

3636853

Investec Holdings (UK) Limited

Report and Financial Statements
31 March 2000



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FINANCIAL HIGHLIGHTS OF THE INVESTEC UK GROUP

FINANCIAL HIGHLIGHTS
31 MARCH

	1996 £000	1997 £000	1998 £000	1999 £000	2000 £000
Operating income	13,203	21,370	47,406	* 47,333	** 199,177
Shareholders' equity	54,449	57,502	78,324	467,588	501,204
Capital resources	112,997	124,450	163,396	553,676	624,586
Total assets	5,250,050	5,368,677	5,169,051	6,351,644	8,896,329
Staff complement	126	368	399	1,148	1,185

* For the three months ended 31 March 1999.

** For the year ended 31 March 2000

Investec UK Group companies were effectively consolidated under Investec Holdings (UK) Limited, the new UK holding company, on 31 December 1998.

Comparative figures for the years ended 31 March 1996 to 1998 are from the audited consolidated financial statements of the predecessor UK holding company, Guinness Mahon Holdings Limited (formerly Investec Holdings (UK) Limited), Registration Number - 2685988 ENGLAND.

DIRECTORATE AND CORPORATE INFORMATION

BOARD OF DIRECTORS

H S Herman (Chairman)*
B Kantor
S Koseff*
A Tapnack

SECRETARY

R J Vardy

AUDITORS

Ernst & Young, London

COMPANY REGISTRATION

Registration Number: 3636853 ENGLAND

Registered Office:

2 Gresham Street, LONDON, EC2V 7QP

Subsidiary Boards

INVESTEC BANK (UK) LTD

B Kardol (Chairman) *
A Tapnack (Chief Executive Officer)
B Fried (Chief Operating Officer)
J Abell *
G O Alford *
P K O Crosthwaite
H S Herman*
M A Jameson-Till
B Kantor *
I R Kantor *
Sir J Chippendale L Keswick *
S Koseff *
I R Wohlman

SECRETARY

R J Vardy

CARR SHEPPARDS CROSTHWAITE LTD

F C Carr (Managing Director)
N W Bagshawe
C Brangwin
A J Burr
P T Crosthwaite
G D O Davenport
A G Evans
H S Herman *
C P Hills
B Kantor *
S Koseff *
R M Leach
I Maxwell Scott
T May
G Nowell-Mitchell
M J S Redmayne
A T G Richards
A Tapnack *
R J B Yeldham

SECRETARY

M J S Redmayne

INVESTEC ASSET MANAGEMENT LTD

formerly INVESTEC GUINNESS FLIGHT LTD

H E Flight (Joint Chairman) *
T W N Guinness (Joint Chairman) *
H J du Toit (Chief Executive)
W T J Griffin *
H S Herman *
B Kantor *
S Koseff*
D L Liddell

SECRETARY

M K Slade

Non-Executive *

DIRECTORS' REPORT

The directors present their report and financial statements for the year ended 31 March 2000.

Principal activities

The principal activities of the Investec Holdings (UK) Limited and its subsidiaries ("the Group") are banking and financial services. The principal operating subsidiaries are given in note 15 to the financial statements. During the year the Group made various acquisitions, including two separate purchases of certain banking assets and liabilities, one being the Irish banking operations of an overseas institution and the other being part of the banking business of a UK institution.

Share capital

There have been no changes in share capital during the year.

Results and dividends

The results for the year are shown on page 13. Movements in reserves are shown in note 25 to the financial statements.

The directors do not recommend the payment of a dividend in respect of the year ended 31 March 2000 (period ended 31 March 1999 - £ nil).

Directors and their interests

The current directors of the Company are listed on page 2 and have served throughout the year.

None of the directors had any interest in the shares of the Company or in any group companies requiring disclosure under Schedule 7 of the Companies Act 1985.

Creditor payment policy

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

Year 2000 compliance

As reported last year, the Group had implemented a thorough review of all systems and, as a result, operated without any problems or disruptions to business through the Year 2000 date change to the present. Management continues to monitor the position closely, since it is not possible for any organisation to guarantee that, given their nature, no Year 2000 problems remain. Costs, the majority of which were in-house, have been written off as incurred and none of significance is expected in the future.

Employees

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

DIRECTORS' REPORT

Environment

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

Auditors

Ernst & Young have expressed their willingness to continue in office as auditors. A resolution proposing their re-appointment as auditors will be submitted to the annual general meeting.

By order of the Board

A handwritten signature in black ink, appearing to read 'A Tapnack', written over a horizontal line.

A Tapnack
Director

15 August 2000

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
FINANCIAL STATEMENTS

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- ◆ select suitable accounting policies and then apply them consistently;
- ◆ make judgements and estimates that are reasonable and prudent;
- ◆ state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- ◆ prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

RISK MANAGEMENT REVIEW

Promoting a Culture of Risk Awareness

Risk Management is a centralised function that covers all of Investec's UK businesses, including Investec Bank (UK) Limited ("the Bank"). We aim to promote a culture of risk awareness throughout the business and provide general management with appropriate information to ensure that all risks are fully understood, correctly measured, and prudently managed.

Carr Sheppards Crosthwaite Limited and Investec Asset Management Limited (formerly Investec Guinness Flight Limited) have main committees which address risk management in those businesses. They cover all matters of risk including client credit matters, settlement risk, cash management and placement, counterparty and market risk, and new products and issues. They also have a broader remit to safeguard the assets of the business and to manage internal and external risks within limits and guidelines acceptable to the business. Their functions are therefore similar to those described below for the Bank but are accumulated in fewer committees in number than those of the Bank because of the greater range of specific areas of risk of the Bank, each needing to be addressed by its own committee.

Risk Management policy is set at the highest level. The Bank's Board of Directors approves policy with respect to credit risk, market risk and liquidity, although it delegates day-to-day monitoring and control responsibilities to the various risk management committees. Risk Management reports to the Chief Executive Officer and has a strong interface with Group Risk in Johannesburg. Group Risk assists in the evaluation of some of the larger transactions, participates in various UK Committees, and is jointly involved in the development of the Bank's risk systems.

Risk Management is integral to Investec and has been actively involved in all acquisitions undertaken by the Bank, and has representation in all major strategic and operational forums. There has been a significant investment in people and systems over the past year to keep abreast of the risks in a rapidly growing organisation.

The framework for managing the risks associated with our businesses is constantly evolving to meet the Bank's changing business activities, markets, products, technological developments, and the developing corporate governance standards.

Risk Management Committees

The main Risk Management committees that cover the Bank's businesses and other, more general, risks are as follows:

Credit Committee

This forum sanctions all counterparty, country, trading, market and liquidity limits. It regularly reviews loan performance, adequacy of provisions, and ensures that credit policy is prudent, taking into account changing market trends.

Asset & Liability Committee

This forum sets the policy for liquidity and interest rate mismatch. It regularly reviews the Bank's balance sheet to ensure it is prudently positioned, taking into account agreed policies, prevailing markets, and business growth projections.

Risk Committee

This forum regularly reviews the broader risks that the Group faces across its various business units. It ensures risks are evaluated correctly, managed properly, and that management of risk receives sufficient resource.

RISK MANAGEMENT REVIEW

Audit Committee

This committee reviews the internal audit programme and completed internal and external audit reports. It considers the major findings and ensures the appropriate recommendations are implemented. It reviews the annual financial statements, making appropriate recommendations to the Board of Directors. It ensures that management establishes adequate arrangements to comply with regulatory and financial reporting requirements.

New Product Forum

This forum makes sure that all business risks are evaluated before any new product is developed, or a new market entered, and that these risks are properly managed.

Engagement and Underwriting Committees

These forums relate to Investment Banking. The Engagement Committee ensures proper client due diligence is carried out prior to any new broking or advisory relationship. The Underwriting Committee ensures all relevant risks are evaluated and the proposed share underwriting meets internal policies and regulatory requirements before a commitment is made.

