taken advantage of the exemption in section 408 of the Companies Act 2006 to not present its own profit and loss account.

Cash flow statement

The company has taken advantage of the exemption in Financial Reporting Standard 1 to not present its own cash flow statement. A cash flow statement, prepared under International Financial Reporting Standards, is included in the consolidated annual financial statements of the group.

Financial instruments

The company has taken advantage of the exemption in Financial Reporting Standard 29 to not present its own disclosures in respect of financial instruments as disclosures prepared in accordance with International Reporting Standards are included in the consolidated annual financial statements of the group.

Financial liabilities

Financial liabilities are recorded at amortised cost applying the effective interest rate method.

Related party transactions

Transactions, arrangements and agreements involving directors and others are disclosed in note 50 to the group annual financial statements. The company has taken advantage of the exemptions available in Financial Reporting Standard 8 from disclosing transactions with related parties which are wholly owned members of Investec plc group.

b Investments in subsidiary undertakings

£'000	2014	2013
At the beginning of the year	1 817 840	1 790 348
Additions	–	54 984
Disposals	–	(27 492)
At the end of the year	1 817 840	1 817 840

Notes to the Investec plc parent company annual financial statements (continued)

c Bank loans

The company drew down a Pounds Sterling denominated loan of £40 million on 10 February 2014 which bears interest at a fixed margin above three month Libor and is repayable on 10 February 2015. During the year the company launched its own European Medium Term Note programme (EMTN). The company issued two fixed rate notes under this programme. A US Dollar denominated note of U$15 million was issued on 14 February 2014, repayable 16 February 2015 and on the same day a Euro denominated note of €25 million was issued which matures 29 September 2017 and pays interest semi-annually.

The bank loans outstanding at 31 March 2013 have matured during the year and been repaid. The Euro denominated loans of €105 million were repaid on 14 February 2014, the US Dollar denominated loan of U$20 million was repaid on 4 March 2014 and the Pounds Sterling denominated loan of £28.5 million was repaid on 24 December 2013.

d Statement of changes in shareholders' equity

£'000	Share capital	Perpetual preference shares	Share premium	Capital reserve	Profit and loss account	Total equity
At 1 April 2013	177	151	1 130 210	356 292	11 114	1 497 944
Issue of ordinary shares	1	–	16 338	–	–	16 339
Issue of preference shares	–	–	–	–	–	–
Share-based payments adjustment	–	–	–	–	–	–
Profit for the year	–	–	–	–	48 309	48 309
Dividends paid to preference shareholders	–	–	–	–	(3 395)	(3 395)
Dividends paid to ordinary shareholders	–	–	–	–	(53 200)	(53 200)
At 31 March 2014	178	151	1 146 548	356 292	2 828	1 505 997

e Parent company profit and loss account

No profit and loss account is presented for the company as permitted by section 408 of the Companies Act 2006 (Act).

The company's profit for the year, determined in accordance with the Act, was £48 309 000 (2013: £56 278 000).

f Audit fees

Details of the company's audit fees are set out in note 6 to the group annual financial statements.

g Dividends

Details of the company's dividends are set out in note 9 to the group annual financial statements.

h Share capital

Details of the company's ordinary share capital are set out in note 41 to the group annual financial statements. Details of the perpetual preference shares are set out in note 42 to the group annual financial statements.

i Audit opinion

The audit opinion on the annual financial statements of the Investec plc parent company is included in the combined consolidated annual financial statements of Investec plc and Investec Limited for the year ended 31 March 2014.

The information as detailed here for Investec plc parent company is a summary. For detailed notes refer to the Investec plc group and company annual financial statements.

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