Major Risks

The major risks associated with the Bank's businesses are:

- Credit Risk
- Liquidity Risk
- Market Risk
- Operational Risk

Credit Risk

Credit Risk is the risk that companies, financial institutions and other counterparties will be unable to meet their obligations to the Bank. Credit risk arises principally from lending, but also from other transactions involving on- and off-balance sheet instruments.

Risk Management has responsibility for developing and implementing policies and procedures to ensure that all exposures are properly measured and controlled. These include geographic, product, market, and individual counterparty concentrations. All exposures are checked daily against approved limits, independently of each business unit, and excesses are reported to the Executive of the Bank.

Tiered levels of credit committees make certain that all credit exposures are authorised at the appropriate level of seniority. The main UK Group Credit Committee includes executive directors and senior management independent of the line managerial function. Credit Committees come to a unanimous consensus before authorising a credit exposure and each approval is signed by a valid quorum. Additionally, exposures beyond a certain threshold are presented to Group Risk in Johannesburg.

RISK MANAGEMENT REVIEW

Credit limits on all lending, including treasury and interbank lines, are reviewed at least annually. Arrears policy is strictly controlled. The size of our balance sheet is such that it is possible to look regularly at each individual exposure to evaluate whether specific provisions are necessary and adequate. An Arrears Credit Committee regularly reviews delinquent facilities. It ensures agreed strategy for remedial action is implemented, and that specific provisions are taken where relevant. Additionally, a general provision is held to cover any unforeseen events, which are always inherent in taking counterparty exposures.

Overall, the Bank is focused in the type of business it pursues and is expert in its chosen sectors. The majority of lending, excluding interbank placements, is secured on assets and is amortising. The main geographical credit exposure is to the UK domestic market, Europe, and the United States.

During the past financial year, a substantial investment was made in installing an enhanced counterparty credit system. The first phase has been implemented and this automatically captures, measures and monitors all types of credit exposure to Banks and other Financial Institutions. These exposures can be examined by legal entity, product, or internal business area on either an individual or Group basis. Exposures are marked to market daily by a dedicated price risk system.

Liquidity Risk

Liquidity risk arises from the inability of a bank to meet its obligations arising from the withdrawal of customer deposits or interbank lines, the drawdown of customer facilities and asset expansion.

The Bank's liquidity policy covers sterling and currency activities, and ensures the prudent management of liquidity, and the adherence to regulatory guidelines. The development and implementation of this policy is the responsibility of the Asset and Liability Committee (ALCO). Central Treasury looks after day-to-day liquidity management.

Limits on potential cash flow mismatches over defined time horizons are the principal basis of liquidity control. Limits are also placed upon the value of deposits taken from a single source, monthly and in aggregate. A dedicated system is used to monitor and stress test the Bank's liquidity position against different scenarios.

Generally, interbank or wholesale deposits do not fund risk assets in the Private Bank. Retail and Private Client deposits remain the principal source of stable and well diversified funding for Private Banking assets.

Market Risk

Market risk is the risk that changes in interest rates, or other prices and volatilities, will have an adverse impact on the Bank's financial condition and results. Market risk is managed by identifying and quantifying all risks, on the basis of current and future expectations, and ensuring that trading occurs within well-defined parameters.

Monitoring and Measuring Market Risk

An independent centralised function monitors this risk. Trading activities are monitored through the establishment of appropriate limits. The risk appetite of the Bank for its chosen markets determines these, along with products traded, liquidity in those areas, and desired returns.

RISK MANAGEMENT REVIEW

To enable market risk to be more accurately measured, and ensure compliance with approved limits, a comprehensive price risk system has been installed. This marks all positions to market from recognised live data feeds. These positions are also automatically fed into individual counterparty lines to provide accurate exposure information.

Market risk is evaluated using a combination of Value at Risk (V@R) and stress testing. V@R is a summary measure of potential losses, over a given time horizon, with a specified confidence level. V@R is calculated using historical simulations. A series of stress tests are applied to determine the market risk for parallel shifts and twists in the underlying yield curves, basis risk between yield curves, and extreme market conditions. Daily reports are produced containing this V@R and stress test information.

Daily profitability is also analysed to ensure all revenue streams are covered.

Interest Rate Risk

The Bank is exposed to interest rate risk from the Money Market, and its Gilt, and Euro Repo trading operations.

Money Market and Gilt Repo Trading Operation:

The risk exposure for a 50 basis points parallel shift in the yield curves, as at year-end was £806,550. The 95% one day V@R for the year ended 31 March 2000 was :

	<u>V@R</u>
Highest	£671,344
Lowest	£127,591
Average	£362,754
As at year end 31 March 2000	£220,707

Euro Repo Trading Operation:

The risk exposure for a 10 basis points parallel shift in the yield curves, as at year-end, was £167,844.

Currency Risk

Currency risk arising from the Bank's commercial banking and lending activities is transferred to and managed by the Bank's foreign exchange trading business. The net aggregate open position in foreign currency at year-end was £2.25 million against a limit of £3.18 million.

The Bank does have certain investments in foreign subsidiaries. These currency investments are not hedged and at year-end amounted to £5,223,000 (Swiss Francs £4,862,000 and US Dollars £361,000).

Investec Holdings (UK) Limited

RISK MANAGEMENT REVIEW

Interest rate mismatch

The interest rate mismatch on the banking book, including the effect of interest rate contracts used for hedging purposes, as at the year-end is stated in the table below.

Year End 31 March 2000:

£000	0-3 months	3-6 months	6-9 months	9-12 months	1-5 years	Non Int Rate	Total
<u>Assets</u>							
Cash & short term funds	424,392	-	-	-	-	-	424,392
Loans & advances to Banks	729,477	505	-	-	-	-	729,982
Loans & advances to customers	595,451	26,469	1,487	1,441	45,857	-	670,705
Debt securities	362,830	3,132	1,004	-	-	-	366,966
	2,112,150	30,106	2,491	1,441	45,857	-	2,192,045
<u>Liabilities</u>							
Deposits by banks	181,018	-	-	-	-	-	181,018
Customer deposits	1,197,668	44,834	1,279	27,353	17,706	-	1,288,840
Subordinated debt	122,475	-	-	-	-	-	122,475
Capital & net non-rate items	-	-	-	-	-	599,712	599,712
	1,501,161	44,834	1,279	27,353	17,706	599,712	2,192,045
Mismatch	610,989	(14,728)	1,212	(25,912)	28,151	(599,712)	
Cumulative Mismatch	610,989	592,261	597,473	571,561	599,712	0	

Comparatives - Year End 31 March 1999:

£000	0-3 months	3-6 months	6-9 months	9-12 months	1-5 years	Non Int Rate	Total
<u>Assets</u>							
Cash & short term funds	175,300	-	-	-	-	-	175,300
Loans & advances to Banks	115,271	-	-	-	-	-	115,271
Loans & advances to customers	404,559	2,104	1,426	2,386	10,861	-	421,336
Debt securities	260,812	11,829	-	-	-	-	272,641
	955,942	13,933	1,426	2,386	10,861	-	984,548
<u>Liabilities</u>							
Deposits by banks	163,661	4,686	-	-	-	-	168,347
Customer deposits	509,299	6,635	9,156	20,761	31,928	-	577,779
Subordinated debt	85,072	-	-	-	-	-	85,072
Capital & net non-rate items	-	-	-	-	-	153,350	153,350
	758,032	11,321	9,156	20,761	31,928	153,350	984,548
Mismatch	197,910	2,612	(7,730)	(18,375)	(21,067)	(153,350)	
Cumulative Mismatch	197,910	200,522	192,792	174,417	153,350	0	

RISK MANAGEMENT REVIEW

Operational Risk

Operational risk is the risk of unforeseen losses due to systems failure, human error or inadequate controls and procedures. Internal Audit carries out a regular review of all operational areas to ensure operational risks are properly controlled. Additionally, contingency plans are in place to enable business continuity in the event of serious disruptions to business operations.

Managing operational risk is an important feature of sound overall risk management, and is subject to ongoing development within the Bank. A dedicated operational risk committee has been established and is working in conjunction with the auditors to promote a risk matrix for the business.

REPORT OF THE AUDITORS

To the members of

Investec Holdings (UK) Limited

We have audited the financial statements on pages 13 to 39, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 17 to 20.

Respective responsibilities of directors and auditors

As described on page 5, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by Statute, the Auditing Practices Board and by our profession's ethical guidance.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group at 31 March 2000 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditor
London

16 August 2000

Investec Holdings (UK) Limited

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2000

		2000	For the period ended 31 March 1999
	Notes	£000	£000
Interest receivable – interest income arising from debt securities		214,375	47,965
Interest receivable – other interest income		269,497	52,105
Interest payable		(434,351)	(90,086)
Interest expense on subordinated loans		(7,037)	(1,888)
NET INTEREST INCOME		42,484	8,096
 Fees and commissions receivable		 140,818	 25,036
Dealing profits	2	9,102	1,445
Other operating income		6,773	12,756
OPERATING INCOME	6	199,177	47,333
 Administrative expenses	3	 (155,757)	 (33,850)
Depreciation and amortisation	18	(4,687)	(494)
Amortisation of goodwill	17	(11,140)	(2,884)
Provision for bad and doubtful debts – release / (charge)	11	1,747	(412)
OPERATING PROFIT		29,340	9,693
 Gains on disposals of equity investments		 20,871	 -
Gains on disposals of investment properties		1,422	-
Share of income of associated companies	13	-	593
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	51,633	10,286
 Tax on profit on ordinary activities	5	 (16,771)	 (3,421)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		34,862	6,865
 Minority interests		 (55)	 -
 RETAINED PROFIT FOR THE YEAR / PERIOD		 34,807	 6,865
 Profit on ordinary activities before taxation, and before amortisation of goodwill, includes:			
For acquired operations		2,060	13,170

Movements in the profit and loss account and reserves are shown in note 25.

Investec Holdings (UK) Limited

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

for the year ended 31 March 2000

		2000	For the period ended 31 March 1999
	Notes	£000	£000
RETAINED PROFIT FOR THE YEAR / PERIOD	25	34,807	6,865
Revaluation of investment properties		-	(1,783)
Increase in legal and other reserves		-	231
Currency translation differences on foreign currency net investments	25	(1,191)	(57)
TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR / PERIOD		<u>33,616</u>	<u>5,256</u>

Movements in the profit and loss account and reserves are shown in note 25.

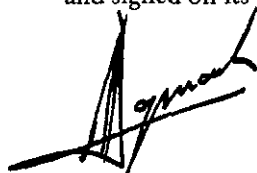
Investec Holdings (UK) Limited

CONSOLIDATED BALANCE SHEET

at 31 March 2000

	Notes	2000 £000	1999 £000
ASSETS			
Cash and balances at central banks	7	452,098	443,885
Treasury bills and other eligible bills	8	28,951	62,405
Loans and advances to banks	9	2,458,306	722,187
Loans and advances to customers	10	1,778,783	1,010,722
Debt securities	12	3,495,414	3,459,020
Investments in associated undertakings	13	-	7,234
Equity shares	14	48,911	86,060
Intangible fixed assets	17	170,791	172,108
Tangible fixed assets	18	31,682	33,228
Other assets	19	431,393	354,795
		<u>8,896,329</u>	<u>6,351,644</u>
LIABILITIES			
Deposits by banks	20	3,649,652	3,058,927
Customer accounts	21	3,745,740	1,982,427
Other liabilities	22	876,351	756,614
		<u>8,271,743</u>	<u>5,797,968</u>
CAPITAL RESOURCES			
Subordinated debt	23	122,475	85,072
Minority interests – equity		907	1,016
Equity shareholders' funds	26	501,204	467,588
Called up share capital	24	462,332	462,332
Other reserves	25	708	(1,978)
Profit and loss account	25	38,164	7,234
		<u>624,586</u>	<u>553,676</u>
		<u>8,896,329</u>	<u>6,351,644</u>
MEMORANDUM ITEMS			
Contingent liabilities	28	68,093	33,518
Commitments	29	314,577	248,036
		<u>382,670</u>	<u>281,554</u>

The financial statements on pages 13 to 39 were approved by the Board of Directors on *15 August* 2000 and signed on its behalf by:


Director


Investec Holdings (UK) Limited

BALANCE SHEET

at 31 March 2000

	Notes	2000 £000	1999 £000
ASSETS			
Shares in Group undertakings	15	462,332	462,332
Subordinated loan to Group undertaking	16	39,300	-
Amounts due from Group undertakings within one year		83,175	-
		<u>584,807</u>	<u>462,332</u>
CAPITAL RESOURCES			
Subordinated debt	23	122,475	-
Equity shareholders' funds	26	462,332	462,332
Called up share capital	24	462,332	462,332
Profit and loss account		-	-
		<u>584,807</u>	<u>462,332</u>

The financial statements on pages 13 to 39 were approved by the Board of Directors on *15 August* 2000 and signed on its behalf by:



Director

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2000

1. ACCOUNTING POLICIES

A summary of the principal accounting policies is set out below.

Basis of presentation in the 2000 Annual Report

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain assets. These financial statements have been prepared in compliance with Part VII, Chapter II of, and Schedule 9 to, the Companies Act 1985 in accordance with applicable accounting standards.

Basis of consolidation

The Group financial statements consolidate the financial statements of Investec Holdings (UK) Limited and its subsidiary undertakings made up for the year to 31 March 2000 and for the period to 31 March 1999. Goodwill arising on acquisition (representing the difference between the fair value of the consideration given and the fair value of the separable net assets acquired) is capitalised as an intangible fixed asset and amortised on a straight line basis over its expected useful life, subject to maximum period of 20 years.

Negative goodwill arising in respect of acquisitions is included within intangible fixed assets and released to profit and loss account in the periods in which the assets acquired are expected to be recovered.

Investments in subsidiaries

Investments in subsidiaries are shown at cost less any provision for impairment in value.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at market rates of exchange ruling at the balance sheet date. All foreign currency transactions are translated into sterling at the exchange rates ruling at the time of the transactions. 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 profit and loss account.

In the Group financial statements, exchange differences arising from the translation of the opening net assets of foreign subsidiaries at closing rates of exchange are taken to reserves.

Income and expense recognition

Interest receivable and payable is accrued over the period of the related loans and deposits. Interest receivable which is overdue and in the view of management may not be collected, is removed from income and suspended.

Fees and commissions include fees earned from providing advisory services and arranging financing for clients. All such fees and commissions are credited to income when the related service is performed. Equity shares received in lieu of corporate finance fees are included in dealing securities and valued accordingly.

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2000

1. ACCOUNTING POLICIES (CONTINUED)

Tangible fixed assets

Fixed assets are stated at cost, less depreciation provided on a straight line basis at rates calculated to write off the assets over their anticipated useful lives. Premiums on leases are stated at cost and are amortised over the unexpired period of the lease. The depreciation rates used are as follows:

Leasehold property	-	Over the remaining period of the lease
Leasehold improvements	-	5% to 10%
Computer hardware and software	-	20% to 33%
Furniture and fittings	-	20%
Motor vehicles	-	25%

Dealing properties

Dealing properties are stated at the lower of cost and net realisable value.

Properties awaiting disposal

During the year a decision was made to dispose of the Group's investment property portfolio. Properties still owned at 31 March 2000 have been transferred to Other Assets.

Properties awaiting disposal are shown at the lower of carrying value and anticipated sales proceeds.

Securities

Investment securities are stated at cost less any provision for impairment in value. Any premium or discount, representing the difference between cost and redemption proceeds, is amortised over the period to redemption.

Dealing and market making securities are stated at market value.

Repurchase agreements are treated as loans and deposits collateralised by negotiable securities. Accordingly, securities sold under agreements to repurchase are treated as assets and the related obligation as a liability. Conversely, securities purchased under agreements to resell are not treated as assets but instead the related advance is included as an asset.

Wholesale money market loans and deposits are stated at market value and profits and losses arising from this revaluation are taken to the profit and loss account.

Netting

Sale and repurchase transactions where the assets and liabilities are not separate, as defined by FRS 5 - Reporting the Substance of Transactions, have been netted and the resultant net liability is included on the balance sheet.

Equity shares

Equity shares are securities other than debt securities. Dealing securities are stated at market value and investment securities are stated at cost less any provision for impairment in value.

Stock borrowing and lending

Stock borrowing and lending transactions are reflected in assets and liabilities to the extent that the respective collateral given or received is in cash. Transactions against non-cash collateral are disclosed in note 27 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2000

1. ACCOUNTING POLICIES (CONTINUED)

Loans and advances

Commercial loans and advances are stated in the balance sheet after deduction of amounts, which, in the opinion of the directors, are required as specific or general provisions.

Specific provisions are made against advances when recovery is doubtful. In addition, general provisions are maintained to cover losses which, although not specifically identified, are known to be present in any portfolio of bank advances. A number of complex and changing factors are collectively weighed by management in determining the adequacy of the provisions. These factors include management's views of the extent of existing risks in the loan portfolio and of prevailing economic conditions.

The aggregate provisions which are made during the financial year (less amounts released and recoveries of bad debts previously written off) are charged against operating income. Doubtful debts are written off in part or in whole when the extent of the loss incurred has been determined.

Finance leases

Assets leased to customers are accounted for as finance leases where the minimum lease payments receivable, discounted at the prevailing interest rate, amount to substantially all of the fair value of the equipment on lease at inception.

The difference between the total of the minimum lease payments receivable and the fair value of the equipment on lease at inception represents finance income which is recognised over the period of the lease so as to give a constant rate of return on the net cash investment in the lease.

The investment in finance leases is included in loans and advances to customers at the total of the minimum lease payments receivable under such leases less finance income allocated to future periods.

Operating leases

All other assets leased to customers are classified as operating leases. Equipment on an operating lease is capitalised as a fixed asset and is stated at cost less accumulated depreciation. Depreciation is calculated on a straight line basis to write off the cost over the primary lease term.

Arranged leases

Arranged leases are operating leases where prior to commencement of the lease, the Group sells the rental stream of the primary lease period to a financial institution. The Group generally retains its interest in the residual benefits of the leased equipment after the end of the primary lease period.

The residual benefits are attributed a residual value which, based on management's experience and judgement, is the minimum prudently expected to be realisable after the end of the primary lease period. Residual values are regularly reviewed and are stated at the revised attributed values.

The difference between the proceeds from the sale of the rental stream and the cost of the leased equipment (net of the residual value) is included in net interest income.

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2000

1. ACCOUNTING POLICIES (CONTINUED)

Derivatives (off-balance sheet financial instruments)

Transactions are undertaken in derivative instruments for trading and non-trading purposes. Derivative contracts include futures, options, currency and interest rate contracts and forward rate agreements. Trading derivatives are stated at market value at the balance sheet date. Resulting profits and losses are taken to income.

Interest rate contracts are used to hedge certain risks inherent in the Group's balance sheet. Profits and losses arising on these contracts, measured on an accrual accounting basis, are reported in net interest income as part of the yield on the hedged transaction.

Taxation

Corporation tax payable is provided on taxable profits at the current rate. Provision is made for deferred taxation to allow for timing differences between the recognition of certain items of income and expense for tax and accounting purposes, using the liability method. Deferred tax is calculated at the rate at which it is anticipated the timing differences will reverse.

Pension plan costs

Pension plan costs in respect of members of defined contribution (money purchase) schemes are charged to profit and loss as they fall due. The Group has both contributory and non-contributory schemes in operation.

The expected cost of pensions in respect of defined benefit schemes is charged to the profit and loss account so as to spread the cost of pensions over the service lives of employees in the schemes. Variations from the regular cost are spread over the expected remaining service lives of current employees in the schemes.

Client monies

Cash balances held on behalf of stockbroking clients are included in loans and advances to banks. The related creditor is included in settlement creditors.

Parent company profit and loss account

The company has taken advantage of the exemption in s230 of the Companies Act 1985 not to present its own profit and loss account. The company's profit for the year, determined in accordance with the Act, was £ nil (1999 - £ nil).

Investec Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2000

2. DEALING PROFITS

	2000	1999
	£000	£000
	Group	Group
Interest rate instruments	424	65
Foreign exchange contracts	2,408	274
Development properties	2,718	-
Equities and other	3,552	1,106
	<u>9,102</u>	<u>1,445</u>

3. ADMINISTRATIVE EXPENSES

	2000	1999
	£000	£000
	Group	Group
Staff costs		
Wages and salaries	91,761	16,361
Social security costs	8,267	1,474
Other pension costs	5,473	1,249
Auditors' remuneration		
Audit services	590	198
Other services	267	26
Premises and equipment (excluding depreciation)	19,090	3,335
Other administrative expenses	30,309	11,207
	<u>155,757</u>	<u>33,850</u>

Other pension costs include £1,214,000 (1999 - £420,000) in respect of a defined benefit scheme. The scheme, which is a non-contributory defined benefit scheme, was last valued as at 31 December 1996 by a qualified actuary. Scheme assets are held in separate trustee administered funds. The pension cost relating to the scheme was determined using the attained age method.

The assumptions which had the most significant effect on the results of the valuation, are those relating to the real rate of return on investments both before and after retirement. In the valuation it was assumed that the investments would earn a rate of return of 1.75% per annum in excess of the rate of growth of salaries up to the normal retirement date.

The market value of the scheme's assets as at 31 December 1996 was £52,454,000 and the actuarial value of those assets represented 120% of the value of the liabilities in respect of the benefits that had accrued to members after allowing for expected future increases in earnings.

Investec Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2000

3. ADMINISTRATIVE EXPENSES - AVERAGE NUMBER OF EMPLOYEES (continued)

The average number of persons employed by the Group during the year was made up as follows:-

	2000 Number Group	1999 Number Group
Investment banking	113	108
Specialised finance, treasury and financial products	74	48
Private banking	180	192
Private equity and property investments	14	24
Private client stockbroking	399	396
Asset management	277	268
Central services	128	112
	<u>1,185</u>	<u>1,148</u>

4. EMOLUMENTS OF DIRECTORS

	2000 £000 Group	1999 £000 Group
All directors		
Aggregate emoluments (excluding pension contributions)	505	168
Pension contributions to company schemes	<u>36</u>	<u>13</u>
	<u>541</u>	<u>181</u>
Highest paid director		
Aggregate emoluments (excluding pension contributions)	264	69
Pension contributions to company schemes	<u>16</u>	<u>5</u>
	<u>280</u>	<u>74</u>
 Number of directors in pension schemes	 <u>2</u>	 <u>5</u>

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2000 £000 Group	1999 £000 Group
Corporation tax	14,291	2,602
Deferred taxation	892	600
Overseas tax	<u>1,588</u>	<u>219</u>
	<u>16,771</u>	<u>3,421</u>

The effective corporation tax rate of 26.7% (1999 - 26.0%), based on the profit on ordinary activities, after adding back the amortisation of goodwill, is lower than the standard rate as a result of the utilisation of tax losses brought forward and Group relief. The overseas taxes represent those paid by the Jersey, Guernsey and Swiss subsidiaries, which do not form part of the UK tax group. At the balance sheet date, the Group has carried forward tax losses amounting to £18,929,000. The majority of these losses arise from Guinness Mahon & Co Limited and, in future years, may only be used against a proportion of the taxable profits arising from banking and treasury activities.

Investec Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2000

6. SEGMENTAL AND CURRENCY ANALYSIS

Substantially all of the business of the Group is transacted within the United Kingdom and Eire.

	2000 £000 Group	1999 £000 Group
Operating income		
Investment banking	40,321	4,737
Specialised finance, treasury and financial markets	23,669	3,356
Private banking	26,338	7,607
Private equity and property investments	12,201	13,827
Private client stockbroking	52,298	11,818
Asset management	36,775	8,678
Central services	7,575	(2,690)
	<u>199,177</u>	<u>47,333</u>
Profit on ordinary activities before taxation		
Investment banking	15,269	1,040
Specialised finance, treasury and financial markets	13,265	1,493
Private banking	8,219	1,359
Private equity and property investments	19,400	8,939
Private client stockbroking	8,536	1,703
Asset management	1,163	710
Central services	(3,079)	(2,074)
Amortisation of goodwill	(11,140)	(2,884)
	<u>51,633</u>	<u>10,286</u>
Total assets		
Investment banking	177,602	90,595
Specialised finance, treasury and financial markets	6,939,612	4,443,917
Private banking	955,357	991,018
Private equity and property investments	104,497	193,931
Private client stockbroking	509,571	431,359
Asset management	38,899	28,716
Goodwill	170,791	172,108
	<u>8,896,329</u>	<u>6,351,644</u>
Net assets		
Investment banking	13,274	3,878
Specialised finance, treasury and financial markets	196,823	120,898
Private banking	332,318	297,039
Private equity and property investments	51,354	106,352
Private client stockbroking	18,458	14,339
Asset management	12,359	11,170
	<u>624,586</u>	<u>553,676</u>
Total assets currency analysis		
Denominated in sterling	7,666,775	5,899,917
Denominated in foreign currencies	1,229,554	451,727
	<u>8,896,329</u>	<u>6,351,644</u>
Total liabilities currency analysis		
Denominated in sterling	7,680,495	5,945,577
Denominated in foreign currencies	1,215,834	406,067
	<u>8,896,329</u>	<u>6,351,644</u>

Investec Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2000

6. SEGMENTAL AND CURRENCY ANALYSIS (CONTINUED)

The segmental analysis includes the following amounts for acquired operations.

<i>Substantially all of the business of the Group is transacted within the United Kingdom and Eire.</i>	2000	1999
	£000	£000
	Group	Group
Operating income		
Investment banking	-	7,607
Specialised finance, treasury and financial markets	4,191	4,737
Private banking	3,271	13,827
Private equity and property investments	-	3,356
Private client stockbroking	-	11,818
Asset management	-	8,678
Central services	-	(2,690)
	<u>7,462</u>	<u>47,333</u>
Profit on ordinary activities before taxation		
Investment banking	-	1,359
Specialised finance, treasury and financial markets	1,631	1,040
Private banking	429	8,939
Private equity and property investments	-	1,493
Private client stockbroking	-	1,703
Asset management	-	710
Central services	-	(2,074)
Amortisation of goodwill	-	(2,884)
	<u>2,060</u>	<u>10,286</u>
Total assets		
Investment banking	-	991,018
Specialised finance, treasury and financial markets	599,795	90,595
Private banking	154,685	193,931
Private equity and property investments	-	4,443,917
Private client stockbroking	-	431,359
Asset management	-	28,716
Goodwill	-	172,108
	<u>754,480</u>	<u>6,351,644</u>

7. CASH AND BALANCES AT CENTRAL BANKS

Cash and balances at central banks comprise balances with both central and other banks, money at call, and at short notice, including deposits placed with banks with a maturity of less than eight days from the balance sheet date. The Group is required to maintain balances with central banks which amount to £1,526,000 (1999 - £296,000) at the balance sheet date. At the year-end, £10,683,000 (1999 - £20,741,000) was held on blocked deposit to secure the deferred purchase consideration for the buy out of a minority interest.

8. TREASURY BILLS AND OTHER ELIGIBLE BILLS

The Group held eligible bills amounting to £28,951,000 (1999 - £62,405,000) within its trading book. The unrealised gain included in the carrying value of the bills amounts to £71,000 (1999 - £212,000).

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2000

9. LOANS AND ADVANCES TO BANKS

	2000 £000 Group	1999 £000 Group
Remaining maturity:		
Eight days to three months	2,325,445	527,789
Three months to one year	132,861	194,398
	<u>2,458,306</u>	<u>722,187</u>
Balances with Group companies	-	-
Loans and advances to banks comprise:		
Trading book	1,728,324	606,916
Banking book	729,982	115,271
	<u>2,458,306</u>	<u>722,187</u>

Trading book loans of £1,662,555,000 (1999 - £606,916,000) are secured with government securities under sale and repurchase agreements.

Loans and advances to banks include £326,746,000 (1999 - £287,619,000) of client monies held in respect of stockbroking clients.

10. LOANS AND ADVANCES TO CUSTOMERS

	2000 £000 Group	1999 £000 Group
Remaining maturity:		
Demand to three months	945,130	552,757
Three months to one year	329,857	194,511
One year to five years	158,010	154,985
Over five years	367,909	141,231
Provision for bad and doubtful debts (Note 11)	(22,123)	(32,762)
	<u>1,778,783</u>	<u>1,010,722</u>
Balances with Group companies	51,644	36,353
Loans and advances to customers comprise:		
Trading book	1,108,078	589,386
Banking book	670,705	421,336
	<u>1,778,783</u>	<u>1,010,722</u>

Trading book loans and advances to customers of £640,612,000 (1999 - £287,996,000) are secured with government securities under sale and repurchase agreements.

Investec Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2000

11. PROVISION FOR BAD AND DOUBTFUL DEBTS

	<i>Specific</i>	<i>General</i>	<i>Total</i>	<i>Specific</i>	<i>General</i>	<i>Total</i>
	<i>2000</i>	<i>2000</i>	<i>2000</i>	<i>1999</i>	<i>1999</i>	<i>1999</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
	<i>Group</i>	<i>Group</i>	<i>Group</i>	<i>Group</i>	<i>Group</i>	<i>Group</i>
At beginning of year / period	24,557	8,205	32,762	-	-	-
Charged against income	(1,788)	2,896	1,108	251	236	487
Purchased	4,487	2,034	6,521	26,132	7,162	33,294
Utilised	(17,208)	(1,060)	(18,268)	(1,019)	-	(1,019)
Transfers	-	-	-	(807)	807	-
At end of year / period	<u>10,048</u>	<u>12,075</u>	<u>22,123</u>	<u>24,557</u>	<u>8,205</u>	<u>32,762</u>

The (release) / charge for bad and doubtful debts in the consolidated profit and loss account comprises:

	<i>2000</i>	<i>1999</i>
	<i>£000</i>	<i>£000</i>
	<i>Group</i>	<i>Group</i>
Charged against income, as above	1,108	487
Write off / (recovery) of a debt directly to the income statement	26	(75)
Reversal of a provision made in the prior year		
against equity positions acquired, following the failure of a counterparty	<u>(2,881)</u>	<u>-</u>
	<u>(1,747)</u>	<u>412</u>

The year-end specific provision includes an amount of £877,000 (1999 - £372,000) of interest in suspense.

12. DEBT SECURITIES

	<i>2000</i>	<i>1999</i>
	<i>£000</i>	<i>£000</i>
	<i>Group</i>	<i>Group</i>
Dealing and market making securities at market value		
Government securities	29,458	-
Unlisted bank and building society certificates of deposit	<u>3,098,990</u>	<u>3,186,379</u>
	3,128,448	3,186,379
Investment securities at cost		
Unlisted bank and building society certificates of deposit	366,966	265,774
Other unlisted debt securities	-	6,867
Total debt securities	<u>3,495,414</u>	<u>3,459,020</u>

No dealing and market making securities have a maturity date more than one year from the balance sheet date. The cost of dealing and market making securities has not been disclosed, as it cannot be determined without unreasonable expense.

The cost of the investment securities, all of which are held in the banking book, does not differ materially from the fair value.

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2000

13. INVESTMENTS IN ASSOCIATED UNDERTAKINGS

The Group's share of net assets of associated undertakings is as follows:

	2000 £000 Group	1999 £000 Group
At beginning of the year / period	7,234	-
Acquisitions	-	6,641
Share of profits after tax	-	593
Transfers to equity shares	(7,234)	-
At end of year / period	<u>-</u>	<u>7,234</u>

The Group's 21.1% interest in the Canadian registered asset management company, Strategic Value Corporation, which was the principal associated undertaking at 31 March 1999, is now being held for resale and has been transferred to equity shares.

14. EQUITY SHARES

	2000 £000 Group	1999 £000 Group
Dealing securities at market value		
Listed on a recognised UK exchange	4,483	33,186
Unlisted	1,100	-
Investment securities at cost		
Listed on a recognised UK exchange	7,178	2,875
Unlisted	36,150	49,999
	<u>48,911</u>	<u>86,060</u>

	2000 £000 Group	1999 £000 Group
Investment securities		
At beginning of year / period	52,874	-
Acquisitions	17,708	52,874
Provisions	(51)	-
Disposals	(31,253)	-
Reclassification	4,247	-
Exchange movements	(197)	-
At end of year / period	<u>43,328</u>	<u>52,874</u>

The cost of dealing securities and listed investment securities held does not differ materially from the fair value.

Investec Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2000

15. SHARES IN GROUP UNDERTAKINGS

	2000 £000 <i>Company</i>	1999 £000 <i>Company</i>
At beginning of year / period	462,332	-
Acquisitions	-	462,332
Disposals	-	-
At end of year / period	<u>462,332</u>	<u>462,332</u>

The principal subsidiary undertakings of the Group given below are 100% owned and registered in England and Wales and incorporated in the United Kingdom, unless otherwise stated.

Principal operating subsidiary	Country	Nature of business
Investec Group (UK) PLC	**	Holding company
Carr Sheppards Crosthwaite Limited		Private client stockbroking
Investec Asset Management Limited (formerly Investec Guinness Flight Limited)		Asset management
Investec 1 Limited		Holding company
Guinness Mahon Holdings Limited		Holding company
Guinness Mahon Group Limited		Holding company
Investec Bank (UK) Limited	*	Banking
Investec Asset Finance PLC	*	Leasing
Investec Bank (Jersey) Limited	* Jersey	Banking
Investec Bank (Channel Islands) Limited (formerly Guinness Mahon Guernsey Limited)	* Guernsey	Banking
Investec Bank (Switzerland) AG (formerly Bank Guinness Mahon Flight AG)	* Switzerland	Banking
Investec Group Investments (UK) Limited	*	Investment holding company
Guinness Flight Trustees sarl	* Guernsey	Trust company
Guinness Mahon & Co Limited	*	Holding company

All the above subsidiary undertakings are included in the consolidated financial statements.

*... Principal operating subsidiaries within the Investec Bank (UK) group.

** The sole directly held subsidiary of Investec Holdings (UK) Limited.

Investec Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2000

16. SUBORDINATED LOAN TO GROUP UNDERTAKING

	2000 £000 <i>Company</i>	1999 £000 <i>Company</i>
At beginning of year / period	-	-
Issued during the year / period	39,300	-
At end of year / period	<u>39,300</u>	<u>-</u>

£39,300,000 of the subordinated loan, on which interest is payable at the rate of sterling LIBOR plus 2.125%, was issued on 31 March 2000 to Investec Bank (UK) Limited, an indirectly wholly owned subsidiary. The loan can be terminated by the Company giving five years and two days notice. At the balance sheet date no such notice has been given. In any event the loan has to be repaid on or before 31 March 2050.

17. INTANGIBLE FIXED ASSETS

	2000 £000 <i>Group</i>	1999 £000 <i>Group</i>
Goodwill		
At beginning of year / period	172,108	-
Reduction in goodwill arising on the prior year acquisition of Investec Group (UK) PLC (formerly Guinness Mahon Holdings PLC), as a result of the recognition of a deferred tax asset	(8,700)	-
Acquisitions during year / period	18,523	174,992
Amortisation for the year / period	<u>(11,140)</u>	<u>(2,884)</u>
At end of year / period	<u>170,791</u>	<u>172,108</u>

During the year, the Group through Investec Bank (UK) Limited agreed to acquire certain assets and liabilities of two banking operations. These related to:

- The Irish banking operations of an overseas institution, with an effective acquisition date of 1 June 1999. These assets and liabilities were transferred into an Irish branch operation of Investec Bank (UK) Limited.
- The private banking book of another UK institution, which was an acquisition of various assets and liabilities during the second half of the financial year.

These are reflected in the table below, which details the fair values of net assets acquired and considerations paid. It is not possible to identify prior period results as they formed parts of other institutions.

The book values of the assets and liabilities acquired do not differ materially from the fair values. Goodwill is amortised evenly over the directors' estimate of useful economic lives ranging from five to twenty years.

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2000

17. INTANGIBLE FIXED ASSETS (continued)

The fair values attributed to the net tangible assets acquired were:

Goodwill arising on acquisitions	Goodwill arising in prior year	Recognition of deferred tax asset on prior year acquisition during year	Irish branch acquisition during year	Private banking book acquisition during year	Other acquisitions and fair value adjustments during year	Acquisitions total during year
	£000	£000	£000	£000	£000	£000
Treasury bills and other eligible bills	19,454	-	-	-	-	-
Loans and advances to banks	437,108	-	447,573	130,937	1,310	579,820
Loans and advances to customers	1,717,418	-	365,460	132,159	-	497,619
Debt securities	3,287,337	-	-	-	-	-
Investment and trading securities	197,707	-	31,772	-	35	31,807
Tangible fixed assets	18,681	-	-	-	-	-
Other assets	221,801	8,700	8,306	-	1,384	18,390
Total assets	5,899,506	8,700	853,111	263,096	2,729	1,127,636
Deposits by banks	(1,361,875)	-	(317,925)	-	-	(317,925)
Customer accounts	(3,567,713)	-	(525,994)	(263,096)	-	(789,090)
Other liabilities	(595,978)	-	(10,757)	-	(857)	(11,614)
Subordinated loans	(85,072)	-	-	-	-	-
Minority interests	(1,528)	-	-	-	-	-
Fair value of net assets	287,340	8,700	(1,565)	-	1,872	9,007
Consideration	462,332	-	8,468	9,727	635	18,830
Goodwill	174,992	(8,700)	10,033	9,727	(1,237)	9,823
Amortisation of goodwill						
At beginning of year	2,884	-	-	-	-	-
Charge for the year	11,537	(1,088)	836	1,035	(1,180)	(397)
Disposals	-	-	-	-	-	-
At end of year	14,421	(1,088)	836	1,035	(1,180)	(397)
Net book value - opening	172,108	-	-	-	-	-
Net book value - closing	160,571	(7,612)	9,197	8,692	(57)	10,220

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2000

18. TANGIBLE FIXED ASSETS

<i>Group</i>	<i>Operating lease assets</i>	<i>Freehold property</i>	<i>Leasehold property</i>	<i>Leasehold improve- ments</i>	<i>Furniture, fittings and motor vehicles</i>	<i>Computer equipment</i>	<i>Total</i>
	£000	£000	£000	£000	£000	£000	£000
Cost or valuation:							
At beginning of year	7,100	7,200	31	10,133	4,210	5,174	33,848
By transfer or acquisition	-	237	-	(237)	(45)	559	514
Additions	2,507	-	-	4,804	2,537	2,414	12,262
Disposals	(407)	(7,200)	(31)	(320)	(186)	(242)	(8,386)
At end of year	9,200	237	-	14,380	6,516	7,905	38,238
Depreciation and amortisation:							
At beginning of year	126	-	-	18	232	244	620
By transfer or acquisition	-	17	31	(17)	(215)	362	178
Charge for year	486	-	-	700	1,605	2,382	5,173
Disposals	616	-	(31)	-	-	-	585
At end of year	1,228	17	-	701	1,622	2,988	6,556
Net book value at end of year	7,972	220	-	13,679	4,894	4,917	31,682
Net book value at beginning of year	6,974	7,200	31	10,115	3,978	4,930	33,228

The depreciation and amortisation disclosed in the consolidated profit and loss account do not include the charge for the year on operating lease assets, which is included in other operating income.

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2000

19. OTHER ASSETS

	2000 £000 Group	1999 £000 Group
Settlement debtors	329,883	218,844
Other debtors	38,654	22,319
Deferred tax asset (see below)	7,000	-
Tax credit recoverable	-	338
Properties awaiting disposal	23,478	72,465
Dealing properties	389	8,714
Prepayments and accrued income	31,989	32,115
	<u>431,393</u>	<u>354,795</u>

Properties awaiting disposal

Properties awaiting disposal are represented by freehold properties of £23,478,000 (1999 - £72,465,000). During the year a decision was made to dispose of the Group's investment property portfolio and they are now shown as Other Assets. These were investment properties, valued at 31 March 1999 on an open market basis for existing use by directors of a subsidiary company in accordance with the RICS Appraisal and Valuation Manual. These directors were and still are members of the Royal Institution of Chartered Surveyors.

Deferred tax asset

The Group has recognised a deferred tax asset for the first time this year. £8,700,000 was recognised in respect of the acquisition of Guinness Mahon Holdings PLC group. £1,700,000 of this has crystallised in the year. The deferred tax carried forward at 31 March 2000 is £7,000,000. These deferred tax assets mainly arise in the leasing companies acquired as part of the Guinness Mahon group in 1998 and are due to the capital allowances available for fixed assets for tax purposes exceeding the accounting net book value of the related investment in the finance lease.

Of the deferred tax liabilities carried forward of £1,066,000, £655,000 relates to the excess of the book values of fixed assets over the available capital allowances in the Group's other leasing operations. The remaining £411,000 relates to the recognition of the Group's share of partnership profits, on which corporation tax will be payable in the future.

At 31 March 2000 the Group had unrecognised deferred tax assets of £5,000,000 which mainly relate to incentive payments which have been provided but for which no tax deduction has yet been recognised and to the excess of capital allowances available over book values of assets. These have not been recognised because they are not expected to be recoverable with reasonable certainty, or without replacement.

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2000

20. DEPOSITS BY BANKS

	2000 £000 Group	1999 £000 Group
With agreed maturity date or periods of notice, by remaining maturity:		
Repayable on demand	840,587	1,227,858
Demand to three months	2,168,646	1,055,569
Three months to one year	623,204	775,500
One year to five years	17,215	-
	<u>3,649,652</u>	<u>3,058,927</u>
Balances with Group companies	<u>32,242</u>	<u>47,515</u>
Deposits by banks comprise:		
Trading book	3,468,634	2,890,580
Banking book	<u>181,018</u>	<u>168,347</u>
	<u>3,649,652</u>	<u>3,058,927</u>

Trading book deposits by banks of £2,979,034,000 (1999 - £2,722,611,000) are secured with government securities under sale and repurchase agreements.

Dealing and market making securities with a value of £70,660,000 (1999 - £84,450,000) are used to secure deposits by banks.

21. CUSTOMER ACCOUNTS

	2000 £000 Group	1999 £000 Group
With agreed maturity date or periods of notice, by remaining maturity:		
Repayable on demand	932,458	1,396,799
Demand to three months	2,503,872	499,551
Three months to one year	286,114	52,022
One year to five years	23,296	31,797
Over five years	-	2,258
	<u>3,745,740</u>	<u>1,982,427</u>
Balances with Group companies	<u>30,275</u>	<u>43,253</u>
Customer accounts comprise:		
Trading book	2,456,900	1,404,648
Banking book	<u>1,288,840</u>	<u>577,779</u>
	<u>3,745,740</u>	<u>1,982,427</u>

Trading book deposits by customers of £1,265,457,000 (1999 - £574,371,000) are secured with government securities under sale and repurchase agreements.

Dealing and market making securities with a value of £5,350,000 (1999 - £103,600,000) are used to secure deposits by customers.

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2000

22. OTHER LIABILITIES

	2000 £000 Group	1999 £000 Group
Settlement creditors	645,456	556,190
Short positions in securities	-	8,332
Provision for deferred tax (see Note 19)	1,066	1,874
Current corporation tax	22,174	11,626
Accruals and deferred income	135,194	79,254
Other creditors	72,461	99,338
	<u>876,351</u>	<u>756,614</u>

23. SUBORDINATED LOANS

	2000 £000 Group	2000 £000 Company	1999 £000 Group	1999 £000 Company
Variable rate notes				
At beginning of year / period	85,072	-	-	-
By transfer and acquisition	-	-	85,072	-
Issued during the year / period	102,208	102,208	-	-
Issued during the year / period	13,250	13,250	-	-
Issued during the year / period	7,017	7,017	-	-
Repaid during the year / period	(85,072)	-	-	-
At end of year / period	<u>122,475</u>	<u>122,475</u>	<u>85,072</u>	<u>-</u>

£102,208,000 and £13,250,000 of the loan capital, on which interest is payable at the rate of sterling LIBOR plus 2.00%, was issued on 31 March 2000 and is held by Investec Finance SA, a company wholly owned by the ultimate parent company. The loans can be terminated by the lender giving five years and two days notice. At the date of signature of the financial statements, no such notice has been received. The final maturity date for the loans is 31 March 2050.

US\$ 11,200,000 of the loan capital, on which interest is payable at the rate of US dollar LIBOR plus 2.00%, was issued on 31 March 2000 and is held by Investec Finance SA, a company wholly owned by the ultimate parent company. The loan can be terminated by the lender giving five years and two days notice. At the date of signature of the financial statements, no such notice has been received. The final maturity date for the loan is 31 March 2050.

£48,548,000 of the loan capital, on which interest was payable at the rate of sterling LIBOR plus 3.75%, was held by Investec Finance SA, a company wholly owned by the ultimate parent company. £10,000,000 of the loan capital, on which interest was payable at the rate of sterling LIBOR plus 0.1875%, was held by Investec N.V., a company wholly owned by the ultimate parent company. £26,524,000 of the loan capital, on which interest was payable at the rate of sterling LIBOR plus 2.00%, was held by Investec Finance SA. All the loans were terminated and repaid on 31 March 2000.

Claims in respect of the subordinated loan capital are not secured and are subordinate to the claims of all other creditors.

Investec Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2000

24. CALLED UP SHARE CAPITAL

	2000 £000 <i>Company</i>	1999 £000 <i>Company</i>
Authorised		
Ordinary shares of £1 each – 1,000,000,000	<u>1,000,000</u>	<u>1,000,000</u>
Issued, allotted and fully paid		
At beginning of year / period	462,332	-
Issued during the year / period	<u>-</u>	<u>462,332</u>
At end of year / period	<u>462,332</u>	<u>462,332</u>

25. RESERVES

<i>Group</i>	<i>Revaluation reserves on investment properties</i>	<i>Legal and other reserves</i>	<i>Profit and loss account</i>	<i>Total</i>
	2000 £000	2000 £000	2000 £000	2000 £000
At beginning of year	(2,209)	231	7,234	5,256
Retained profit for the year	-	-	34,807	34,807
Currency translation differences	-	-	(1,191)	(1,191)
Transfer between reserves	<u>2,686</u>	<u>-</u>	<u>(2,686)</u>	<u>-</u>
At end of year	<u>477</u>	<u>231</u>	<u>38,164</u>	<u>38,872</u>

26. RECONCILIATION OF SHAREHOLDERS' EQUITY

	2000 £000 <i>Group</i>	2000 £000 <i>Company</i>	1999 £000 <i>Group</i>	1999 £000 <i>Company</i>
Retained profit for the year / period	34,807	-	6,865	-
Currency translation differences	(1,191)	-	(57)	-
Revaluation of investment properties	-	-	(1,783)	-
Increase in legal reserve	-	-	231	-
New share capital subscribed	-	-	462,332	462,332
Opening shareholders' equity	<u>467,588</u>	<u>462,332</u>	<u>-</u>	<u>-</u>
Closing shareholders' equity	<u>501,204</u>	<u>462,332</u>	<u>467,588</u>	<u>462,332</u>

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2000

27. STOCK BORROWING AND LENDING

	2000 £000 Group	1999 £000 Group
Stock borrowed against non-cash collateral	<u>6,230,374</u>	<u>5,284,779</u>
Stock lent against non-cash collateral	<u>5,615,238</u>	<u>5,001,794</u>

The Group borrows and lends stock against cash and non-cash collateral. The cash collateral is included on the balance sheet as appropriate in either loans, deposits or customer accounts.

Non-cash collateral is in the form of gilts, equities, certificate of deposit and other equivalent stock.

28. CONTINGENT LIABILITIES

	2000 £000 Group	1999 £000 Group
Guarantees and irrevocable Letters of Credit	58,803	33,518
Other contingent liabilities	<u>9,290</u>	<u>-</u>
	<u>68,093</u>	<u>33,518</u>

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

Other contingent liabilities relate to indemnities and warranties issued by Group companies in respect of taxation and other matters on disposal of various shareholdings.

29. COMMITMENTS

	2000 £000 Group	1999 £000 Group
Forward repurchase agreements	246,838	221,276
Undrawn facilities	<u>67,739</u>	<u>26,760</u>
	<u>314,577</u>	<u>248,036</u>

The Group has entered into forward foreign exchange contracts and loan commitments in the normal course of its banking business.

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2000

30. FINANCIAL INSTRUMENTS

FRS 13 disclosure

Certain disclosures required by FRS 13 have been included in the Risk Management Review section of the financial statements on pages 6 to 11.

Fair values

The Group's trading book comprises treasury bills, settlement accounts, debt securities, equity shares, short positions in securities, and derivatives as well as secured customer loans and deposits. All amounts are included in the balance sheet at fair value.

The fair values of listed and publicly traded securities held for non-trading book purposes (comprising debt securities and equity shares) are disclosed under the relevant balance sheet note. The fair values of other non-trading book balances approximate to their carrying value in the balance sheet where a liquid and active market exists as defined by FRS 13.

31. DERIVATIVES (OFF-BALANCE SHEET 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. All future and option contracts are exchange traded. All interest rate contracts are transacted with other financial institutions.

In the tables below, notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The replacement cost, which is considered to be the fair value, represents the cost of replacing contracts with positive values calculated at market rates current at the balance sheet date. The credit risk weighted amount, which is calculated according to rules specified by the Financial Services Authority, is based on the replacement cost, but also takes into account measures of the extent of potential future credit exposure and the nature of the counterparty.

At 31 March 2000, the Group held no trading derivatives of any type.

The notional principal amounts of trading derivatives held by the Group at 31 March 1999 are as follows:

<i>Group</i>	<i>Notional principal amounts 1999 £000</i>	<i>Credit risk weighted amounts 1999 £000</i>	<i>Positive fair values 1999 £000</i>	<i>Negative fair values 1999 £000</i>
Trading derivatives				
Interest rate contracts				
Futures	2,133,000	(63)	2,029	(2,345)
Options	5,389,500	66	4,036	(3,707)
	<u>7,522,500</u>	<u>3</u>	<u>6,065</u>	<u>(6,052)</u>
Effect of netting			(5,736)	5,736
Amounts included in other assets / liabilities			<u>329</u>	<u>(316)</u>

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2000

31. DERIVATIVES (OFF-BALANCE SHEET FINANCIAL INSTRUMENTS) (continued)

The notional principal amounts and maturities of non-trading derivatives held at 31 March are as follows:

<i>Group</i>	<i>Up to 1 year 2000 £000</i>	<i>1 to 5 years 2000 £000</i>	<i>More than 5 years 2000 £000</i>	<i>Total 2000 £000</i>	<i>Up to 1 year 1999 £000</i>	<i>1 to 5 years 1999 £000</i>	<i>Total 1999 £000</i>
Non-trading derivatives							
Interest rate contracts:							
Caps and floors	-	10,997	6,104	17,101	1,054	2,000	3,054
Swaps	110,350	259,514	26,669	396,533	39,651	54,244	93,895
Futures	1,202	-	-	1,202	-	-	-
	<u>111,552</u>	<u>270,511</u>	<u>32,773</u>	<u>414,836</u>	<u>40,705</u>	<u>56,244</u>	<u>96,949</u>
Foreign exchange contracts:							
Forward contracts	1,277,452	47,922	716	1,326,090	581,556	-	581,556
Options	19,315	-	-	19,315	-	-	-
	<u>1,296,767</u>	<u>47,922</u>	<u>716</u>	<u>1,345,405</u>	<u>581,556</u>	<u>-</u>	<u>581,556</u>

The risk weighted amount and replacement costs of these contracts are as follows:

<i>Group</i>	<i>Risk weighted Amount 2000 £000</i>	<i>Replacement Cost 2000 £000</i>	<i>Risk weighted Amount 1999 £000</i>	<i>Replacement Cost 1999 £000</i>
Non-trading derivatives				
Interest rate related contracts	3,143	4,249	333	1,277
Exchange rate related contracts	12,479	23,309	2,959	7,845
	<u>15,622</u>	<u>27,558</u>	<u>3,292</u>	<u>9,122</u>

Included in these amounts are £414,836,000 (1999 - £59,550,000) notional principal amounts of interest rate contracts with replacement costs of £4,249,000 (1999 - £1,173,000) held to hedge risks inherent in the Group's balance sheet.

33. HEDGING INSTRUMENTS

Mark to market gains and losses on derivatives used for hedging are recognised in line with the underlying items which are being hedged. At 31 March 2000, the unrecognised gains on derivatives used for hedging were £4,271,000 and unrecognised losses were £2,570,000.

Of the unrecognised gains of £4,271,000, £107,000 is expected to be recognised in the year ending 31 March 2001 and £4,164,000 in subsequent years. Of the unrecognised losses of £2,570,000, £76,000 is expected to be recognised in the year ending 31 March 2001 and £2,494,000 in subsequent years. These values have been calculated by reference to the ultimate maturity date of the derivatives.

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2000

34. OPERATING LEASE COMMITMENTS

The Group has an annual commitment of £10,845,000 (1999 - £6,535,000) in respect of operating leases expiring in a period greater than five years.

35. RELATED PARTY TRANSACTIONS

As the Group is a 100% subsidiary undertaking, and consolidated financial statements for its ultimate parent, Investec Holdings Limited, are publicly available, group transactions have not been disclosed pursuant to the exemptions permitted in FRS 8.

36. ULTIMATE HOLDING COMPANY

The ultimate parent company, and controlling party, is Investec Holdings Limited, a company incorporated in the Republic of South Africa and quoted on the Johannesburg Stock Exchange.

The consolidated financial statements of the ultimate parent are available to the public and may be obtained from Investec Group Limited's principal place of business: 100 Grayston Drive, Sandown, Sandton, 2196, South Africa, or from Investec Bank (UK) Limited at 2 Gresham Street, London EC2V 7QP.

Consolidated financial statements have also been prepared for the immediate parent of the Company, Investec Finance SA, a company incorporated in the Grand Duchy of Luxembourg.

The Group has taken advantage of the exemption in FRS 1 (revised) not to present its own cash flow statement. The Company's ultimate holding company, Investec Holdings Limited, registered in South Africa includes a cash flow statement in its published financial statements.